

DURHAM COUNTY COUNCIL

At a Meeting of **Audit Committee** held in **Council Chamber, County Hall, Durham** on **Friday 28 June 2024 at 9.30 am**

Present:

Councillor A Watson (Chair)

Members of the Committee:

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

Co-opted Members:

Mr F Barnish and Mr I Rudd

1 Apologies for absence

Apologies for absence were received from Councillor A Hanson, Councillor D Oliver, Councillor R Ormerod, Councillor T Smith and Mr C Robinson.

2 Minutes

The minutes of the meeting held on 20 May 2024 were agreed as a correct record and signed by the Chair.

3 Declarations of interest

There were no declarations of interest.

4 Annual Review of the System of Internal Audit 2023/24

The Committee received a report of the Corporate Director of Resources which presented the annual review of the system of Internal Audit for consideration and comment. The report set out the outcome of the annual review of the effectiveness of the internal audit service (for copy see file of Minutes).

Councillor A Watson reiterated T Henderson's thanks to the team for all their hard work throughout 2023/24.

Mr I Rudd remarked that it had been a busy year. He noted in the report that there were several employees within the team who had more than ten years experience and queried if there would eventually be a recruitment crisis if staff retired or left.

T Henderson explained that following her appointment she introduced a Workforce Development Plan and made changes to the staffing structure which has created career pathways and generated opportunities to recruit and retain staff. At present there was only one member of staff that would soon be 55 years of age and therefore she did not envision a recruitment crisis in the near future. She acknowledged that service delivery continued to be challenging as everyone was extremely busy, however the more experienced staff continued to share their knowledge and skills with junior members of staff to broaden their knowledge base. She also advised that staff were provided training on a regular basis.

Resolved:

That the findings and conclusions of the 2023/24 review of the effectiveness of the system of Internal Audit contained within the report be noted.

5 Annual Internal Audit Opinion and Internal Audit Report 2023/24

The Committee received a report of the Corporate Director of Resources which presented 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 in place during the year. The report included the Annual Internal Audit Report for 2023/24 (for copy see file of Minutes).

Mr I Rudd referred to the comprehensive table in appendix two of the report that presented positive work from 2017-18 which had reduced the 'limited' assurances from 22 to 3 over the years. He understood why the assurance opinion was moderate but asked if the Council would ever see the day when the assurance opinion was accelerated to the next level up.

T Henderson responded saying that it would be excellent to be able to provide the next level up assurance opinion. However as the Council was a multibillion-pound business then providing a substantial assurance opinion would mean that there was no control weakness across all activities which was unrealistic for a large and complex authority.

Resolved:

- i) That the contents of the Annual Internal Audit Report for 2023/2024 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 2023/2024 be noted.

6 Protecting the Public Purse Annual Report 2023/24

The Committee received a report of the Corporate Director of Resources which presented the Annual Protecting the Public Purse Report that provided information on the work that had been carried out by the Corporate Fraud Team during the period 1 April 2023 to 31 March 2024 (for copy see file of Minutes).

Councillor B Kellett asked if residential properties were investigated for council tax fraud if it was apparent there was more than one person living in the property over the age of 18 and the household claimed single occupancy.

P Gibbon agreed to investigate the issue if Councillor B Kellett provided him the specific details of the enquiry outside of the meeting.

Mr I Rudd referred to paragraph 31 of the report regarding the Northeast Regional Fraud Hub pilot and queried if there were plans to continue this work.

P Gibbon replied that the Northeast Regional Fraud Hub pilot had been established to enable data sharing between Durham County Council, Gateshead Council and Newcastle City Council. The pilot had been very successful which had used new software to analyse data. There were intentions to roll this out with other local authorities which included Northumberland County Council over the next 12-18 months.

Mr I Rudd asked if the new North East Mayor for the region would help to assist in the scheme.

P Gibbon thought the new Mayor would help assist the scheme as there was a great deal of appetite to continue with this work.

Resolved:

That the contents of the Annual Protecting the Public Purse Report 2023/24 that included the work carried out by the Corporate Fraud Team over the last year, the fraud types and estimated values identified in 2023/24 (Appendix 3) and the Corporate Fraud Team Operational Plan 2024/25 (Appendix 4) be noted.

7 Treasury Management Outturn Report 2023/24

The Committee received a report of the Corporate Director of Resources that provided information on the Treasury Management outturn position for 2023/24 to aid the responsibility of Audit to ensure the independent and effective assurance over the adequacy of the council's Treasury Management strategy, policies and practices. Following consideration of the 2023/24 Treasury Management Outturn an assurance statement provided by the Committee (highlighting any areas of concerns, where applicable) would be included within the report to full Council on 17 July 2024 (for copy see file of Minutes).

Councillor B Kellett asked for further explanation of paragraph 19 of the report which highlighted the Council's debt that had increased but it was unclear on the net investment and whether this was a good rate of return.

R Davisworth acknowledged that Councillor B Kellett had raised a valid question. He explained that the Council had taken debt out of £412 million over a number of previous years, which currently sat on the council's balance sheet, and tended to be locked in at fixed rates, for which the terms and conditions made refinancing of this debt prohibitively expensive. Investment income was based on short-term cash balances that had been deposited to manage the Council's liquidity needs. The Council was currently deferring the need to physically borrow from public funds or other lenders. While interest rates were high the council could run down cash balances then borrow once the borrowing rates dropped and the lower rates of interest could then be locked in for current and future planned borrowing needs.

Mr F Barnish referred to paragraph 43 of the report and asked if this was written correctly as the report was deemed to be concluded before the Audit meeting had been held.

R Davisworth advised that the role of the Audit Committee was to proactively scrutinize the Treasury Management arrangements. The report was to be submitted to full council on 4 July 2024 which had received assurances that Audit had considered the treasury management performance hence the way it had been written.

Mr I Rudd noted that the Treasury Management indicators compiled were positive in every case. He referred to table 39a that gave the upper limited on fixed interest rate exposure and asked who set the limits.

R Davisworth replied that the levels were set by the Council's finance department who worked closely with the Asset Management and Treasury Management team. The team drew upon advice from Link Asset Management, who acted as the Council's Treasury Management advisers and provided support to the Council to follow best practice. The Council used Prudential Indicators as part of the annual Treasury and Capital Strategy, to ensure borrowing arrangements were prudent and affordable.

Mr I Rudd queried if approval was made by full council.

R Davisworth confirmed that approval was made by full council. The Medium-Term Financial Plan would be refreshed and the Audit would be briefed in January/February and asked to scrutinise and challenge the targets and strategy that was reflected in the full report.

Mr I Rudd referred to paragraph 41d of the report that related to gross debt and the capital financing requirement. He queried if the estimated final figures included the next two financial years or did it look back at 2023/24 plus the year before for 2022/22 plus two years after.

R Davisworth acknowledged that the outturn was positive for the last financial year as the Treasury Management Strategy provided the medium-term outlook that stated where the council was, what the finances looked like at the end of the financial year and what levels of influence there had been in that year, what finance was required for the capital programme and the level of debt that was held. This would determine what borrowing the council could take out over the next few years and when to maintain cash liquidity that was set out in the projections. The report reflected what the position was at the end of March that may be similar for future years.

Mr I Rudd asked at looking two years forward what would the debt spend likely to be.

R Davisworth stated it was a dynamic process and once the MTFP was refreshed and the capital programme to top it up as required for repair/replacement schemes known it would create the need for additional borrowing to fund cyclical capital spend and new capital initiatives. The position would be commented on by the end of year to see what would be approved for 2025. This would be how to create a more medium-term picture report that would not compromise on the decision-making process for the future capital programme.

Resolved:

That the contents of 2023/24 Treasury Management Outturn Report to provide assurance on the treasury management activity during 2023/24 be considered.

8 Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2024

The Committee received a report of the Corporate Director of Resources that provided a summarised financial performance assessment of the council's ability to continue to be treated as a 'going concern' organisation and whether the council's annual accounts should be prepared on that basis (for copy see file of Minutes).

Resolved:

- i) That the council's status as a going concern be approved.
- ii) That the statement of accounts had been prepared on this basis be noted.

9 Compliance with International Auditing Standards – Durham County Council including Pension Fund

The Committee received a report of the Chair of the Audit Committee that provided the proposed response to the External Auditor's International Standards for Auditing request to support and inform their continuous planning prior to the final stage of Durham County Council's (including Pension Fund) 2023/24 Accounts. The report responded to specific questions, under International Standards for Auditing (ISA), in respect of preventing fraud in the annual accounts (ISA240), compliance with laws and regulations (ISA250), litigation and claims (ISA501) and going concern (ISA570) (for copy see file of Minutes).

Resolved:

- i) That the External Auditor's request for evidence as attached at Appendix 2 and agree the proposed response, as set out at Appendix 3 be considered.
- ii) That the Chair of the Audit Committee be authorised to formally respond on behalf of the Committee.

10 Annual Governance Statement for the year April 2023 – March 2024

The Committee received a report of the Corporate Director of Resources that sought approval of the Annual Governance Statement (AGS) for 2023/24, attached in appendix 2. The Accounts and Audit (England) Regulations 2015 required the Council to prepare an AGS, which must accompany the Statement of Accounts (for copy see file of Minutes).

Resolved:

That the draft Annual Governance Statement as attached at appendix 2 be approved.

11 Statement of Accounts for the year ended 31 March 2024

The Committee received a report of the Corporate Director of Resources that presented the draft (unaudited) statement of accounts for the year ended 31 March 2024 and raise (where applicable) any significant points arising from the accounts. The unaudited statement of accounts for Durham County Council for the financial year ended 31 March 2024 was authorised by the Responsible Finance Officer (the Corporate Director of Resources) on 31 May 2024 in accordance with statutory deadlines. The statement of accounts was published on the council's website the same day (for copy see file of Minutes).

Councillor A Watson thanked Officers for providing an excellent report that showed the council in a stable position.

R Davisworth stated that the Council had a large and significant asset-base for land and buildings, which was in part due to the fact many County Durham schools had continued to be under the control of the local education authority rather than convert to academies. Reserves were held to provide a level of financial sustainability for the Council, but the level of reserves had dropped in recent years. Arrangements were in place to benchmark the Council's financial balance sheet strength compared to other local authorities. There was a lot of work incorporated to produce the accounts, working to challenging deadlines to produce draft accounts by 31 May 2024.

Mr I Rudd was interested in the different community developments that the council had entered that was noted under contingency liabilities within the report. He gave Milburngate development as an example and wanted to know what the liabilities were for the council. He also mentioned the similar site at Aykley Heads and whether Council Hall would be raised to the ground in 3-4 years time and a new building built and what material risks or liabilities there could be for the council's pot.

R Davisworth outlined the legal issues, completion challenges and timescales for the Milburngate development. A contingent liability had been reflected as an event before the end of financial year. A report had gone to Cabinet that was confidential to agree the next steps to potentially delegate to officers to work with stakeholders for a solution which would need to be value for money and legally sound. A report was due back to Cabinet in the autumn with a liability update to reflect the position.

Mr I Rudd asked about if practical completion was made would there be any liability on the council.

R Davisworth responded that it was necessary for structural deficiencies with the building to be rectified by the developer. The council could take legal action to force through practical completion but they were not at that position.

Re. Aykley Heads: The report presented in September 2023 sought to work as a joint venture with partners to procure a suitable developed masterplan, infrastructure and vision for the site in various plots. This was to be part of the Durham Innovation district. The procurement process was still ongoing. Dialogue would take place with bidders this year to take this forward and would be presented to Cabinet in Quarter 4 2024/25. Approval had been provided from Cabinet to identify a partner for a joint venture to share the risks and the rewards equally – this process was part of the ongoing procurement process.

Councillor A Watson asked if Milburngate would create a financial liability to the council.

R Davisworth replied that there would be no financial liability relating to the building costs for the Council until practical completion was agreed. There was a need for a significant amount of money to be spent by the developer to get the building back to an acceptable standard. It was unclear how this would be taken forward and funded as the Council was not obligated to contribute towards these costs.

Councillor A Watson asked if there were any time limits for the practical completion to be concluded.

R Davisworth replied that there were no time limits for this to be agreed which was a risk in itself.

In response to a comment from Mr I Rudd, R Davisworth agreed that a presentation could be added as a future agenda item on assurances on the government structure that was in place and how the group committees were managed that included the Share Holders Working Group that comprised of the portfolio holders, Leader and Deputy Leader that looked at investment and assets. It would also give a review of the Directors, Strategic Officers and the 151 Officer who met three times per year to discuss issues as part the structure.

T Henderson confirmed that she attended Company Governance meetings which considered the effectiveness of the governance arrangements in place. She confirmed that during 2023/24 improvements continued to be made and that this was referenced within the annual assurance opinion report which was presented to the Committee earlier in the meeting.

R Davisworth noted that key risks provided assurance to the Audit Committee to make sure officers had legal advice from independent advisors as to what could be taken on as there may be potential for a conflict of interest. Advice was given to Officers of the Council when decision making if objectives became blurred.

Resolved:

That the statement of accounts of the council for the financial year ended 31 March 2024 which have been published on the council's website in line with statutory guidance and deadlines be considered.

12 Exclusion of the Public

Resolved:

That under section 100(A)(4) of the Local Government Act 1972, the public be excluded from the meeting 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.

13 Protecting the Public Purse - Annual Report 2023/24 - Report of Corporate Director of Resources

The Committee received a report of the Corporate Director of Resources that presented the Annual Protecting the Public Purse Report which provided information of the work that had been carried out by the Corporate Fraud Team during the period 1 April 2023 to 31 March 2024(for copy see file of Minutes).

Resolved:

That Appendix 2 being a summary of cases of potential internal corporate fraud reported and ongoing investigations in Appendix 4 be noted.