

## **DURHAM COUNTY COUNCIL**

At a Meeting of **Audit Committee** held in **Committee Room 2, County Hall, Durham** on **Monday 27 November 2023 at 9.30 am**

**Present:**

**Councillor A Watson (Chair)**

**Members of the Committee:**

Councillors L Fenwick (Vice-Chair), A Hanson, P Heaviside and B Kellett

**Co-opted Members:**

Mr C Robinson and Mr I Rudd

### **1 Apologies for absence**

Apologies were received from Councillor D Oliver, Councillor R Ormerod and Councillor T Smith.

### **2 Minutes**

The minutes of the meeting that was held on 29 September 2023 were agreed as a correct record and signed by the Chair.

P Darby responded to Mr I Rudd that he had not missed the presentation on the Looked After Children Sufficiency Strategy from Rachel Farnham, the Head of Children's Care, as discussed at the previous meeting. He explained that the Council had received a short notice Ofsted inspection that had taken priority in the last few weeks which meant that the service was unable to accommodate. It was proposed that Rachel would attend the next meeting in February 2024 to provide the requested overview and update on Looked After Children.

### **3 Declarations of interest**

There were no declarations of interest.

### **4 Audit Strategy Memorandum: Durham County Council**

The Committee received the Audit Strategy Memorandum of the External Auditor relating to the Durham County Council (for copy see file of minutes).

C Waddell, Mazars explained that the completion of the external audit had been later than had been expected but that this was no reflection on the DCC team. He noted that the plan of works had now been completed for the pension fund for 2022/2023 with no fundamental change and was the same as last year with management override risk level 3 on investments highlighted in the report. Mr Waddell noted that in terms of scope of the audit, nothing had changed except that Thomas Blackhouse had now taken over as Audit Manager and would complete the external audit.

P Darby commented that the External Auditors report and the final accounts for the pension fund had been presented to and considered by the Pension Committee.

Councillor B Kellett referred to page 31 of the report and queried the significant risks and judgements associated with revenue recognition within the Audit report.

C Waddell replied that the significant risk on the revenue recognition was a challenge to Auditors due to the substantial judgement and estimation that underpinned this and the risk that revenue was improperly or incorrectly recognised due to error or fraud. He clarified that the risk was there to recognise that there was a possibility that some organisations could try to make the income look better on the profit and loss and balance sheet. He confirmed that Durham County Council had robust audit and internal control arrangements in place and he had no concerns in this regard. He gave an example of council tax as a revenue recognition that could be a risk where there could be material fraud within the council tax accounts where money could be taken or placed in the wrong account. He noted that extra testing had been put in place to ensure everything was in the right year.

**Resolved:**

That the report be noted.

## **5 Audit Completion and Annual Reports 2022/2023**

The Committee received the Audit Completion Report of the External Auditor relating to the year ended 31 March 2023 which provided a summary of audit conclusions (for copy see file of minutes).

C Waddell, Mazars presented the headlines within the report. He confirmed that there had been no major changes from last year and the Audit in previous years had given assurance over the arrangements for securing value for money. Some weaknesses had been identified and recommendations given in the report, alongside the management responses.

Consideration had been raised with members of the public at a high level and the audit outcome was an unqualified opinion. He explained that in auditing terms unqualified was as good as it got.

The audit had identified future challenges. He also noted that the Audit was substantially complete but could not be fully signed off and the certificate issued until the National Audit Office had considered which councils they would use as sample components to analyse files. He was unsure if Durham would be picked as they were last picked in 2021 but they tended to pick the larger councils.

He mentioned that a local resident had raised an issue during the audit but it was deemed that the issue raised (linked to a planning application) was not relevant to the financial statements.

He gave reassurances that Durham County Council had produced good quality accounts in a timely manner with good quality working papers and that it was unfortunate that the September deadline for completion of the audit had been missed. Durham County Council were in the minority of councils nationally to have their accounts signed off by the end of November and had only been held up by additional work that had been carried out on pensions as they were one of the few councils that had their own pension fund and did not rely on other firms for assurances.

Mr I Rudd referred to page 73 of the report in section 5 that referred to issues with the related parties transaction forms and asked why some of these forms were missing.

M Outterside, Mazars confirmed that the forms had eventually been received but after the accounts had been finalised.

P Darby clarified that the related parties transaction forms from Members were asked for well in advance. Democratic Services chased them up to ensure they were received. Everything was done to try to ensure they were received but Officer's relied on Members to complete them. In previous years there were a small number missing and could not be received from members that did not return following the election which were difficult to chase up.

Mr I Rudd indicated to the adjusted misstatements item 2 for the loss of disposal of £48,000 and questioned if this was to do with the disposal of the HQ building at the sands that was sold to the University.

P Darby confirmed that it was. Durham County Council had constructed the building that would have been viewed as an asset on the balance sheet therefore as it was disposed of it was then required to be taken out.

M Outterside, Mazars stated that there was nothing wrong with the number but just had to reflect this on the face of it.

Mr I Rudd also queried the £6.5 million disposal monies.

P Darby clarified that this money was surplus on the disposal that was a revaluation adjustment and moved accordingly.

**Resolved:**

That the report be noted.

**6 Audit Strategy Memorandum: Durham County Council Pension Fund**

The Committee received the Audit Strategy Memorandum of the External Auditor relating to the Durham County Council Pension Fund (for copy see file of minutes).

**Resolved:**

That the report be noted.

**7 Audit Completion Report: Durham County Council Pension Fund Year ended 31 March 2023**

The Committee received the Audit Completion Report of the External Auditor relating to the Durham County Council Pension Fund, for the year ended 31 March 2023 (for copy see file of minutes).

C Waddell, Mazars stated that nothing had changed. Key changes had been evaluated throughout the year with the supply of information to inform the local pension authority on how much to pay for the next three years. The membership was up to date and the accounts again were unqualified.

T Blackhouse, Mazars agreed to process the completion of the audit as soon as possible with membership data that would be included in the follow up letter. He confirmed that there had been no changes. He noted that the evaluation allowance included risk because of the nature of the investment. Durham County Council had supplied a high quality of accounts with significant internal controls.

Mr I Rudd was intrigued with the internal control and agreed the balance border to coast pension contributions. He queried if there had been a change in the system as it was the same company but had slight differences.

P Darby acknowledged that border to coast pooled the pension assets, which had been done for last 9 years. He was unsure what was in the report that had changed as it was comparative to others. He assumed the interpretation of their information may differ from time to time if there was a different advisor analysing the information.

J McMahon advised that discussions had taken place with other local authorities who had expressed the same issue on the report. A workshop was to be arranged with the BCPP relations manager so that there was consistency.

Mr I Rudd asked if the BCPP company was set up for pensions for all the local authorities in the northeast.

P Darby replied that the pension arrangements for local authorities in the northeast formed part of the BCPP arrangements and had been pooled to achieve economies of scale. There were 12 other pension funds across the country who had pooled their assets within BCPP. Pooled funded only required one set of advisors and achieved savings as a result. It was the Pension Committee that dictated how the assets of the Durham Fund were deployed and an evaluation report was provided with the pension account and how this factored into the statement of accounts.

P Darby expressed thanks on behalf of the Committee and Durham County Council for all the work that C Waddell and his team had carried out to get the Audits completed.

**Resolved:**

That the report be noted.

**8 Annual Governance Statement for the year April 2022 to March 2023**

The Committee considered a report of the Corporate Director of Resources which sought approval of the Annual Governance Statement (AGS) for 2022/23 that was attached in appendix 2 that must accompany the Statement of Accounts (for copy see file of minutes).

**Resolved:**

That the report be approved.

## **9 Statement of Accounts for the year ended 31 March 2023**

The Committee considered a report of the Corporate Director which presented the Council's statement of accounts for the financial year ended 31 March 2023 that included the pension fund financial statements (for copy see file of minutes).

Councillor Kellett had studied the report and was concerned that more people were aged between 50-65 years old that were drawing on their pensions. He queried what implications this would have on Durham County Council.

P Darby replied that there were far reaching implications on Durham County Council especially with the increased pressures on Social Services, within the domiciliary care teams as people were living longer and wanting to remain in their own homes wanting to live long and independent lives. He noted that Durham County Council invested in young people through apprenticeship schemes to reflect the demographics in the workforce and had succession and workforce development plans in place to recruit younger people into the organisation.

Mr I Rudd stated that there was lot of information included in the report that included a large single movement with gains and losses in the pension. He questioned what this related to.

In response to Mr I Rudd P Darby advised that this was in part due to the triennial re-evaluation that was reflected in the accounts. Durham County Council influenced the investment strategy that the pension committee had adopted as they were the custodians.

Mr I Rudd queried if the aging population would reduce or increase the ongoing liability of people living longer.

C Waddell, Mazars confirmed that the liability would be stable from the pension fund perspective but that interest rate changes had a bigger impact and may affect returns. These were matters that would be discussed in the Pension Committee.

Mr I Rudd queried what would happen if the interest rates went down.

C Waddell, Mazars advised that if interest rates went down then the investments would be revalued and that this particularly impacted on Government Bonds / Gilts.

P Darby was happy to arrange for a Pension Officer to come to a future meeting to provide a briefing on pensions and the valuation process.

**Resolved:**

That the report be approved.

**10 Annual Governance Statement for the year ended 31 March 2023: Actions Update**

The Committee received a report of the Corporate Director of Resources that provided an update on the progress being made in relation to the actions arising from the Council's draft Annual Governance Statement (AGS) for the year ended 31 March 2023 (for copy see file of minutes).

Mr C Robinson recalled two years ago that there had been an issue with a power outage at Tanfield and queried if there were protocols in place to prevent this from happening again or if there was a cyber-attack.

P Darby replied that the issue at Tanfield had been mitigated with generators in place to reduce the risk. He clarified that if data was under attack all systems would be frozen. Under a cyber attack, systems would be prioritized for business continuity and time scales allocated on which were reinstalled when. He highlighted that data and back ups was also stored off site to help with business continuity.

Mr I Rudd raised the issue of what had happened at the British library and asked if Durham County Council were prepared.

P Darby explained that all Durham County Council employees were cyber aware and were trained to prevent a cyber attack and that included phishing to try to catch people out and highlight the dangers of their error if they were caught. This was a key risk and something the council prioritised investment in anti-virus software and firewalls etc.

**Resolved:**

That the progress made against each of the improvement actions be noted.

**11 Health, Safety and Wellbeing Performance Report Quarter Two 2023/24**

The Committee received a report of the Corporate Director of Regeneration, Economy and Growth that provided an update on the Council's Health, Safety and Wellbeing (HSW) performance for Quarter two 2023/24 (for copy see file of minutes).

K Lough highlighted the key areas of the report that included the Quarter 2:

- Number of incidents
- Audit and Inspections
- Employee Health and Wellbeing
- Open Water Safety
- Occupation Health Service
- Radon gas
- RAAC
- Potentially Violent Persons Register

Councillor Kellett was concerned that St Leonards School in Durham had been badly affected by RAAC. He did not think that it affected modern building only older ones.

K Lough explained that St Leonards School was an Academy and they had worked closely with the DfE regarding the RAAC in the building. The students had been moved to a temporary site and they were looking for a longer-term solution. Discussions had taken place to see if the site could be refurbished or if it would need a new building. He added that RAAC primarily affected buildings that were built 40-50 years ago.

P Darby stated that RAAC had affected some older buildings and with the site at St Leonards School being on 3 storeys the RAAC had been found in the roof and floors. If buildings were pre 1950s then potentially it was not the main construction that was affected but extensions and repairs that had done subsequently that had used RAAC. The government had changed their guidelines several times and the priority was inspecting anything that had been built between 1930 and early 2000.

**Resolved:**

That the report be agreed

**12 Strategic Risk Management Progress Report for 2023/2024 Review 2: June - 30 September 2023**

The Committee received a report of the Corporate Director of Resources that supported the Council's Risk Management Strategy and highlighted the strategic risks faced by the Council and provided an insight into the work carried out by the Corporate Risk Management Group between June and September 2023 (for copy see file of minutes).



P Darby highlighted that there were four new risks that included the lack of education psychologists where there was a national shortage that would impact on children with social care plans; specialist fleet, plant and equipment although DCC had a robust maintenance fleet there were longer lead in times to buy specialist equipment; land slippage on the A690 continued to be monitored but with climate change and flooding there were extra risks; and highways structures like bridges that were under threat from fast flooding rivers that created surges of debris that damaged them. He also confirmed that DCC were awaiting the outcome of round 3 for the Levelling Up Fund (LUF) submissions that had created a risk if they were unsuccessful.

Councillor B Kellett asked what continuity plans were in place if the A690 road collapsed as National Rail had premises in that vicinity that may be affected.

P Darby responded that there was a £15 million capital scheme in place to repair the road. The road continued to be monitored and it had not deteriorated so the risk had not increased. Work was ongoing with engineers to start repair works in the next calendar year. He advised that the Council were liaising with National Rail to potentially carry out repairs on their behalf. Highways England were aware of the situation.

Councillor B Kellett was concerned that the amount of rain that had fallen would cause further damage as there had been no warning when a road collapsed in Northumberland.

P Darby reassured the Committee that there were monitors and sensors on the road to constantly monitor the slippage and money was available to carry out repairs.

Mr C Robson queried if Durham County Council had received £20 million of Towns Fund monies for Spennymoor and how this differed from the LUF and other funding for Bishop Auckland and if this relied on other agencies.

P Darby explained that Bishop Auckland had been awarded LUF funding in Round 1 and that Bishop Auckland was also benefitting for other funding – through the Future High Streets Fund and the Towns Fund, which were different funding pots.

The £20m of funding that had recently been announced for Spennymoor was different.

Levelling Up Fund allocations were awarded to Parliamentary Constituents, whereas the Spennymoor monies was an endowment scheme over 10 years that was to be managed by a town board that needed to be established. The detailed guidance on how this scheme would work had only recently been published and was being worked on.

Durham County Council had submitted 5 bids for LUF in round 2 that had been unsuccessful as the government had decided that if an award was given in round 1 then no monies could be awarded in round 2. Durham County Council had resubmitted the original 5 bids in round 3 and were awaiting the outcome that should be announced before the Autumn statement. He confirmed that match funding had been put aside if successful.

Mr C Robson asked if the LUF round 1 had been successful.

P Darby responded that Durham County Council had received £20 million for a raft of schemes in the Bishop Auckland constituency that was on track to be spent.

Mr I Rudd questioned if the EfW (energy from waste) project at Teesside had gone ahead, what were the time scales and had there been any implications with logistical transport to it.

P Darby replied that DCC already transported waste to Teesside with the contract due to conclude at the end of 2024/25 that gave the opportunity to look for a new regional solution for efficiency. The EfW was progressing well with planning in place, procurement underway but there were issues with North Powergrid in how to physically connect to grid that had caused the delay which would be worked through.

**Resolved:**

That the report be agreed.

### **13 Updated Local Code of Corporate Governance**

The Committee considered a report of the Corporate Director of Resources which sought approval of the updated Local Code of Corporate Governance following an annual review (for copy see file of minutes).

**Resolved:**

That the updated Local Code of Corporate Governance be agreed.

## **14 Protecting the Public Purse Update: Position as at 30 September 2023**

The Committee received a report of the Corporate Director of Resources that provided an update on activity relating to Protecting the Public Purse that had been carried out by the Corporate Fraud Team during the first six months of 2023/24 (for copy see file of minutes).

Mr I Rudd commented that it had been very useful to include case studies to illustrate how things worked.

Mr C Robson thanked P Gibbon for his extensive report and had also found the case studies helpful that brought the work to life that showed what action took place behind the scenes.

Mr I Rudd questioned whether the covid support scheme was specific to Durham County Council or if they acted on behalf of the Government to administer it. He also asked if it was monitored to detect fraud.

P Gibbon, Fraud Manager responded that the covid support scheme was a government scheme that the council administered on their behalf. Investigations were ongoing as there were some cases that there were potential acts of fraud.

Mr I Rudd asked if they were isolated cases or if there were a few to investigate.

P Gibbon, Fraud Manager replied that there were 2 to 3 cases left to investigate and push to prosecute but the cases were complex.

P Darby clarified that several businesses had received the covid grant if they were eligible to pay rent but there had been no restrictions in place so in essence they could spend the money on what they wanted and left some landlords without the rent being paid.

### **Resolved:**

That the contents of the report be noted

## **15 Internal Audit Progress Update Report Period Ending 30 September 2023**

The Committee received a report of the Corporate Director of Resources that provided an update on the work that was carried out by Internal Audit during the period 1 April 2023 to 30 September 2023, as part of the Internal Audit Plan for 2023/24 see (for copy see file of minutes).

**Resolved:**

That the contents of the report be noted.

**16 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.

**17 Protecting the Public Purse Update Activity Report as at 30 September 2023**

The Committee received a report of the Corporate Director of Resources which provided an update on activity to 20 September 2023 (for copy see file of minutes).

**Resolved:**

That the report be noted.

**18 Internal Audit Progress Report Period ended 30 September 2023**

The Committee received a report of the Corporate Director of Resources which provided details of internal audit progress to 30 September 2023 (for copy see file of minutes).

**Resolved:**

That the report be noted.