

DURHAM COUNTY COUNCIL

At a Meeting of the **Audit Committee** held **remotely** on **Monday, 29 June 2020** at **9.30 am**

Present:

Councillor E Bell (Chair)E Bell (Chair)

Members of the Committee:

Councillors J Rowlandson (Vice-Chair), J Clark, B Kellett, J Nicholson, J Shuttleworth and O Temple

Co-opted Members:

Mr C Robinson and Mr I Rudd

1 Apologies for absence

Apologies for absence were received from Councillor Colin Carr and Councillor John Robinson.

2 Minutes

The Minutes of the meeting held on 27 February 2020 were confirmed as a correct record and would be signed by the Chair.

In terms of matters arising, Mr J Collins, Audit Manager, Mazars noted the work in relation to Housing Benefit Subsidy had been completed and submitted to the Department of Works and Pensions before the requisite deadline.

3 Declarations of interest

Declarations of interest were provided by Members. A general declaration of interest would be recorded given that Members were school governors, members of various Committees of the Council, former District Councillors and bodies such as the Fire Authority.

Councillor J Clark noted for the record that she was a Member of Horden Parish Council, a client of the Internal Audit Team.

4 COVID-19 Risk Register

The Committee received a report from the Corporate Director of Resources, that provided an update in relation to COVID-19 Risk Register (for copy see file of Minutes).

The Corporate Director of Resources explained the report was to provide assurance in terms of the process of COVID-19 risk management and he noted a number of governance groups had been set up by the Council to deal with the response. He added that the Risk Team worked with the groups to establish a baseline of COVID-19 risks and noted, while work had started at the beginning of the pandemic, work continued and would do so through into the recovery phase over the coming weeks and months.

The Committee noted that due to the nature of the issue, risks could evolve quickly, and the Corporate Director of Resources explained that the risk register contained within the report was at a point in time and set out the risks at the time the report was compiled. He added the risks would be reviewed and aligned to the strategic risk register with the COVID-19 risk register being very much a live document. He explained that the appendices provided a breakdown of the risks together with a heat map.

Further to a question from Mr C Robinson relating to remediation action plans and at what point there would be acceptance of risks, the Corporate Director noted that COVID-19 risks were changed regularly, some were remediated although others were more difficult to control as Central Government led on some of the issues. He added if the Council had direct control over an issue they would look to mitigate and risks and they would be regularly reviewed by the governance groups that had been set up. He added it was a fast-paced environment, and new legislation and guidance would help and that risks would change as we moved through the phases of the pandemic into recovery.

Councillor O Temple asked as regards any early indication from Government in respect of Council Tax Benefit and Business Rates. The Corporate Director of Resources noted that those areas had potential for a significant impact upon the Council but noted that the business rate collection was tracking as it had done last year, a result of Government relief for the retail and hospitality sectors for which the council received section 31 grant reimbursement. He added he had concern that the position could worsen once the furlough scheme ends.

The Corporate Director of Resources noted that Council Tax collection was tracking around 0.7 percent below last year and could worsen, with this having an indicative potential impact on the collection fund of between £4 million to £6 million, though he highlighted there were a lot of variables and uncertainties which made accurate forecasting difficult.

Resolved:

That the report be noted.

5 Quarter 4 2019/20 Health, Safety and Wellbeing Performance Report

The Committee received a report from the Resources Health, Safety and Wellbeing Strategic Group that provided an update on health, safety and wellbeing performance for quarter four of 2019/20 (for copy see file of Minutes).

The Occupational Health and Safety Manager highlighted the key areas of the report including:

- Enforcement Body Intervention & significant incidents
- Fire Safety Audits
- Fire Incidents
- Fire Inspections
- Occupational Health Service
- Health and Safety Team Audit & Inspections
- Open Water Safety
- Employee Mental Health and Wellbeing
- Potentially Violent Persons Register (PVPR)

He noted that, as the report related to quarter four 2019/20, many of the issues would be “business as usual” relating to the period prior to the COVID-19 pandemic.

Further to a question from Councillor J Clark about the coastal risk assessments, the Occupational Health and Safety Manager explained that these could be circulated once update from the RNLI. The Chair noted information relating to coastal issues and responsibilities would be helpful for those Members with coastline within their Electoral Divisions.

The Occupational Health and Safety Manager noted there was knowledge as regards challenging areas along the coast and the Council worked with the Neighbourhood Policing Teams, utilising the Neighbourhood Wardens and working via the open water safety campaigns to get the messages out.

Resolved:

That the report be noted.

6 Internal Audit Progress Report Period Ended 31 March 2020

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which informed Members of the work that had been carried out by Internal Audit during the period as part of the 2019/20 Internal Audit Plan (for copy see file of Minutes).

The Audit Manager highlighted progress against the Plan for each Service Grouping, and informed Members of the amendments to the plan and the unplanned audit reviews in the quarter. The report also provided a summary of the survey response rate, progress on actions due, implemented and overdue, and the finalised audit that had been issued with a limited assurance opinion.

In response to the question from Councillor J Shuttleworth relating to Beamish, the Chief Internal Auditor and Corporate Fraud Manager noted that whilst work had been undertaken the Museum is a separate client of the Internal Audit Service and as such he could not comment on the result of the work undertaken. The Corporate Director of Resources agreed to discuss the Council's involvement with the Museum directly with Councillor J Shuttleworth.

Councillor O Temple noted the Committee would find it useful as regards information relating to Internal Audit in terms of how they were operating in the COVID-19 environment. The Chief Internal Auditor and Corporate Fraud Manager noted that the section had been "agile working" for around the last two years and working from home had not significantly impacted Internal Audit, other than the inability carry out audit work on site at places such as leisure centres. He added that the impact was more so on the services Internal Audit provided support to and there was a response within the 2020/21 Internal Audit Plan on issues such as procurement and business rate grants, areas where Internal Audit have become involved. He noted the use of technology to work remotely and noted temporary redeployments that had provided help to commissioning for a period of time.

Resolved:

- (i) That the amendments made to the 2019/20 Annual Internal Audit Plan be noted;
- (ii) That the work undertaken by Internal Audit during the period ending 31 March 2020 be noted;

- (iii) That the performance of the Internal Audit Service during the period be noted;
- (iv) That the progress made by service managers in responding to the work of Internal Audit be noted.

7 Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2020

The Committee considered a report of the Corporate Director of Resources regarding whether the Council should be considered as a 'going concern' organisation and whether the Council's Annual Accounts should be prepared on that basis (for copy see file of Minutes).

The Finance Manager - Revenues, Pensions and Technical Accounting referred to the net assets of the Council for the last five years and assured members that the external auditor had provided a value for money conclusion at the year-end about the use of resources.

With reference to paragraph 40 of the report, Mr I Rudd noted three options: clearly a going concern; a going concern with some uncertainty; and not a going concern. He asked which of the first two was being proposed, the Finance Manager - Revenues, Pensions and Technical Accounting noted that it was the first, clearly a going concern.

Resolved:

- (i) That the Council should be considered as a going concern.
- (ii) That the Statement of Accounts should be prepared on that basis.

8 Annual Review of the Effectiveness of Internal Audit 2019/2020

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which provided members with the opportunity to comment of the Annual Review of the System of Internal Audit (for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager reported that the review found the structure and resourcing level were satisfactory. He added the service had been self-assessed against the Public Sector Internal Audit Standards (PSIAS) and had been found to be conforming with the requirements of the code.

He noted that the service was externally assessed every five years with the next review to take place in 2021, however, this may be impacted upon by COVID-19. He noted the 2019/20 Audit Plan and the level of performance of the service.

Resolved:

That the findings and conclusions of the 2019/2020 review of the effectiveness of the system of Internal Audit contained within this report be noted.

9 Protecting the Public Purse Annual Report 2019/2020

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which presented the Protecting the Public Purse Update Report for 2019/20 (for copy see file of Minutes).

The report provided an update on the following:

- The work of the Corporate Fraud Team;
- Action taken to raise awareness of the risk of fraud and corruption to assist in embedding a strong counter fraud culture throughout the organisation;
- Reported cases of potential fraud and irregularity reported during 2018/2019;
- Proactive Counter Fraud work completed;
- Progress on the Council's participation in the National Fraud Initiative (NFI) 2019/2020;
- Fraud Reporting;
- Fraud Training;
- Fraud Awards.

The Chief Internal Auditor and Corporate Fraud Manager informed the Committee that the number of referrals over the past four years had resulted in £3.5 million in savings and was as a result of partnership working. He was also pleased to report on the work relating to helping with the National Strategy. The Chair asked the Chief Internal Auditor and Corporate Fraud Manager to pass on the thanks of the Committee to the Fraud Manager and the Team.

Further to questions from Mr I Rudd relating to the better than national average performance relating to procurement fraud the Chief Internal Auditor and Corporate Fraud Manager explained that he would hope it was as a result of better controls in place, adding that there was also discussions with CIPFA and the Home Office in terms of how Local Authorities reported such issues to have a more consistent classification.

The Chair asked if External Auditors had any view, with Mr J Collins noting that External Audit would be interested from the audit and value for money aspect perspectives and noted while he did not have any comparable data at this stage though it was an area to be looked into if helpful.

Resolved:

That the contents of the report be noted.

10 Annual Internal Audit Opinion and Internal Audit Report 2019/2020

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which provided the Chief Internal Auditor and Corporate Fund Manager's assurance opinion on the adequacy and effectiveness of the Council's internal control environment and presented the Annual Internal Audit Report for 2019/20 (for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager confirmed that he had given a moderate overall assurance opinion for 2019/20. He noted that normally he would state no issues that would qualify that opinion, however, in light of COVID-19 pandemic his opinion was qualified, in terms of the impact upon the Council, with the opinion based upon the work undertaken prior to emergency measure being implemented. He noted the additional strain on processes and control measures since implantation of emergency measure and as the situation was changing it was not yet possible to quantify the additional risk from the short term measures or the overall impact on the framework of governance and risk management. He added the 2020/21 Audit Plan had been changed to reflect COVID-19 and referred to areas that would be addressed in terms of improvement, such as companies' governance.

In response to a question from Mr C Robinson asked as regards the risks associated with working from home and maintaining the levels of control and supervision, the Chief Internal Auditor and Corporate Fraud Manager noted there were risks, however, the position was not hugely exposed. He noted that a large amount of testing over the next 6-12 months would help ensure the controls remained in place. Mr C Robinson noted he felt that would be an area to focus on, the ability to operate the controls already in place being key.

Councillor O Temple asked as regards the risks associated with the sudden influx of monies relating to COVID-19 and the need to pass that money on quickly and asked if a historic review would look back at this issue in terms of value for money.

The Chief Internal Auditor and Corporate Fraud Manager noted that there was work set out within the Internal Audit Plan for 2021 to cover issues regarding business grants, Area Action Partnership community funding and all of the funding that had to go out at speed. He noted he had been consulted by the Head of Finance and Transactional Services at the time to illustrate what controls were in place and the Chief Internal Auditor and Corporate Fraud Manager had mentioned the areas he would then wish to come back and carry out historical reviews. He added that the Fraud Team were working proactively as regards carrying out checks in terms of the grants mentioned. Councillor O Temple noted those historic reviews would come back to Committee and thanked the Chief Internal Auditor and Corporate Fraud Manager.

Mr M Kirkham, Partner, Mazars - External Auditors asked as regards the areas of weakness that stemmed from the ineffectiveness of internal controls and what the opinion of the Chief Internal Auditor and Corporate Fraud Manager was in terms of the numbers within the Statement of Accounts, to be considered by the Committee at Item 13. The Chief Internal Auditor and Corporate Fraud Manager noted he did not feel that there was a material impact on the Statement of Accounts, and he did not feel there was any need for concern.

Resolved:

- (i) That the content of the Annual Internal Audit Report for 2019/2020 at Appendix 2 be noted;
- (ii) That the overall 'moderate' opinion provided on the adequacy and effectiveness of the Council's internal control environment for 2019/2020 be noted.

11 Compliance with International Auditing Standards

The Committee considered a report of the Chair of the Audit Committee which advised Members of a response that had been prepared relating to a letter sent from Mazars, the Council's external auditor, regarding compliance with International Auditing Standards (for copy see file of Minutes).

Resolved:

That the response be noted.

12 Draft Annual Governance Statement 2019/2020

The Committee considered a report of the Corporate Director Resources which sought approval of the draft Annual Governance Statement (AGS) for 2019/20 (for copy see file of Minutes).

The Risk and Governance Manager reported on the draft Annual Governance Statement to accompany the draft set of accounts, and that a final Annual Governance Statement would follow with the final set of accounts, adding that there would only be changes should be any material issues, noting the context of COVID-19 being a fluid situation.

The Risk and Governance Manager advised that the Annual Governance Statement demonstrated how far the Council complied with the principles of good governance, and the review of effectiveness for 2019/20 concluded that the Council's corporate governance arrangements in place during the year were fit for purpose in accordance with the governance framework. He added that the review had concluded that five actions, listed in Appendix C of the Annual Governance Statement, should be included in the plan of improvements to strengthen governance arrangements during 2020/21.

In reference to a question from Councillor J Shuttleworth in relation to the Secretary of State underwriting in cases of fraud relating to grants, the Chief Internal Auditor and Corporate Fraud Manager noted the wording used by the Secretary of State, however, he added that if the Council thought there was an error then it would actively pursue the issue, with the Secretary of State standing behind Local Authorities that had made all reasonable steps in terms of recovery.

Resolved:

That the draft Annual Governance Statement to be approved.

13 Statement of Accounts for the year ended 31 March 2020

The Committee considered a report of the Corporate Director of Resources which presented the Statement of Accounts for the year ended 31 March 2020 (for copy see file of Minutes).

The Finance Manager - Revenues, Pensions and Technical Accounting noted that as a consequence of COVID-19 the deadlines associated with the Statement of Accounts had been extended such that the deadline for the Council to publish its draft accounts was 31 August 2020, not 31 May, and the deadline for publication of its final, audited accounts had moved from 31 July to 30 November 2020. She explained the key points as set out within the report relating to the five core statements, the general reserves and the earmarked reserves. She noted the Statement of Accounts was available for inspection by the public from 29 June 2020 until 7 August 2020, in line with the revised regulations and the External Auditors, Mazars were anticipating completing their audit by the end of August 2020.

Accordingly, it was expected that the final statement of accounts for 2019/20 would be presented for approval at the Audit Committee meeting planned for September 2020.

In response to a query from Councillor J Shuttleworth relating to Durham County Cricket Club, the Finance Manager - Revenues, Pensions and Technical Accounting noted that their financial year ended at a different point to the Council and reminded Members of the redeemable preference shares held with the company and noted over 2019/20 the Cricket Club had repaid the Council around £301,000, reducing the value of preference shares held on the balance sheet. Councillor J Shuttleworth noted that if the Club were making a loss this would in turn mean the Council was less likely to receive the rest of the money back and asked if the issue should be noted within the risk register. The Corporate Director of Resources noted that from the Council's position it was positive to see the payments being made and, as payments were being made in line with the payment plan, he felt some comfort in the paying down of the shares.

In response to a query from Mr I Rudd in respect of setting out the COVID-19 within a revised budget and his thoughts of setting out as a variance, the Finance Manager - Revenues, Pensions and Technical Accounting noted that grant payment of £18.5 million was received on 27 March 2020 and as £1 million was allocated within the 19/20 year for COVID-19, an earmarked reserve was created for the remaining £17.5 million for future years.

Mr C Robinson asked as regards the schools fund and the Council being liability holder and any material liability. The Corporate Director of Resources noted that the position with schools' reserves was set out within the accounts and budget monitoring reports and he noted there had been no changes since the last discussions at Committee on the matter.

Resolved:

That the Statement of Accounts for the County Council for the financial year ended 31 March 2020 be noted.

14 Internal Audit Charter, Strategy 2020/2021 and the Six-Month Internal Audit Plan up to 30 September 2020

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which submitted for approval the revised Internal Audit Strategy and Charter for 2020/2021 and a six-month Internal Audit Plan up to 30 September 2020 (for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager advised that the six-month plan would go up until September 2020 at which point it would be reviewed, and while there was no specific COVID-19 aspect to the review, the impact upon work would be looked at and reported back to the next Committee.

Resolved:

- (i) That the Internal Audit Strategy be approved.
- (ii) That the Internal Audit Charter be approved.
- (iii) That the proposed six-month Internal Audit Plan to 30 September 2020 be approved.

15 Exclusion of the Public

Resolved:

That under Section 100A(4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraphs 2 and 3 of Schedule 12A to the said Act.

16 Internal Audit Progress Report Period Ended 31 March 2020

The Committee considered Appendix 6 of the report of the Chief Internal Auditor and Corporate Fraud Manager which detailed the actions agreed by managers in response to internal audit recommendations that were outstanding (for copy see file of Minutes).

Resolved:

That the report be noted.

17 Protecting the Public Purse Annual Report 2019/2020

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which presented the Protecting the Public Purse Update Report for 2019/20 (for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager referred Members to the cases of potential internal fraud reported and the ongoing investigations.

Resolved:

That the report be noted.