

# **DURHAM COUNTY COUNCIL**

At a Meeting of **Audit Committee** held in **Committee Room 1A , County Hall, Durham** on **Friday 1 July 2022 at 9.30 am**

**Present:**

**Councillor A Watson (Chair)**

**Members of the Committee:**

Councillors L Fenwick (Vice-Chair), P Heaviside, B Kellett, M McGaun and T Smith

**Co-opted Members:**

Mr C Robinson and Mr I Rudd

## **1 Apologies for absence**

Apologies for absence were received from Councillors A Jackson and R Ormerod.

## **2 Minutes**

The minutes of the meeting held on 24 May 2022 were agreed as a correct record and signed by the Chair.

## **3 Declarations of interest**

There were no declarations of interest.

## **4 Compliance with CIPFA Financial Management Code**

The Committee received a report from the Corporate Director of Resources which provided an update against the Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Code (FM Code), which is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability (for copy see file of minutes).

The Finance Manager, Revenues, Pensions and Technical Accounting highlighted the principles by which local authorities should be guided in managing their finances and the specific standards that should be achieved and provided an update on the improvement opportunities identified.

Responding to concerns from Councillor M McGaun regarding the improvement opportunity in relation to maintaining training / qualification records, the Finance Manager, Revenues, Pensions and Technical Accounting clarified that records were maintained by individual managers. The Corporate Director of Resources explained that CIPFA recommended as best practice a single overarching document that showed experience, skills and qualifications for all finance teams rather than individual records.

**Resolved:**

That the report be noted.

## **5 Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2022**

The Committee considered a report from 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).

Mr C Robinson referred to the capital programme and queried why there were no planned investment for 2024/25. The Corporate Director of Resources explained that the capital programme schemes were planned 2 years in advance and MTFP 13 would look at bids for new capital expenditure for 2024/25 onwards.

**Resolved:**

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

## **6 Annual Review of the System of Internal Audit 2021/22**

The Committee considered a report from the Corporate Director of Resources which provided members with the opportunity to comment on the Annual Review of the System of Internal Audit (for copy see file of minutes).

The Chief Internal Auditor and Corporate Fraud Manager provided a summary of the report which set out the outcome of the annual review of effectiveness of the internal audit service.

It was highlighted that an external quality assessment of the Internal Audit Service's conformance to the Public Sector Internal Audit Standards was required every 5 years and this had been completed in February 2022. The opinion delivered by CIPFA's external assessment was that 'Durham County Council's Internal Audit Service's self-assessment was accurate and as such conclude that they FULLY CONFORM to the requirements of the Public

Sector Internal Audit Standards and the CIPFA Local Government Application Note’.

Councillor McGaun congratulated the Audit Team on the excellent outcome of the external assessment.

Mr I Rudd noted the teams experience and queried whether a succession planning exercise had been carried out within the service. The Chief Internal Auditor and Corporate Fraud Manager advised that the Council had in place a workforce development plan and that this acknowledges the current structure and experience of the service and that succession planning was part of this. The Corporate Director of Resources added that an aging workforce provides challenges which was an issue the Council was aware of. He added that services were currently in the process of producing individual workforce development plans and succession plans.

**Resolved:**

That the findings and conclusions of the 2021/22 review of the effectiveness of the system of Internal Audit contained within the report be noted.

## **7 Annual Internal Audit Opinion and Internal Audit Report 2021/22**

The Committee received a report of the Corporate Director of Resources which provided the Chief Internal Auditor and Corporate Fraud Manager’s assurance opinion on the adequacy and effectiveness of the Council’s internal control environment, risk management and corporate governance arrangements and presented the Annual Internal Audit Report for 2021/22 (for copy see file of minutes).

The Chief Internal Auditor and Corporate Fraud Manager advised that based on the work undertaken, Internal Audit provided a moderate overall assurance opinion on the adequacy and effectiveness of the governance, risk management and internal control operating across the Council for 2021/2022.

In response to concerns from Councillor B Kellett regarding the moderate assurance opinion, the Chief Internal Auditor and Corporate Fraud Manager provided the definition of the rankings and explained that the moderate assurance opinion was positive and provided assurance that a sound system of control was in place, however, there was evidence of non-compliance with controls or ineffective controls which were identified in individual activity reports carried out during the year. It was noted that 95% of the improvement recommendations had already been implemented. The Corporate Director of Resources added that he was unaware of any Authorities in the region with an overall substantial Audit opinion as there would always be systems that could be improved, however he confirmed that the vast majority of major key

systems had received a substantial assurance opinion. It was highlighted that the Audit opinion was in line with previous years' assessments.

It was noted that legacy audit work was still required in relation to the Covid Grant regimes which has had an impact on the Internal Audit Team in terms of capacity.

Councillor T Smith referred to the impact of inflation and queried if this would jeopardise or delay progress in relation to regeneration capital projects. The Corporate Director of Resources advised that costing would be affected in relation to construction price inflation, however contingencies and risk management was built into the capital programme schemes. He added that scheme managers would be looking to see if further budget provision was required or whether schemes could be scaled back to accommodate any escalating costs due to inflation.

Responding to a query from Mr I Rudd regarding the reduction of audits carried out since 2018/19, the Chief Internal Auditor and Corporate Fraud Manager advised that the main reason was due to Covid, however there were a number of other factors that contributed to the reduced number of audits. She explained that Internal Audit were not required to provide an opinion rating for Covid Grants schemes so that information was not captured in the assurance level table, however Internal Audit were still required to sign them off. The planned reviews timeframes differ due to the nature and scope of the review conducted in line with the risk-based approach. It was confirmed that planned audits were back to pre-Covid levels. The Corporate Director of Resources added that changes have been made to the way Audit Plans were conducted. Previously individual elements of an audit would provide separate assurances, where now they were pulled together in one assurance opinion.

**Resolved:**

- (i) That the content of the Annual Internal Audit Report for 2021/2022 at Appendix 2 be noted;
- (ii) That the overall 'moderate' opinion provided on the adequacy and effectiveness of the Council's governance, risk management and internal control environment for 2021/2022 be noted.

## **8 Protecting the Public Purse Annual Report 2021/22**

The Committee received a report of the Corporate Director of Resources which provided details of the work carried out by the Corporate Fraud Team during the period 1 April 2021 to 31 March 2022 (for copy see file of minutes).

The Chief Internal Auditor and Corporate Fraud Manager provided an overview of activity undertaken and 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 reported during 2021/2022;
- Proactive Counter Fraud work;
- Progress on the Council's participation in the National Fraud Initiative (NFI);
- Fraud Reporting;
- Fraud Training;
- Covid-19 Frauds;

Responding to a query from Mr C Robinson regarding recording Covid frauds, the Corporate Director of Resources clarified that Covid Grants were time limited to 2020/21 and were not included in the standard Corporate Fraud results table. He added that a separate table would be added to include the Covid fraud figures.

Mr C Robinson further queried the low number of frauds that have resulted in prosecution or sanctions and asked what measure were in place to prevent others exploiting the system. The Chief Internal Auditor and Corporate Fraud Manager advised that the Council has an SLA with various Housing Associations to carry out checks and identify issues, however those individual Housing Associations would issue their own sanction. The Corporate Director of Resources added that the sanction figures identified fraud by Council employees or where fraud had been committed against the Council. He advised that the Council were commissioned to carry out Right to Buy checks on behalf of Housing Associations who would then take their own action. He suggested that further work would be carried out to collect outcome information from Housing Associations.

Referring to paragraph 35 of the report, it was clarified there was a typing error and would be removed.

**Resolved:**

That the contents of the report be noted.

## **9 Compliance with International Auditing Standards - Durham County Council including Pension Fund**

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:**

- (i) That the response to the External Auditor set out at Appendix 3 of the report be agreed;
- (ii) That the Chair of the Audit Committee be authorised to formally respond on behalf of the Committee.

**10 Draft Annual Governance Statement 2021/22**

The Committee considered a report of the Corporate Director of Resources which sought approval of the draft Annual Governance Statement (AGS) for 2021/22 (for copy see file of minutes).

**Resolved:**

That the draft Annual Governance Statement be approved.

**11 Draft Statement of Accounts for the year ended 31 March 2022**

The Committee considered a report of the Corporate Director of Resources which presented the draft Statement of Accounts for the year ended 31 March 2022 (for copy see file of minutes).

The Finance Manager - Revenue, Pensions and Technical Accounting reported the key points set out within the report relating to the four core statements, the movement in the general reserves, earmarked reserves and the Pension Fund net assets.

It was noted that the Statement of Accounts were available for public inspection from 24 June 2022 to 4 August 2022 and the accounts were currently being reviewed by the external auditor (Mazars LLP). It was expected that the final statement of accounts for 2021/22 would be presented at the Audit Committee in September 2022 for approval.

The Corporate Director of Resources placed on record his thanks to the Finance Team for their hard work to produce the draft accounts and supporting statements during a very challenging time.

Responding to a query from Mr I Rudd regarding where risks and liabilities relating to site developments were referenced in the accounts, the Finance Manager - Revenue, Pensions and Technical Accounting indicated that lease liabilities were referenced at page 311 of the papers. The Corporate Director of Resources explained that the Council holds the head leases for the property and holds the value of the lease as a long-term liability which was reported as part of the Treasury Management Outturn reports. He added that budgeted funds for property head leases were offset by income budgets for the letting of the individual units with the Council carrying the risk or benefit

where this exceeded the headlease cost. Budget pressures and risks were considered as part of the original budget setting and MTFP process.

**Resolved:**

That the Draft Statement of Accounts for the County Council for the financial year ended 31 March 2022 be noted.

**12 Update on the Independent Review of Local Authority Financial Reporting and Audit (Redmond Review) – Government Consultation Response**

The Committee considered a report of the Corporate Director of Resources which provided an update on the outcome of the Redmond Review regarding the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting (for copy see file of minutes).

**Resolved:**

That the report be noted.

**13 Exclusion of the Public**

**Resolved:**

That under Section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 1 of Part 1 of Schedule 12A of the Act.

**14 Protecting the Public Purse - Annual Report 2021/22**

The Committee received a report of the Corporate Director of Resources which presented the Protecting the Public Purse Annual Report for 2021/22 (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.