

## County Council

19 June 2013

### Bi Annual Report of the Audit Committee



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## Report of Councillor Edward Bell, Chair of the Audit Committee

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### Purpose of the Report

1. To inform the Council of the work of the Audit Committee during the period November 2012 to April 2013 and to demonstrate how this committee has been successful in improving governance across the Council.
2. The Committee has requested that bi-annual reports be made to Full Council. The last report covering the period April 2012 to September 2012 was presented to the Council on 5<sup>th</sup> December 2012.

### Background

3. The Audit Committee of the County Council has been in place since 2007.
4. The role and membership of the committee is set out in its terms of reference within the Constitution approved by Council.
5. The key functions of the Audit Committee, as set out in the Constitution, are to approve the Council's Annual Financial Statements of Accounts and to act as an advisory committee to the Council and the Executive on audit and governance issues. The Audit Committee also has delegated authority to approve the Council's Annual Governance Statement.
6. Good corporate governance requires independent and effective assurance processes to be in place to ensure effective risk management and reliable financial reporting in order to achieve the Council's corporate and service objectives. It is the responsibility of the Audit Committee to undertake these aspects of governance on behalf of the Council.
7. The membership of the Committee during the period covered by this report was as follows:

Chair: Cllr Edward Bell

Vice Chair: Cllr Owen Temple

Members: Cllr Reg Ord  
Cllr Colin Carr  
Cllr Brian Myers  
Cllr Dennis Southwell  
Cllr Barbara Harrison  
Cllr Michele Hodgson  
Cllr Linda Marshall

Co-optees: Ms Katherine Larkin Bramley  
Mr Thomas Hoban

## **Summary of Meetings**

### **22 November 2012**

#### 8. The Committee considered:

- (i) A report of the Corporate Director, Resources that provided an update on the second phase of the development of the Single Asset Register to ensure the correct basis for the valuation of assets within the Council's Financial Statements. Phase 2 covers all assets not covered in phase 1 namely, Council Dwellings, Vehicles Plant and Equipment, Intangible Assets and Infrastructure. The work plan submitted with the report provided a means by which the Committee can monitor progress, risks and issues.
- (ii) A report of the Corporate Director, Resources which gave an overview of in year Council Tax collection performance for 2012/13 and an update on the collection rate for 2010/11 and 2011/12, together with an update on the Council Tax provision for bad and doubtful debts. Members were assured that risks associated with income collection to achieve budget projections were being effectively managed and processes were in place in place to collect £250m in 2012/13, based on a collection rate of 98.5%.
- (iii) A briefing note of the Corporate Director, Resources that informed the Committee of the amounts held in the accounts for earmarked and general reserves. This had been requested by the Committee, following consideration of the 2011/12 Financial Statement of Accounts at the previous meeting, to gain further assurance that reserve levels within the accounts were appropriate.
- (iv) A report of the Manager of Internal Audit and Risk which informed members of the work carried out by Internal Audit during the period June to September 2012 and progress made by management on the implementation of audit recommendations.

- (v) A report of the Corporate Director, Resources consolidating all agreed recommendations for improving control weaknesses incorporated in the External Auditor's 2011/12 Interim and Final Governance Reports. Members noted that a robust monitoring framework had been introduced and the Committee would be updated on progress at each subsequent meeting.
- (vi) A report of the Chair of the Audit Committee summarising the work of the Audit Committee for the period April to September 2012. The approved report was subsequently presented to full Council at its meeting on 5 December 2012.
- (vii) The Annual Audit Letter 2011/12 from the Audit Commission summarising the 2011/12 audit of Durham County Council, including the Pension Fund that it administers. The letter confirmed an unqualified opinion on both the accounts and the Value for Money (VFM) opinion. It was pleasing to note that the external auditor had reported that the quality of the financial statements had improved with fewer errors identified than in previous years. The VFM opinion concluded that the Council understands the financial challenges and risks it faces and has worked hard to deliver a sustainable medium term financial plan for 2012/13 and beyond.
- (viii) A report of the Corporate Director, Resources highlighting the current strategic risks facing the Council and a summary of the work carried out by the Corporate Risk Management Group during July to September 2012.
- (ix) A report of the Corporate Director, Resources that sought approval of proposed amendments to the Local Code of Corporate Governance. The Code was approved prior to consideration by the Constitution Working Group.
- (x) A report of the Corporate Director, Resources covering the period April 2012 to September 2012 which provided an update on proactive work being taken to manage the strategic risk of fraud and corruption. Details of reactive work undertaken or in progress to investigate cases of alleged fraud and irregularity were also provided.

### **21 February 2013**

9. The Committee considered:

- (i) A report of the Corporate Director of Resources which highlighted the current strategic risks facing the Council and provided an insight into the work carried out by the Corporate Risk Management Group during the period October to December 2012.

- (ii) An update relating to the strategic risk associated with the funding of the One Point Service, reported at a previous meeting, to gain further assurance that the risk had been effectively managed.
- (iii) A report of the Corporate Director of Resources which provided an update on progress in implementing the agreed corporate governance action plan. The action plan highlighted areas of improvement arising from the annual review of the effectiveness of corporate governance arrangements as reflected in the 2011/12 Annual Governance Statement.
- (iv) A report of the Corporate Director of Resources which provided an update on progress on the implementation of the Action Plan from the agreed recommendations for improving control weaknesses incorporated in the External Auditors 2011/12 Interim and Final Governance Reports.
- (v) The annual report of the External Auditor on the outcomes of the audit of the Council's 2011/12 grant claims and returns. Overall, the report provided assurance on a much improved position from previous years. Whilst some errors and amendments were noted, no significant weaknesses in the control environment were disclosed.
- (vi) A report of the Corporate Director of Resources regarding the appointment of co-opted Members to the Committee. The Committee discussed various options for the appointment of co-opted Members and their length of tenure. It was agreed that the contracts of the current co-opted Members be extended for a period of 3 years from May 2013.
- (vii) A report of the Manager of Internal Audit and Risk which informed members of the work carried out by Internal Audit during the period October to December 2012.
- (viii) A joint report of the External Auditor and the Manager of Internal Audit and Risk Management regarding an investigation carried out in relation to the sale of Windlestone Hall. This review had been carried out following the receipt of a letter of complaint alleging that the Hall had been sold substantially under value. Whilst the review concluded that there was no evidence that this was the case, the Committee noted the weakness in controls in the disposal process highlighted in the report and asked for a management update on agreed actions to be taken in response to be brought back to Committee. The Committee also requested Internal Audit carry out a follow up audit as part of the 2013/14 Audit Plan to gain further assurance that improvements made are effective in managing identified risks.
- (x) Explanations provided by a selection of service managers as to why the implementation of agreed internal audit recommendations, previously highlighted in Internal Audit quarterly progress reports were considerably overdue.

#### **4 April 2013**

10. The Committee considered the following reports in preparation for consideration of the 2012/13 financial statement of accounts:

- (ii) A report of the Corporate Director of Resources that provided a summary of the key accounting changes in the latest edition of the Code of Practice for Local Authority Accounting in the UK.
- (iii) A report of the Corporate Director of Resources that assessed whether Durham County Council should be considered a 'going concern', and whether the accounts should be prepared on that basis.
- (iv) Details of the timetable for the preparation of the statements of accounts and the performance management arrangements in place to provide assurance that they will be completed in accordance with statutory requirements.
- (iv) An update from the Corporate Director of Resources on the County Council's accounting policies to be applied in the preparation of the 2012/13 Statement of Accounts to gain assurance that appropriate policies are being applied. The Committee approved the delegation of authority to the Corporate Director, Resources to amend the policies as and when required.
- (v) A progress update from the Corporate Director of Resources on the implementation of the Action Plan from the agreed recommendations for improving control weaknesses incorporated in the External Auditor's 2011/12 Interim and Final Governance Reports.
- (vii) Reports from the External Auditor explaining the scope of the 2012/13 audit of accounts for both the County Council Accounts and Durham County Pension Fund, the risks identified and the procedures that will be performed to deliver the audit.

11. The Committee also considered:

- (i) A report of the Corporate Director of Resources that presented an overview of the approved exemptions to the standard Procure to Pay (P2P) to gain assurance that exemptions were kept to a minimum and adequate alternative controls to automated authorisation are in place.
- (ii) A report of the Corporate Director of Resources relating to the recently agreed operational terms of reference for the Pension Fund Committee which clarified the respective roles and responsibilities of the Pensions Fund Committee and the Audit Committee in relation to governance issues and the pension fund accounts.
- (iii) An update report of the Corporate Director of Resources summarising progress in implementing the agreed governance action plan, highlighting

areas of improvement arising from the 2011/12 annual review of the effectiveness of corporate governance arrangements.

- (iv) A report of the Corporate Director of Resources giving an update on the development and implementation of Financial Management Standards. The Committee noted that the implementation of the standards would further improve the effectiveness of the Council's financial management framework.

### **How the Audit Committee has made a difference**

12. The Committee made a significant difference to the Council's governance, control and risk framework during the period November 2012 to April 2013 by :

- Striving to help support the Council deliver its objectives and priorities by being a proactive and reactive body encouraging the early reporting of any risk and control issues to ensure that appropriate and timely action is taken to address them
- Continuing to raise the profile of the Internal Audit and Risk Management Service through the Service's reports to Audit Committee
- Independent questioning and contributing to the development and control of internal audit plans
- Seeking assurance on the effectiveness of corporate risk management arrangements.
- Seeking assurance on the effectiveness of the Council's corporate governance arrangements from a number of different assurance sources
- Seeking assurance on the timely production of the year end financial statements of accounts
- Improving the accountability of service managers to respond to outstanding internal audit reports and the implementation of agreed internal audit recommendations thereby helping to drive improvement in controls to manage risks effectively
- Continuing to provide regular challenge and demanding accountability on the effectiveness of the operation of key financial systems
- Challenging the level of internal audit resources and their work to ensure that the service is effective and a reliable assurance opinion on the Council's controls framework is provided
- Challenging amendments required to the Council's Local Code of Corporate Governance and monitoring progress on the implementation of actions where improvements in governance arrangements have been identified.

### **Future Work**

13. An initial induction training session for new Audit Committee elected members, appointed following the May County Council election, has been

scheduled to take place prior to the next scheduled meeting of the Audit Committee on the 31 May 2013.

14. A training programme will be developed to support new elected members in accordance with the Audit Committee's forward business plan to be developed and agreed for 2013/14.
15. In accordance with best practice, a review of the effectiveness of the Audit Committee will be undertaken, building on the previous exercise undertaken in May 2011 and incorporating any feedback from new members.

**Recommendations and reasons**

16. Members note the report and the work undertaken by the Audit Committee during the last six months.

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**Contact: Avril Wallage, Manager of Internal Audit & Risk, Tel 03000 269645**

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## **Appendix 1: Implications**

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**Finance** - There are no direct financial implications arising for the Council as a result of this report.

**Staffing** - None.

**Risk** – Not a key decision

**Equality and Diversity/ Public Sector Equality Duty** - None

**Accommodation** - None

**Crime and disorder** - The Audit Committee provide independent assurance that the Council's arrangements to combat the risk of loss through fraud are effective and all reported potential fraudulent acts are appropriately investigated and reported to the police where it is appropriate to do so.

**Human rights** - None

**Consultation** - None

**Procurement** – None.

**Disability issues** – None.

**Legal Implications** – None.