

## **DURHAM COUNTY COUNCIL**

At a Meeting of **Audit Committee** held in Committee Room 1B, County Hall, Durham on **Thursday 27 June 2013 at 9.30 am**

**Present:**

**Councillor E Bell (Chairman)**

**Members of the Committee:**

Councillors J Rowlandson (Vice-Chairman), L Armstrong, C Carr, S Forster, O Temple and T Smith

**Co-opted Members:**

Mr Hoban and Ms Larkin-Bramley

### **1 Apologies for Absence**

Apologies for absence were received from Councillors Hillary and Stelling.

### **2 Minutes of the meeting held on 31 May 2013**

The minutes of the meeting held on 31 May 2013 were confirmed as a correct record and signed by the Chairman.

Consideration was given to all current items on the Committee's Action Plan (for copy of action plan see file of Minutes). Several items on the Plan were considered later in the meeting, the position with others was provided and dates were set when these would be reported back to Committee. The Plan would be updated accordingly.

With regards to the item on Assurance on Partnership Working Councillor Temple was not satisfied that it had been recorded as not applicable. As Audit Committee had raised it he asked that it be brought back to the Committee. Although it was recognised that it was a wider issue than Audit Committee business it was agreed that the outcomes of the Head of Legal and Democratic Services review would be reported back to this committee for information.

### **3 Declarations of interest, if any**

Declarations of interest were provided by Members of the Committee. A generic declaration of interest would be recorded given that Members were school governors, members of various Committees of the Council, former District Councillor's and bodies such as the Probation Board and Fire Authority.

#### **4 Disposal of Asset Procedures - Report of Head of Planning and Assets**

The Committee received a report from the Head of Planning and Assets giving an update on the disposal of assets procedure (for copy see file of Minutes).

The Asset Services Manager informed the Committee that actions had been taken to improve the disposal process following the sale of Windlestone Hall. Although some improvements were already being addressed prior to the Committee's recommendations in February, further changes have been made. He referred members to the attached Action Plan that would go to Cabinet in July for formal approval, and the Disposals Strategy guidance note. He assured that the Committee that the process would continue to be monitored and informed that Internal Audit would carry out a further review in 6 months.

The External Auditor commented that the key issue would be to follow best practice and evidence how the process has been followed.

The Chairman asked that new members of the Committee be sent copies of previous reports on Windlestone Hall.

On answering a question from Councillor Carr about the decision regarding Whinney Hill School, the Asset Services Manager confirmed that the decision was delegated to the Head of Planning and Assets. He assured members that if assets were being considered for sale at under current value, the Corporate Director, Resources would be involved in the process. Councillor Carr asked how many chartered surveyors were employed by Durham County Council and the Asset Services Manager confirmed that there were 10 chartered surveyors.

**Resolved:**

- (i) That the Committee were assured that the disposal process had been improved and enhanced.
- (ii) That the updated Disposal Strategy and Process Map be noted.
- (iii) That the outcomes of the planned internal audit follow up review be reported back to committee when complete.

#### **5 Draft Annual Governance Statement for the year April 2012 - March 2013 - Report of Corporate Director, Resources**

The Committee considered a report of the Corporate Director, Resources which presented the draft Annual Governance Statement and a list of significant governance improvements (for copy see file of Minutes).

The Risk, Insurance and Governance Manager highlighted how the Council complied with providing assurances on corporate governance and the key actions in place to help deliver the Annual Governance Statement.

The Committee raised concerns that impact of austerity measures and strategic risk of not delivering the MTFP had not been given enough emphasis in the Annual

Governance Strategy. It was suggested that the wording of action 2 on page 58 be amended to incorporate something on this.

Mr Waddell, Mazars, suggested that a conclusion would help to strengthen the statement.

The Risk, Insurance and Governance Manager asked that action 3 from the Action Plan relating to localities be removed.

**Resolved:**

- (i) That the first draft of the Annual Governance Statement for 2012/13 be agreed subject to;
  - The deletion of Action Plan Ref 3 and corresponding relevant text from the statement
  - The addition of a conclusion
  - The inclusion of some reference to the strategic risk of not delivering the MTFP and the rewording of Action 2 relating to VFM to reflect this
- (ii) That the revised draft Annual Governance Statement be presented to County Council for information.

**6 Annual Internal Audit Report 2012-13 - Report of Manager of Internal Audit and Risk**

The Committee noted a report of the Corporate Director, Resources which presented the Annual Internal Audit Report for 2012/13 which provided a 'moderate' opinion on the adequacy and effectiveness of Council's control environment for 2012/13 (for copy see file of Minutes).

The Committee were informed that the overall opinion given for the 2012/13 was that of a moderate assurance, which had been given in the previous year. The Committee, although disappointed with the overall opinion, acknowledged that a lot of improvements had been made during the year and others had been agreed but were yet to be implemented. The sustainment of this level of control despite the reduction in resources was however accepted as a positive outcome and the Committee will continue to challenge any delays by management in implementing agreed actions.

**Resolved:-**

That the report be noted.

**7 Annual Review of the Effectiveness of Internal Audit - 2012/13 - Report of Corporate Director, Resources**

The Committee considered a report of the Corporate Director, Resources regarding the outcomes of the annual review of the effectiveness of Internal Audit.(for copy see file of Minutes).

The Corporate Director, Resources informed the Committee that it was very important that the Council had an effective Internal Audit Service in operation. The last review of the service was undertaken in June 2012 and the improvements had been identified were the Development of Assurance Maps and the improvement of the in-house teams Skills Mix.

Members expressed strong concerns about the poor response from senior management to a feedback questionnaire issued as part of this year's review as only 15 of 28 questionnaires were returned. The Committee requested that those that had not responded be asked to reply as the reliability of the outcomes was questionable given the poor response.

**Resolved:**

That the evidence provided within the report gave assurance on the effectiveness of internal audit.

**8 Internal Audit Plan 2013-14 (July 2013 to June 2014) - Report of Manager of Internal Audit and Risk**

The Committee considered a report of the Corporate Director, Resources which outlined the Internal Audit Plan for the period July 2013 to June 2014 (for copy see file of Minutes).

**Resolved:**

- (i) That the audit strategy previously agreed be noted.
- (ii) That the proposed audit plan for 2013/14 detailed in Appendix 2 of the report be approved.

**9 Forward Plan of Audit Committee Business - Report of Manager of Internal Audit and Risk**

The Committee considered a report of the Corporate Director, Resources that presented a forward plan of Audit Committee business for the next 12 months (for copy see file of Minutes).

**Resolved:**

- (i) That the proposed forward plan for Committee business be approved
- (ii) That any amendments to the plan are reported as a standard item on the agenda of each meeting of the Committee for approval.

## **10 Any Other Business**

The Chairman agreed that the following item of business could be considered of sufficient urgency to warrant consideration.

Mr Waddell, Mazars, informed the Committee that the following would be added as a significant audit risk :

### **Revenue and expenditure recognition**

Auditing standards include a rebuttable presumption that there is a significant risk in relation to the timing of income recognition, and in relation to judgements made by management as to when income has been earned. For public sector organisations the same risk also applies to the recognition of expenditure and contractual obligations.

The pressure to manage income and expenditure to deliver forecast performance in a challenging economic environment increases the risk of fraudulent financial reporting leading to material misstatement and means that we are unable to rebut the presumption.

This does not imply that we suspect actual or intended manipulation but that we approach the audit with due professional scepticism.

We will evaluate the design and implementation of any controls which mitigate the risk. In addition we will undertake a range of substantive procedures including:

- testing of income and expenditure including tests to ensure transactions are recognised in the correct year;
- testing year end receivables, payables, accruals and provisions;
- review of management oversight of material accounting estimates and any changes to accounting policies;
- review judgements about whether the criteria for recognising provisions are satisfied; and
- testing of journals.

Mr Waddell informed the Committee that the Audit Completion Report would be presented in September.

## **11 Exclusion of the Public**

That under Section 100 A (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 paragraph 3 of Schedule 12A to the said Act.

## **12 Direct Payment Internal Audit Report - Report of Manager of Internal Audit and Risk**

The Committee received a report of the Corporate Director, Resources relating to Direct Payments (for copy see file of Minutes).

The Manager of Internal Audit and Risk informed the Committee about progress made in response to audit findings.

**Resolved:**

That the report be noted.

**13 Social Care and Direct Payments - Report of Head of Commissioning**

In response to the issue of the Internal Audit Report, the Committee considered a report of the Head of Commissioning providing an update on Social Care and Direct Payments (for copy see file of Minutes).

The Head of Commissioning and the Personalisation Development Manager of Children and Adult Services gave assurances that following suggestions by Audit a number of improvements had been made and a delegated decision process was now in place and timescales for carrying out audits were reducing.

Following a suggestion from Ms Larkin-Bramley it was agreed that as this was a high risk area a follow up audit would be carried in 6 months time.

**Resolved:-**

- (i) That the recommendations contained within the report be approved.
- (ii) That a follow up audit be carried out in 6 months.

**14 Annual Fraud Report 2012/13 - Report of Manager of Internal Audit and Risk**

The Committee noted a report of the Manager of Internal Audit and Risk which informed action taken by Internal Audit during 2012/13 and further action planned to raise awareness of the risk of fraud and corruption (for copy see file of Minutes).

Members enquired about any awareness training in schools. The Manager of Internal Audit & Risk advised that this would be considered as part of the next planned awareness campaign, "Spot it Stop it" or possibly via an update on governing bodies' agenda.

**Resolved:-**

That the recommendations contained within the report be approved.