

## **DURHAM COUNTY COUNCIL**

At a Meeting of **Audit Committee** held in Committee Room 2, County Hall, Durham on **Wednesday 28 June 2017 at 10.30 am**

**Present:**

**Councillor J Rowlandson (Chairman)**

**Members of the Committee:**

Councillors C Carr, M Davinson, S Robinson, J Shuttleworth 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, J Carr and J Robinson

### **2 Minutes**

The minutes of the meeting held on 24 February 2017 were confirmed as a correct record and signed by the Chairman.

### **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 Consideration of 'Going Concern Status' for the Statement of Accounts for the year ended 31 March 2017**

The Committee considered a report of the Corporate Director, Resources regarding whether the Council should be considered as a 'going concern' organisation and whether the Council's Annual Accounts should be prepared on that basis (for copy see file of Minutes).

The Finance Manager for Resources and Transformation and Partnerships explained that the current position showed healthy balance sheets and reserves. He added that future plans were included in the medium term financial plan.

Mr Robinson referred to the use of reserves and as £1bn had been used in the last 8 years he asked how sustainable this was looking forward. He was concerned at the narrative around this issue. The Finance Manager explained that the balance

sheet showed the bottom line position. Last year the housing stock write off was a big change and the pension fund liability was a negative reserve. He confirmed that the net position going forward should not change much. He added that the technical accounting reserves reflected bigger movements in the accounts. Mr Robinson said that he did not get that information from the narrative. The Corporate Director of Resources said that capital savings through the MTFP do have a balanced account going forward and that it was contained in the narrative more widely.

Mr Robinson further commented that the strong position going forward was summarised in the table and showed a reduction in the net value, which was not pure spend but accounting valuation. The Corporate Director of Resources said that this would be picked up in the statements going forward.

Councillor Carr was concerned that the risk of schools budgets was not referred to and he was informed that this would be included in a separate report to Cabinet as part of a wider schools review.

**Resolved:**

That the Council should be considered as a going concern and that the Statement of Accounts should be prepared on that basis.

**5 External Audit Progress Report - June 2017**

The Committee noted a report of the External Auditor which provided details of progress on the external audit of Durham County Council to date (for copy see file of Minutes).

Mr Collins of Mazars informed the Committee that this year there was an early close down of the accounts with a deadline of the end of July 2017. These would be presented at the July Audit Committee together with the value for money conclusion. Work on the housing benefit subsidy would be presented to Committee later in the year and it was noted that this area of work would need an appointed reporting accountant from 2018/19.

Councillor Davinson asked if the work already carried out for the Highways Assets could be used at a later date. Mr Collins advised that discussions were ongoing with CIPFA but as yet no dates had been given. It was hoped that a lot of the work undertaken by Mazars and the Council could be utilised.

**Resolved:**

That the contents of the external auditor's progress report be noted.

**6 Strategic Risk Management - Progress Report for the quarter ended 31 March 2017**

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 Officer informed the Committee that there were now 22 strategic risks and highlighted the key changes of new risks, increased risks, removed risks and reduced risks.

Councillor Temple was pleased to see movement on the risk register as it was important to be meaningful to members. He confirmed that he had wrote to the Chair following his concerns expressed at the last meeting.

With reference to the new risk of 'progressive land slippage near the A690' Mr Robinson was assured that there would be some safety concerns but that the main risk was that it was a major road into Durham City. The Corporate Director of Resources said that although it was a road closure at this stage, should there be any danger of slippage it would be escalated.

**Resolved:**

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

**7 Internal Audit Progress Report for the quarter ended 31 March 2017**

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 January to March 2017 ( 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 102% of the total plan had been delivered, exceeding the target of 90%. There had been 4 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.

Mr Beavis referred to paragraph 17 where it was reported that 96% of the recommendations had been implemented and asked if they achieved their desired outcome. He was advised that where weaknesses had been identified in control the recommendations were accepted. The Chief Internal Auditor and Corporate Fraud Manager said that there was a cycle to their work and that they would always revisit a project and compared findings to the last Audit report. The Corporate Director Resources added that managers had a duty to ensure that controls were in place and if they were working.

Councillor Carr asked if the response rate survey could be referred back to Corporate Management Team. The Corporate Director of Resources confirmed that this would be picked up and reported back.

Referring to acronyms Councillor Temple asked if they could be explained in the report in future. In particular, he referred to MAIS, CSE and SQL.

Mr Robinson referred to the outstanding issues and asked if any issues were fed into the opinion. The Chief Internal Auditor and Corporate Fraud Manager advised that there were no significant issues that affected his Internal Audit opinion to the Committee.

**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 March 2017 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.

**8 Annual Review of the Effectiveness of Internal Audit 2016/2017**

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which provided members with the opportunity to comment of the Annual Review of the System of Internal Audit (for copy see file of Minutes).

Councillor Carr placed on record his congratulations to the officer for progressing in their IIA studies.

The Chairman commended the team for working very hard covering a lot of ground.

**Resolved:**

That the content of the report be noted.

**9 Annual Internal Audit Opinion and Internal Audit Report 2016/2017**

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which provided the Chief Internal Auditor and Corporate Fund Manager's assurance opinion on the adequacy and effectiveness of the Council's internal control environment and presented the Annual Internal Audit Report for 2016/17 (for copy see file of Minutes).

The Chief Internal Auditor and Corporate Fraud Manager confirmed that he had given a moderate overall assurance opinion for 2016/17. He added that performance was good and that policies and procedures were now in place to help deliver financial control within the authority. Internal Audit had also helped advise and support new managers to understand their role.

Mr Robinson asked what could be done to make the drive from the moderate opinion to a substantial one. The Chief Internal Auditor and Corporate Fraud Manager explained that the framework was there with policies and procedures in place but that new managers within the organisation needed training and support to make them understand their role. Mr Robinson went on to ask if there was anything that the Committee could do as he was concerned about people being in a position of responsibility and not operating in a way that should be expected. The

Corporate Director of Resources said that there is a clear message of what is expected and that has been rolled out to managers.

Councillor Carr asked if there was internal training for new managers and he was assured that this had been developed and rolled out within the organisation.

Mr Beavis commented that with austerity and all of the job cuts it placed more pressure on people as there was not always time and people could be taking short cuts. The Corporate Director of Resources said that the main issue was that of training. As far as savings were concerned the authority were looking at future service provision.

Councillor Davinson referred to limited assurances and in particular the decision about payments for adults living independently, and suggested that as more managers are on board about what is expected and by when, there should be less limited assurances given. The Chief Internal Auditor and Corporate Fraud Manager agreed that was what was planned for.

Mr Kirkham, Mazars agreed that it was right for members to seek assurances about the figures and the moderate opinion given. He advised that non-materiality was his responsibility and as such asked the Chief Internal Auditor and Corporate Fraud Manager if he had concerns about the numbers giving the level of assurance to the Audit Committee today. In particular, propriety, irregularities or the scale of numbers involved. The Chief Internal Auditor and Corporate Fraud Manager assured the Committee that he had no concerns.

**Resolved:**

That the content of the Annual Internal Audit Report and the overall 'moderate' opinion provided on the adequacy and effectiveness of the Council's Internal Control environment for 2016/17 be noted.

**10 Compliance with International Auditing Standards**

The Committee considered a report of the Chair of the Audit Committee which advised Members of a response that had been prepared relating to a letter sent from Mazars, the Council's external auditor, regarding compliance with International Auditing Standards (for copy see file of Minutes).

**Resolved:**

That the response be noted.

**11 Draft Annual Governance Statement 2016 / 2017**

The Committee considered a report of the Corporate Director, Resources, which sought approval of the draft Annual Governance Statement for 2016/17 (for copy see file of Minutes).

**Resolved:**

That the first draft of the Annual Governance Statement for 2016/17 be approved.

## **12 Statement of Accounts for the year ended 31 March 2017**

The Committee considered a report of the Corporate Director, Resources which presented the Statement of Accounts for the year ended 31 March 2017 (for copy see file of Minutes).

The Finance Manager for Resources and Transformation and Partnerships reported that due to the change in legislation accounts would need to be closed down by 31 May next year. The Council had agreed to do a dry run this year and as such a lot of work had been undertaken by Council staff and External Audit to produce and sign off the accounts at the end of May 2017. The accounts were now out for consultation and available on the website. A further change in legislation now makes reference to a person with an interest in the accounts or a journalist can view the accounts. An updated notice has been advertised on the website.

Members were informed that External Audit had also carried out a dry run and they would come back to committee on 31 July 2017 where the statement of accounts would be considered for approval.

Mr Robinson asked for an explanation of the valuation on Durham County Cricket Club. He was advised that the deal was imminent and was therefore not signed when the accounts had been pulled together. Mr Robinson further asked if the £4m loan value would be recorded. He was advised that if the deal was agreed at the end of the week it would be put in the accounts as a disclosure. Mr Robinson was assured that once the deal had been made a full explanation of the future shareholder position would be explained.

Councillor Shuttleworth asked if the deal should be included as a corporate risk and was informed that once final negotiations had been agreed a view would be taken as to whether to include as a risk.

Councillor Temple referred to the Income and Expenditure column on page 187 of the papers and asked how the Committee could track what had happened as Adult and Health Services showed a £15m increase and Regeneration and Local Services had fallen and therefore there was no comparability. He was advised that an explanation of the comparability of the figures would be circulated including information to the Committee about the differences year on year.

Further to a question from Councillor Temple about unquoted equity of costs the Finance Manager said that he would report back about the difference of figures from 2015/16 to 2016/17.

Councillor Temple went on to ask about the earmarked reserves decreasing by £14m and the underspend of £11.8m. He asked if the large payment of £10m was a one-off payment. The Finance Manager explained that they would have budgeted for the pension fund. He advised that the £11m draw down happened at the start of the year when the budget was approved in February. The underspend at the end of the year was compared to quarter 3.

Referring to the schools reserve of £5m and the transfers to/from earmarked reserves table on page 228 of the papers, Councillor Temple said that he could not find this in the accounts. He commented that the current expenditure was well within budget and some services have more income than what they had budgeted for. The Corporate Director of Resources said that he would do a reconciliation and circulate for information.

The Corporate Director of Resources thanked staff for producing the accounts and for the diligent work with the tight timescales involved. He was assured that the Head of Corporate Finance and Commercial Services, the Finance Manager and his team had carried out a fantastic job.

**Resolved:**

That the statement of accounts for the County Council for the financial year ended 31 March 2017 be approved.

**13 Internal Audit Strategy, Charter and Plan 2017/2018**

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which outlined the Annual Internal Audit Plan for 2017/2018, Internal Audit Strategy and the Audit Charter (for copy see file of Minutes).

**Resolved:-**

- (i) That the Internal Audit Strategy in Appendix 2, be approved;
- (ii) That the revised Audit Charter in Appendix 3, be approved.
- (iii) That the proposed Internal Audit Plan for 2017/2018, as detailed in Appendix 4, be approved;

**14 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.

**15 Protecting the Public Purse - Annual Report 2016/17**

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which presented the Protecting the Public Purse Update Report for 2016/17 (for copy see file of Minutes).

The report provided an update on the following:

- The work of the Corporate Fraud Team.
- Action taken to raise awareness of the risk of fraud and corruption to assist in embedding a strong counter fraud culture throughout the organisation.
- Reported cases of potential fraud and irregularity reported during 2016/2017.
- Proactive Counter Fraud work completed.
- Progress on the Council's participation in the National Fraud Initiative (NFI) 2016/2017

- Fraud Reporting
- Fraud Training

**Resolved:**

That the contents of the Annual Protecting the Public Purse Update Report 2016/17 including:

- The work carried out by the Corporate Fraud Team.
- The actions taken to improve the awareness and the arrangements in place for managing the risk of fraud and corruption.
- Cases of potential internal corporate fraud and irregularity reported to internal audit and ongoing investigations.
- Corporate Fraud Team numbers and values of Fraud and Irregularity identified for 2016/17.
- Counter Fraud Action Plan 2017/18
- CIPFA Counter Fraud and Corruption Tracker Report for Durham County Council

be noted.

**16 Internal Audit Progress Report for the quarter ended 31 March 2017**

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 four audits finalised in the quarter that had been issued with a limited assurance opinion.

The Operations Manager, Digital and Customer Services gave assurances to Members about the work being carried out following a recent audits. The Asset Services Manager and Neighbourhood Protection Manager were also in attendance to give the Committee updates on outstanding actions.

**Resolved:**

That the report be noted.