

MINUTES of a meeting of the **AUDIT COMMITTEE** held on 26 September 2018 at County Hall, Matlock

PRESENT

Councillor K S Athwal (in the Chair)

Councillors N Barker and A Griffiths

Officers in attendance – J Berry, P Handford, C Hardman, S Morris and L Towers (Derbyshire County Council) and J Pressley & M Surridge (representing Mazars)

Apologies for absence were submitted on behalf of Councillors S Brittain, L Chilton & P Murray.

Declarations of Interest Councillor K S Athwal declared a personal interest in Agenda Item 5b as a Director of Derbyshire Developments Limited and P Handford also declared a personal interest in Agenda Item 5b as a former Director of Derbyshire Developments Limited.

The Chair welcomed J Pressley and M Surridge, (Mazars) External Auditors, to their first meeting of the Committee.

32/18 **MINUTES RESOLVED** that the minutes of the meeting held on 26 July 2018 be confirmed as a correct record, following amendment, and signed by the Chairman.

33/18 **ASSET VALUATION** As members were aware from the updates provided by Mr Handford at previous meetings, there had been significant changes to the processes involved in the production of the asset valuation element of the accounts, which were designed to improve the robustness of the data used.

Sarah Morris, Interim Director of Property, attended the meeting to give the Committee assurances around these future processes for asset valuations and circulated a document showing how this worked.

Members heard that the Property Division was fully committed to delivering asset valuations through working collaboratively with both Internal and External Auditors to identify weaknesses and develop strengths. There were two key documents in this process these being the Terms of Engagement and the Asset Valuation Manual.

A number of key actions had been put in place including embedding awareness across all those involved; continuous improvement in relation to internal communications and regular updates on progress; and the introduction of evidence based checking processes

The Asset Valuation Manual was considered by all present to be the key document and it was confirmed that this was now nearing completion with comments from Finance staff currently being incorporated. S Morris agreed to complete the final draft by 28 September 2018 and provide copies to both Internal and External Audit for their input, with the target date for completion being the end of October. The final Asset Valuation Manual would then be presented to this Committee at its meeting in December 2018.

The Chairman thanked Sarah for attending the meeting and providing an update.

RESOLVED to note the update report on the valuation of assets.

34/18 AN INTRODUCTION TO GOVERNANCE Janie Berry, Director of Legal Services attended the meeting and provided members with a presentation on an Introduction to Governance.

Janie outlined her statutory role as Monitoring Officer and provide a background to the statutory roles of the S151, Chief Finance Officer; Head of Paid Service, and the Chief Audit Executive.

The key principles of these roles were integrity, transparency, openness, governance, assurance effectiveness and collaboration.

Members were given a brief overview of the elements of the Governance Framework which included:-

- The principles and codes the Council followed in carrying out its everyday business;
- Emphasised the vital function of the Standards Committee;
- Constitution, policies, procedures etc;
- Legislation, regulations, guidance etc;
- Role of Internal Audit; and
- Code of Corporate Governance – CIPFA/Solace governance principles.

Similarly, Janie highlighted what the assurance framework was and the key roles within that:-

- How well the Council's governance framework is embedded and adhered to;

- Vital role for the Audit Committee;
- Key role for Internal Audit; and
- A measure of how effective policies are, for example the Confidential Reporting Code.

The key committees in the governance process were the Standards Committee and the Audit Committee.

Standards Committee – governance

- Ethical governance framework
- Constitution
- Confidential Reporting Code
- Complaints handling and LGO investigations

Audit Committee – assurance

- Annual Audit Plan – approving and monitoring
- External Auditor
- Annual Statement of Accounts
- Annual Governance Statement

Members were informed that work was currently ongoing including reviewing the Council's Constitution to make it work smartly and effectively, with the revised Constitution due to be submitted for approval at Council in December 2018. The Members Code of Conduct was also being reviewed and Janie was shortly to meet with District and Borough Councils and the City Council with a view to establishing a consistent approach for the Code across all councils.

It was agreed that it may be useful for members of the Standards and Audit Committees to have an informal briefing session prior to the full Council meeting in December.

Members were given the opportunity to ask questions and also made a number of comments and observations which were duly noted or answered by the Director of Legal Services.

The Chair thanked Janie for a most interesting and informative presentation.

RESOLVED to note the presentation on 'An Introduction to Governance'

35/18 ANNUAL AUDIT LETTER 2017-18 The Council's external auditors, KPMG, were required to present an Annual Audit Letter to Members and officers of the Council. The letter described the scope of the audit work for the financial year and reports on matters of significance arising from that work.

It was a summary of their conclusions and provided an external assessment of the Council's overall financial position.

The letter was a means by which KPMG, as appointed auditors, fulfilled its statutory requirements, which were derived from the Audit Commission Act 1998 and the Audit Commission's Code of Audit Practice. KPMG were required to provide an opinion on the Council's financial statements and a conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

The issuing of the letter, along with an audit certificate, marked the end of the audit process for 2017-18. The Council had published on its website that the audit has been concluded in accordance with the Accounts and Audit Regulations 2015.

A copy of the letter was shown at Appendix 1 to the report. The details contained within the letter had been reported to the Committee previously.

RESOLVED to note the details of the Annual Audit Letter 2017-18.

36/18 TREASURY MANAGEMENT ANNUAL REPORT 2017-18 The Council's Treasury Management Strategy for 2017-18 was approved by Council on 8 February 2017. The Council had borrowed and invested substantial sums of money and was therefore potentially exposed to financial risks, including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk was therefore central to the Council's Treasury Management Strategy.

Members were provided with information in terms of external and local context along with borrowing activity, other debt activity and investment activity.

Specific reference was made to other non treasury holdings and activity. Although not classed as treasury management activities, the 2017 CIPFA Code now required the Council to report on investments for policy reasons outside of normal treasury management. This included service investments for operational and/or regeneration, as well as commercial investments which were made mainly for financial reasons. The Council also held £2.145m of investments in loans to local businesses and subsidiaries. This represented an increase of £1.955m on the previous year due to new investment of £1.645m in Buxton Crescent & Thermal Spa Co Limited and further investment of £0.310m in Derbyshire Developments Limited.

A register of such investments and financial guarantees was maintained and reviewed monthly as part of the Council's performance reporting arrangements.

These non-treasury investments generated £0.026m of investment income for the Council after taking account of direct costs, representing a rate

of return of 4.85%. This was higher than the return earned on treasury investments but reflected the additional risks to the Council of holding such investments.

RESOLVED to note the Treasury Management Annual Report 2017-18 and the Council's compliance with the prudential indicators set by Council for 2017-18, in accordance with the terms of the Prudential Code for Capital Finance in Local Authorities.

37/18 STRATEGIC RISK REVIEW Members were advised of the latest update to the Strategic Risk Register.

The Council undertook regular review of risks and the latest detailed assessment of the highest ranking risks formed the Council's Strategic Risk Register.

The Risk Register was a means by which the Council identified, monitored and managed risks, and it was also used to inform the budget process. Risk mitigation measures did not always involve a financial requirement, but many did, and budgetary provision, financial reserves and provisions were made accordingly, taking account of Council priorities and available funding.

The Risk Register was designed to capture strategic risk which by its nature has a long time span. The Strategic Risk Register had been reviewed by the Risk and Insurance Manager pending review by CMT and Cabinet. There were a number of additions and deletions where departments had considered risks that previously impacted strategically to now be more suitable at a departmental level.

It was vital that risk management policies and procedures supported the Council Plan and its ambitions. The management of risk must be a key part of the Council's delivery of service. Service Plans should reflect the risks facing services and the management of those risks, as does the Five Year Financial Plan.

As agreed previously, the report to this Committee had been changed so that only those risks that have changed were detailed in Appendix One. New risks were detailed in Appendix Two and the full Strategic Risk Register was included in Appendix Three.

The Risk Strategy had been re-written to reflect the Council Plan and the need to include opportunity risks within the Strategy and was now in circulation for comment by relevant departments. Once it had been reviewed by the departments a date would be set to meet with a number of key Members in order to ensure that the strategy proposed reflected the Council Plan and the Council's appetite for risk.

A number of Strategic Risks were on the horizon that may require a long term approach and consideration, and the Risk and Insurance Manager felt that further discussion was given to both risks and opportunities that present from:

- Brexit
- The Internet of Things
- Artificial Intelligence

Specific reference was made to the risk of transporting Children and Vulnerable Adults is appearing on ETE, Children's and Adult's risk register, scored between 20 and 25 depending upon the department.

The Risk and Insurance Manager, together with Health and Safety and Transport staff were holding a number of workshops to fully consider the risks that were posed and to identify any means of further mitigating these significant risks and increasing costs to the Council.

As background, the Council outsourced this provision to individual companies from small taxi companies to larger providers. However this presented a huge logistical and now safeguarding issue, some of which were detailed in the report.

It was proposed that once a full review had taken place that this Committee review the findings.

RESOLVED that the report be noted.

38/18 AUDIT SERVICES UNIT – PROGRESS AGAINST AUDIT PLAN 2018-19 Members were informed of progress against the approved Audit Plan for 2018-19 as at 31 August 2018.

At the meeting of this Committee held on 28 March 2018 Members approved the Audit Plan for 2018-19 which had been formulated from our risk assessment drawn from a wide range of sources including the Council Plan, the Council's strategic risk register, Departmental risk registers, service plans and meetings with Strategic Directors and the Director of Finance & ICT.

In accordance with the Audit Committee's Terms of Reference this report updates Members on progress against the Plan for the five months to 31 August 2018 and represents work undertaken during that period which was detailed in Appendix 1 to the report. An analysis of the priority criteria for Audit recommendations and assurance levels was provided in Appendix 2.

Specific reference was made to the current staffing situation and a number of operational matters.

RESOLVED to note the information on progress to date against the approved Audit Plan.

39/18 AUDIT CHARTER Members were informed of the review and update of the Audit Charter which was a specific requirement of the Public Sector Internal Audit Standards (PSIAS).

At the meeting of this Committee held on 19 March 2013 Members were made aware of the implementation of the PSIAS and the need, as part of this implementation, to formally approve an Audit Charter.

The Audit Charter draws together existing practice and formalizes procedures which were already embedded in the Council's governance framework (eg the provisions of Financial Regulations, the Anti Fraud and Anti Corruption Strategy, Fraud Response Plan, the requirements of Whistleblowing – The Confidential Reporting Code etc.) into a single reference document which embodied those requirements specified in the PSIAS.

The Charter was reviewed by the Assistant Director of Finance (Audit) in consultation with the Head of Paid Service, other appropriate officers and the Audit Committee to ensure it continued to reflect the requirements of the regulatory framework and key legislation on which it is based. The Charter had been updated to include changes to the PSIAS, regulatory framework and Council policies and Appendix 1 to the report showed the revised Charter with tracked changes.

The PSIAS required that the Audit Charter was approved by Cabinet and the purpose of this Report was to allow the Audit Committee, acting in its role as “those charged with governance”, to review and endorse the revised Charter prior to its formal recommendation for approval as Council policy.

RESOLVED to note the content of the revised Audit Charter and recommend to Cabinet its approval as Council policy.

40/18 ANNUAL REVIEW OF THE COUNTY COUNCIL'S REGULATORY FRAMEWORK The Audit Committee had been designated by the Council as the committee charged with ensuring the on-going effectiveness of the Authority's overall governance arrangements.

This report updated Members on the continued effectiveness of the Council's Financial Regulations and Standing Orders, Anti Fraud and Anti Corruption Strategy, Fraud Response Plan, Whistleblowing – The Confidential Reporting Code and Codes of Conduct for Members and Employees.

Members had previously decided that officers should provide an annual report on:

- the continued relevance of these documents;
- the extent of any noted non-compliance with the requirements detailed which had been disclosed during the year;
- the need for any potential review or amendment of their contents; and

- those measures taken to ensure that the requirements contained within these regulations were made known to staff.

The Governance Group comprising of the Director of Finance & ICT, Director of Organisation Development and Policy, Assistant Director of Finance (Audit), Democratic and Registration Services Manager and chaired by the Director of Legal Services continued to conduct an on-going review of key systems and processes operated within the Council to ensure that they delivered effective Corporate Governance. A key part of that role was the Group's monitoring of the above policies to ensure their continued effectiveness.

There was a recognition that the Governance Group required a greater profile across the Council. At present the work of the Governance Group was being undertaken as part of the Enterprising Council – Systems and Processes workstream, chaired by the Director of Finance & ICT and supported by the Standards Committee in their capacity as custodian of the Council's constitution. The Director of Legal Services was undertaking significant work to ensure a refreshed Constitution was fit for purpose going forward. The Governance Group's role would be to ensure this vital framework is embedded and understood widely across the Council.

The Council's Financial Regulations and Standing Orders were last revised and approved by Council on 6 December 2017. Prior to approval there was wide ranging consultation with Cabinet Members, Audit Committee, Strategic Directors, Audit Services, Director of Finance & ICT, Director of Legal Services, finance colleagues and other interested parties as part of this review.

Financial Regulations identified at all points the underlying principles, the responsibilities of Members, Strategic Directors, the Director of Finance & ICT (Chief Financial Officer), the Director of Legal Services and of the Authority's auditors, both external and internal.

As part of a wide ranging assessment of Corporate Governance arrangements the provisions of Financial Regulations and Standing Orders, the separate Codes of Conduct for Members and Employees and the 'Whistleblowing – The Confidential Reporting Code' are to be reviewed.

The Anti Fraud and Anti Corruption Strategy and the supporting Fraud Response Plan had been reviewed to assess the arrangements regarding how the Council would respond to fraud and corruption. Proposed changes to these documents were identified in Appendices 1 and 2 to the report..

These key documents underpinned the Council's governance framework and compliance would continue to be assessed by Audit Services as part of their work.

RESOLVED to note (1) arrangements for the ongoing review of the Council's key systems and supporting policies; and

(2) the proposed revisions to the Anti-Fraud and Anti-Corruption Strategy and Fraud Response Plan.

41/18 NATIONAL FRAUD INITIATIVE The National Fraud Initiative (NFI) was coordinated by the Cabinet Office and matches electronic data within and between public and private sector bodies to prevent and detect fraud. These bodies include government departments, national agencies, health authorities, police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies.

The Cabinet Office had recently produced a report which included the results of NFI data matching exercises. For over two decades the NFI had enabled participants to detect fraud, overpayment and error totaling £1.69 billion with NFI 2016-17 identifying £301m compared to £19m identified by NFI 1996-97, the first such exercise. The main category of fraud identified by the NFI in England was pension fraud and overpayments with £144.8m identified by the latest exercise.

Following a consultation exercise it was agreed that whilst the existing mandatory data matches listed below would continue to be part of the NFI 2018-19 the Insurance Claimants dataset would be excluded. The Cabinet Office stated that 'we do not feel it is an effective use of participants' resources, or that it is proportionate under data protection legislation, to continue to mandate the inclusion of Insurance Claimants data in NFI.

The Council had now received the Cabinet Office's formal request to participate in NFI 2018-19 and relevant data must be submitted on 1 October 2018; results of this exercise will be available from 31 January 2019.

The Council was required to submit the following datasets to the Cabinet Office:- payroll, pensions, private supported care home residents, transport passes and blue badge permits, trade creditors history,; trade creditors standing data,

and personal budgets (direct payments)

A detailed data specification of the information required for each of the above datasets had been provided.

Audit Services was the central coordinator for the data matches received from the Cabinet Office and ensured matches were investigated, liaising as required with Departments within the Council and other authorities. Audit Services also maintained the web based application provided by the Cabinet Office which tracked progress on matches reported.

As in previous years reports would be brought to future meetings of the Audit Committee to provide Members with updates on progress regarding NFI 2018-19.

RESOLVED to note the Council's participation in NFI 2018-19 and the associated arrangements made.

42/18 TRAINING The Assistant Director of Finance (Audit) proposed a number of topics:-

- Planning and Delivery of Audit assignments from approval and inclusion in the Audit Plan – notification to Management – assignment in Weekly Audit Programme and allocation of staff – fieldwork – exit meeting and draft memorandum – follow up.

- Role and responsibilities of Internal Audit.

- The Council's Regulatory Framework – Governance Theme (ongoing); What does the new constitution mean for members – Likely to be January 2019 onwards following new Constitution being submitted to Council in December.

Opportunities for external training were also discussed.

RESOLVED to note the proposed training areas, which would be arranged as appropriate in liaison with Members.

43/18 ADDITIONAL MEETING RESOLVED that an additional meeting of the Committee be arranged for Thursday 13 December 2018 commencing at 2.00pm in Committee Room 3.