

## **DURHAM COUNTY COUNCIL**

At a Meeting of **Audit Committee** held in Committee Room 1B, County Hall, Durham on **Friday 30 September 2016 at 11.00 am**

**Present:**

**Councillor J Rowlandson (Chairman)**

**Members of the Committee:**

Councillors L Armstrong, C Carr, J Carr and O Temple

**Co-opted Members:**

Mr D Beavis and Mr C Robinson

### **1 Apologies for Absence**

Apologies for absence were received from Councillors E Bell, M Davinson, J Robinson and W Stelling

### **2 Minutes**

The minutes of the meeting held on 29 July 2016 were confirmed as a correct record and signed by the Chairman.

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

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

Councillor Armstrong declared an interest in Item No. 8.

### **4 Audit Completion Report 2015/2016 - Durham County Council**

The Committee considered the Audit Completion Report of the External Auditor relating to Durham County Council for the year ended 31 March 2014 (for copy see file of Minutes).

Mr Waddell, Mazars, advised that the accounts had been produced on time and he would issue an unqualified opinion on the accounts together with an unqualified Value for Money conclusion.

Mr Collins, Mazars highlighted the significant audit risks and circulated a letter for the information of the Committee which provided an update on the work undertaken on the audit since the report was circulated (for copy see file of Minutes).

Mr Collins thanked the Finance Team for their support in making the process run smoothly.

**Resolved:**

1. That the Annual Governance Report of the Audit Commission be noted.
2. That the letter of representation be approved.

**5 Audit Completion Report 2015/2016 - Pension Fund**

The Committee considered the Audit Completion Report of the External Auditor relating to Durham County Council Pension Fund for the year ended 31 March 2016 (for copy see file of Minutes).

Ms S Liddle, Mazars presented the report to the Committee and circulated a letter for the information of the Committee which provided an update on outstanding matters and conclusions reached on the audit since the report was circulated (for copy see file of Minutes). She advised that no significant risks had been highlighted.

**Resolved:**

1. That the Annual Governance Report of Mazars be noted.
2. That the letter of representation be approved

**6 Governance Statement for the year April 2015 to March 2016**

The Committee considered a report of the Interim Corporate Director, Resources that sought approval of the final Annual Governance Statement to be published as part of the Council's audited Statement of Accounts 2015/16 (for copy see file of Minutes).

**Resolved:**

That the final Annual Governance Statement be approved as part of the Council's audited Statement of Accounts 2015/16 and the amendments made to the draft Annual Governance Statement as reported to Council be noted.

**7 Statement of Accounts for the year ended 31 March 2016**

The Committee considered a report of the Interim Corporate Director, Resources which presented the Statement of Accounts for the year ended 31 March 2016 (for copy see file of Minutes).

The Finance Manager for Revenue/Capital, Resources advised Members that once approved the accounts would be published on the Council's website and that some amendments had been made to the accounts in collaboration with the External Auditor.

Councillor O Temple thanked officers for providing a written response to his previous questions. He asked if the Chair and Vice Chair of Audit Committee should consider whether this Committee should be involved in tracking the legal costs associated with employment tribunal claims. He was concerned that there was no way of tracking and felt that costs were invisible.

The Interim Corporate Director of Resources informed the Committee that there were specific codes used to track legal costs and that awards were charged to the individual service. He assured the Committee that there was corporate oversight and monitoring of legal costs and that they were controlled within the management of the authority.

Councillor Temple said that there was no way for Members to track this and although he agreed that tracking did take place, evidenced by the unqualified opinion given by External Audit, he felt that there was no clear member oversight or understanding of it. He felt that it should fall to this committee and asked that the Chair and Vice Chair consider looking at it.

The Interim Corporate Director of Resources advised that these costs were not budgeted for but were reported as part of the budget as an overspend and said that if the costs were significant they would be picked up.

Mr Waddell, Mazars confirmed that there were a number of legal expense accounts and that they would look at the undisclosed liabilities and each would have a degree of materiality.

Councillor C Carr agreed that when the payment was to be significant then it should be brought to the Committee's attention but did not see how it affected the accounts.

The Interim Corporate Director of Resources said that any significant liability would be disclosed in a note in the accounts.

The Chairman agreed that any significant costs should be brought to the Committee's attention if it was an exception.

Referring to earmarked reserves, Mr C Robinson asked if they were spent in a particular way and asked how they were used.

The Interim Corporate Director of Resources advised that any transfers out were applied to fund any budget expenditure in the accounts and would go into the funding expenditure for individual services.

The Finance Manager for Revenue/Capital, Resources advised that the quarterly Cabinet report would contain more information on the use of reserves and transfers.

Mr D Beavis referred to the underspend and reprofiling of the capital expenditure and asked if this had an impact further down the line. He was advised that there were a number of reasons for delays including planning delays, compulsory purchase orders, procurement, external grant funding and European funding. This

would have an impact as improvements would not be carried out when originally planned.

The Chairman thanked officers for their hard work during the year to produce the accounts.

Mr Waddell advised that this was his final year with Mazars and that he would introduce his replacement at the next meeting.

**Resolved:**

That the statement of accounts for the County Council for the financial year ended 31 March 2016 be approved.

**8 Internal Audit Progress Report for the quarter ended 30 June 2016**

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which informed members of the work carried out by Internal Audit during the period April to June 2016 ( for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager highlighted the movements in the plan, removed audits and unplanned reviews added to the plan. The Committee were advised that 27% of the total plan had been delivered, exceeding the target of 23%. There had been 5 audits finalised in the quarter that had been given a limited assurance opinion.

Members were informed that an e-mail had been received and there had been an article in the press about the outcome of an Employment Tribunal regarding the accuracy of the investigation. The Chief Internal Auditor and Corporate Fraud Manager assured the Committee that his report was accurate. The Head of Legal and Democratic Services had wrote to the complainant and provided her with a copy of the report. Members were advised that this report was severely redacted due to data protection reasons.

Members were assured that lessons had been learnt and a number of controls were in place to mitigate the risk of a similar case happening again in the future.

The Chairman thanked the Chief Internal Auditor and Corporate Fraud Manager for his report and congratulated the team for being ahead of target.

Referring to the Employment Tribunal Mr Beavis asked if mediation had been considered as could not find any reference to it. He was advised that this was included in the full report and attempts had been made through ACAS however, it was noted that engagement in this process was not carried out quickly enough and therefore relationships had deteriorated to a point where mediation was not effective. The Interim Corporate Director of Resources added that after the initial award there was also an attempt to use mediation to bring the complaint to a conclusion however this was unsuccessful.

Mr Robinson asked if the same levels of additional control and training had been applied to the whole Council and not just the school and governing body, so that

the whole management team were aware of their responsibilities to apply policies and procedures.

The Chief Internal Auditor and Corporate Fraud Manager advised that this was absolutely the case and training, policies and guidance were available for all. The Interim Corporate Director of Resources added that controls had been strengthened and the lessons learnt had been applied to all. The disciplinary and grievance procedures had all been tested as part of the Audit Plan and an extra step had been added to the process. A schedule of live grievances and issues had been produced from HR and the Chief Internal Auditor and Corporate Fraud Manager has sight of this on a monthly basis and could offer help and support if the issues were delayed.

Councillor C Carr felt that the biggest risk was not having the skills to deal with these issues on school governing bodies.

Councillor Temple accepted that lessons had been learnt however referred to the recent communication from the complainant whereby she disputes the accuracy of the report. The Chief Internal Auditor and Corporate Fraud Manager advised that dates had been offered to meet with the complainant with the legal and HR teams to discuss the issues raised. He re-iterated his point that the complainant had received a severely redacted report and some of her issues had already been addressed. Councillor Temple asked that following this meeting that any further lessons learned are brought back through the Audit Committee.

Councillor Temple also asked that an update be provided at the next meeting.

**Resolved:**

- (i) That the amendments made to the 2016/2017 Annual Audit Plan, be noted.
- (ii) That the work undertaken by Internal Audit during the period ending 30 June 2016 and the assurance on the control environment provided, be noted.
- (iii) That the performance of the Internal Audit Service during the period, be noted.
- (iv) That the progress made by service managers in responding to the work of Internal Audit, be noted.
- (v) That the outcome of the review of the arrangements surrounding an Employment Tribunal, reported to County Council on 20 July 2016, be noted.

**9 Exclusion of the Public**

**Resolved:**

That under Section 100A(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 paragraphs 2 and 3 of Schedule 12A to the said Act.

**10 Internal Audit Progress Report for the quarter ended 30 June 2016**

The Committee considered Appendices 6 and 7 of the report of the Chief Internal Auditor and Corporate Fraud Manager which detailed the actions agreed by managers in response to internal audit recommendations that were outstanding (for copy see file of Minutes).

Members were advised that there were five audits finalised in the quarter that had been issued with a limited assurance opinion.

The Sustainable Transport Manager gave assurances to Members about the work being carried out following a recent audit. The Chairman thanked the Sustainable Transport Manager for attending the meeting.

**Resolved:**

That the report be noted.