

DURHAM COUNTY COUNCIL

At a Meeting of **Audit Committee** held in Committee Room 1A, County Hall, Durham on **Friday 24 February 2017 at 10.00 am**

Present:

Councillor E Bell (Chairman)

Members of the Committee:

Councillors J Rowlandson (Vice-Chairman), C Carr, J Carr, M Davinson and O Temple

Co-opted Members:

Mr D Beavis and Mr C Robinson

1 Apologies for Absence

Apologies for absence were received from Councillors J Robinson and W Stelling

2 Minutes

The minutes of the meeting held on 28 November 2016 were confirmed as a correct record.

3 Declarations of interest

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.

4 Agreement of Accounting Policies for Application in the 2016-17 Financial Statements

The Committee considered an update from the Corporate Director of Resources on the County Council's accounting policies to be applied in the preparation of the 2016/17 Statement of Accounts and to seek confirmation that appropriate policies are being applied (for copy see file of Minutes).

The Finance Manager, Corporate Finance reported that the big change was the dry run of the early closure of the accounts, before the statutory change comes into effect next year. He added that two accounting policies were being amended. The first being increasing the de minimis level for accruing for manual sundry creditor or sundry debtor provisions from £1,000 to £10,000. The second was an amendment to reflect the revised presentation of financial statements as required by the Code of Practice 2016/17.

Resolved:

That the recommendations contained within the report be agreed.

5 Final Accounts Timetable for the Year Ended 31 March 2017

The Committee considered a report of the Corporate Director of Resources that provided Members with the Final Accounts Timetable for 2016/17 detailing the deadlines for key actions to complete the Statement of Accounts in line with statutory deadlines (for copy see file of Minutes).

The Finance Manager, Corporate Finance advised that there would still be a two stage process but with different deadlines. The accounts would be signed off by the Corporate Director of Resources at the end of May 2017 and would be reported to Audit Committee in July 2017 for final approval.

He went on to inform the Committee that new estimating techniques and new processes were being used and that the critical path for accounting had been reviewed. A group of invested accountants were working very closely with the team to identify any risks. The external auditors, Mazars were also working very closely with the team in preparation for receiving the accounts early. Schools had been identified as an area of risk.

Members were advised that a number of other organisations use the ledger and were aware that it would be shut down early.

Councillor C Carr was delighted to see that schools had been taken into account and congratulated the team for the systems in place to ensure that new deadlines were met.

Councillor Temple found the report very helpful and informative in terms of what needed consideration, and he was assured that systems were in place to deliver on time.

Referring to the timetable, Councillor Davinson said that there may be problems in receiving the declaration forms on time from Members. He asked if they had been informed as to why the forms needed completing earlier. The Finance Manager, Corporate Finance explained that it was important to have a 100% return and his team were working closely with Michael Turnbull in the Committee Services team who had been instrumental in the process.

With reference to the key dates, Mr Robinson asked if there would be a significant impact if any were missed. He was advised that the dates were key and for example, capital expenditure would be shut down on 10 April and they would be strict with that. He added that if the ledger were to keep moving then they would have significant problems.

Mr Robinson was advised that the critical path would be fine-tuned. The Finance Manager, Corporate Finance referred to a practice used at South Tyneside Borough Council whereby reminders were sent a week before the deadline rather than chasing after the deadline.

The Finance Manager, Corporate Finance advised that the bank reconciliation process and service ledgers were carried out on a monthly basis to enable a smooth process. He confirmed that this would not cause any problems with the completion dates, further to a question from Mr Robinson.

The Finance Manager, Corporate Finance informed Members that an update would be given at the next Audit Committee in June 2017.

Resolved:

That the report be noted.

6 Changes to the Code of Practice for Local Authority Accounting in the UK 2016-17

The Committee considered 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 (the Code), applied to the 2016/17 accounts (for copy see file of Minutes).

The Finance Manager, Corporate Finance advised that the Highways Network Assets had been deferred to the 2017/18 accounts.

Resolved:

That the report be noted.

7 Decision to opt in to the National Scheme for Auditor Appointments

The Committee received a report of the Corporate Director of Resources that gave an update on the request to County Council on 22 February to accept Public Sector Audit Appointments' (PSAA) invitation to 'opt in' to the sector led option for the appointment of external auditors for five financial years commencing 1 April 2018 (for copy see file of Minutes).

Resolved:

That the report to County Council on 22 February 2017 be noted.

8 External Audit - Durham County Council Audit Strategy Memorandum Year Ended 31 March 2017

The Committee received a report from the External Auditor explaining the scope of the audit, the risks identified and the procedures that will be performed to deliver the audit for Durham County Council (for copy see file of Minutes).

Mr M Kirkham, Mazars, advised that the materiality level was defined with the early stages of the audit. The benchmark used to calculate materiality was based on the gross revenue expenditure. 2% was applied to get to the materiality figure.

Mr Beavis asked if 2% was a standard rate and was advised that it was the rate used for Local Authorities that had no significant financial problems and had a level of earmarked reserves, and was on par with similar authorities.

Councillor Temple asked if triviality was also driven by a percentage and if so asked what it was. Mr Kirkham explained that it was 3% of the overall materiality and was at a level at which errors would be reported.

The Chairman thanked Mr Kirkham for providing these assurances.

Mr J Collins, Mazars went on to advise of the significant risks and key judgements. He referred to the earlier close down of accounts and the team were prepared to do this by the end of July 2017. The Value for Money Conclusion showed no significant changes and additional audit work around the MTFP savings was highlighted. Mr Collins added that Mazars had moved to Salvus House, a building owned by Durham County Council. He pointed out that this had no bearing on the independence provided by the team.

The Chairman confirmed that this had been discussed fully with him before the move took place and it had been agreed to report this formally to the Committee

Mr Beavis referred to the mitigation of risks in terms of the management override of control and was surprised to see that personal motivation was not included as a risk. Mr Collins advised that as part of the planning process the team made assessments of the risk of fraud and the incentive of management was taken into account. Mr Kirkham added that they held a view of scepticism but were also mindful of the financial pressures faced and the risk this could entail.

Resolved:

That the report be noted.

9 External Audit - Durham Pension Fund Audit Strategy Memorandum Year Ended 31 March 2017

The Committee received a report from the External Auditor explaining the scope of the audit, the risks identified and the procedures that will be performed to deliver the audit for Durham County Council Pension Fund (for copy see file of Minutes).

Mr Kirkham, Mazars introduced the report and advised that the materiality benchmark was benefits payable and 10% was applied.

Ms S Liddle, Mazars advised of the significant risks and advised that Committee would receive an opinion at the July 2017 meeting. The final certificate would be issued on receipt of the Annual Pension Fund report.

Resolved:

That the report be noted.

10 External Audit Progress Report - February 2017

The Committee received a report from the External Auditor that gave an update on progress on the External Audit report for Durham County Council (for copy see file of Minutes).

Resolved:

That the report be noted.

11 External Audit Certification of Claims and Returns

The Committee received a report from the External Auditor regarding grant certification for 2015/16 (for copy see file of Minutes).

Mr Collins highlighted the area of grant certification work that has been completed for Housing Benefit Subsidy. He advised that the number of errors were reducing and any found were reported back to the appropriate department.

Resolved:

That the report be noted.

12 Corporate Governance Review 2016/2017 - Key Dates

The Committee received a report of the Corporate Director, Resources that informed of the key dates for the corporate governance review for the 2016/17 financial year (for copy see file of Minutes).

Members asked that 'internal' be added to the timetable regarding the annual audit opinion being reported to Committee in June 2017, to avoid any confusion with the external auditor's opinion.

Resolved:

That the report be noted.

13 Revised Risk Management Policy and Strategy

The Committee considered a report of the Corporate Director of Resources that sought approval of the revised Risk Management Policy & Strategy (for copy see file of Minutes).

Resolved:

That the revised Risk Management Policy and Strategy be approved.

14 Strategic Risk Management - Progress Report for the Quarter Ended 31 December 2016

The Committee considered a report of the Corporate Director, Resources which highlighted the strategic risks facing the Council and that gave an insight into the work carried out by the Corporate Risk Management Group during (for copy see file of Minutes).

The Risk, Insurance and Governance Manager informed the Committee that there were now 21 strategic risks with the removal of the risk 'additional burden as a result of recent change to the deprivation of liberty threshold'.

Councillor Temple expressed concern that these reports had never signalled the teaching assistant's dispute as this was a big risk in terms of education and finance. The Risk, Insurance and Governance Manager said that the report highlighted emerging risks and advised that management had taken the decision that the teaching assistant's dispute was being managed. The Corporate Director of Resources explained that the risk was being mitigated.

Councillor Temple expressed further concerns as to whether risks were objective or being managed in terms of political management. The Chairman reminded Members that the Committee does not have any political ties.

Councillor C Carr said that he expected managers to advise the Committee of the risks and how they were being dealt with.

Councillor Temple advised that he would put his concerns in writing to the Corporate Director of Resources.

Mr Robinson referred to the Key Risks Schedule and suggested that it would be helpful to have a date of what was required and by when. He understood the difficulty of having to work to Government criteria, especially when it kept changing, but asked that this be reviewed.

Resolved:

That the report provides assurance that strategic risks were being effectively managed within the risk management framework across the Council.

15 Emergent Internal Audit Plan 2017/2018

The Committee considered a Report of Chief Internal Auditor and Corporate Fraud Manager that provided details of the emergent Internal Audit Plan for 2017/2018 and gave an update on the development of the 2017/2018 Internal Audit Plan (for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager advised that the plan was aligned to the current service structure and fully supported the transformation programme.

Resolved:

That comments on the proposed direction and process for the development of the emergent Internal Audit Plan be noted and that the plan would be reported to the meeting on 28 June for formal approval.

16 Internal Audit Progress Report for the quarter ended 31 December 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 Audit and Fraud Manager highlighted the movements in the plan, removed audits and unplanned reviews added to the plan. The Committee were advised that 76% of the total plan had been delivered, exceeding the target of 68%. There had been 6 audits finalised in the quarter that had been given a limited assurance opinion. With reference to the survey response rate an average score of 4.5 out of 5 was given from service groupings. The summary of progress on the actions due were highlighted and members were informed that all performance indicators had been achieved.

With reference to the surveys, Mr Beavis commented how low the return was from schools. The Chief Internal Auditor and Corporate Fraud Manager said that the response rate had improved significantly however it was noted that there was room for improvement.

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 31 December 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.

17 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.

18 Internal Audit Progress Report for the quarter ended 31 December 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 six audits finalised in the quarter that had been issued with a limited assurance opinion.

The Assessments and Awards Manager and the Head of Planning and Assets gave assurances to Members about the work being carried out following a recent audits.

Resolved:

That the report be noted.

19 Organised Crime Procurement Pilot

The Committee received a report of Chief Internal Auditor and Corporate Fraud Manager that presented the final report produced by the Home Office on the threat serious and organised crime poses to publicly procured services in Local Authorities (LAs) and how to respond to that threat, following the Council's participation in an organised crime procurement pilot (for copy see file of Minutes).

Resolved:

That the report be noted.