

PUBLIC

**MINUTES** of a meeting of the **AUDIT COMMITTEE** held on 27 September 2017 at County Hall, Matlock

**PRESENT**

Councillor K S Athwal (in the Chair)

Councillors N Barker, S Brittain and A Griffiths

Apologies for absence were received on behalf of Councillors L M Chilton and P Murray

Declarations of interest – Councillor K S Athwal and Mr P Handford declared a personal interest in Agenda Item 5 (c) – Statement of Accounts 2016-17 as Directors of Derbyshire Developments Limited

**21/17**      **MINUTES RESOLVED** that the minutes of the meeting held on 28 March 2017 be received.

**22/17**      **ANNUAL AUDIT REPORT 2016-17** Members were informed of the work undertaken by the Audit Services Unit for the financial year 2016-17 and updated on the overall performance against the Audit Plan. The Annual Audit Report contained:-

- an analysis of planned and actual audit activity for 2016-17,
- an analysis of reports issued, assurance levels and recommendations made and agreed,
- productivity statistics,
- areas of good practice identified and areas for improvement in the current year,
- client satisfaction indicators for the Unit,
- the Assistant Director of Finance (Audit)'s formal controls assurance statement and opinion which contributed to the Authority's Annual Governance Statement.

The Public Sector Internal Audit Standards required that the Assistant Director of Finance (Audit) must deliver an annual internal audit opinion and report that could be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

**RESOLVED** (1) that the detailed Annual Audit Report for 2016-17 be received; and

(2) to note the overall quality of the performance of the Audit Services Unit during that period.

**23/17      ANNUAL GOVERNANCE STATEMENT AND SYSTEM OF INTERNAL CONTROL** Members were informed of the progress on the review of the County Council's compliance with Best Practice requirements in respect of the annual review of the system of internal control and the production of the Draft Annual Governance (AGS). In accordance with previously stated aims the AGS now also included details of the Council's compliance with International Auditing Standards.

Members were also asked to consider the Draft Annual Governance Statement and to recommend its inclusion in the Authority's Statement of Accounts for 2016-17 once it had been approved. The Draft Annual Governance Statement for 2016-17 was attached as Appendix 1 to the report.

Members were informed that a Governance Group had been established to conduct an ongoing review of key systems and processes operated within the County Council to ensure that they delivered effective Corporate Governance. This was undertaken utilising an objective assessment process prescribed by the Cipfa/Solace Framework, which provided a checklist of best practice standards against which compliance could be assessed.

The External Auditors had specific duties placed on them under International Auditing Standards relating to fraud in the audit of financial statements, laws and regulation and litigation and claims. The Council's assurance was detailed in Appendix 2 to the report.

**RESOLVED** to note the information provided in the report as evidence of the Authority's effective compliance with the statutory requirement to produce an Annual Governance Statement and recommend it for inclusion in the Authority's Statement of Accounts.

**24/17      REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROL** Members were informed of the Accounts and Audit (England) Regulations 2015 and the requirement to review the system of internal control.

The Audit Committee was the appropriate Committee of the County Council to consider the outcomes of this review. In order to provide Members with the necessary assurances around the effectiveness of the system of internal control it was appropriate to consider and reflect on the work of the Audit Committee, the assurances received from internal and external audit and

evidence from the statement of accounts. In particular it was appropriate to refer Members to the following:-

- The Annual Governance Statement considered at this meeting;
- The evidence of compliance with International Auditing Standards presented alongside the Annual Governance Statement;
- The work of internal auditors culminating in the Annual Audit Report from the Assistant Director of Finance (Audit) presented to this meeting;
- The ISA260 report presented to this meeting by the Council's external auditor KPMG;
- The detail contained within the Strategic Risk Register which had been regularly presented to members;
- The standard and quality of the Statement of Accounts for 2016-17 and in particular the transparency illustrated by the disclosures made.
- The Council's spending against budget, reserves and achievement of budget reductions were monitored on a regular basis and reported to both management, portfolio holders, Cabinet, Audit Committee and Council. In addition the Audit Committee and Cabinet received reports detailing the Council's significant Treasury management operations;

Members were informed that PricewaterhouseCoopers (PwC) had concluded a review of the Audit Services Unit in 2014. The Public Sector Internal Audit Standards required an external review to be conducted at least once every five years. PwC had provided a positive view of the Unit's effectiveness and compliance with the PSIAS. Additionally, the External Auditor continued to rely on the work of Internal Audit for assurance purposes. Consequently the Director of Finance and ICT was satisfied that Audit Services had achieved adherence to the standards set out in the PSIAS, and that this provided a sound basis from which the Council relied on the assurances provided by Audit Services in respect of the effectiveness of the internal control system.

**RESOLVED** that the Committee considered the information in the report as evidence of the effective operation of the internal control system.

**25/17      STATEMENT OF ACCOUNTS 2016-17** The Director of Finance and ICT explained to the Committee the reason for the Accounts being considered at this meeting, and not the meeting of the Committee in July, as was anticipated. The Accounts and Audit Regulations 2015 required the Director of Finance and ICT to certify the pre-audit Statement of Accounts by 30 June and the Audit Committee to approve the post-audit version before 30 September. The Council's accounts were made available for public inspection from 5 June 2017 to 14 July 2017 and no queries were raised.

The main changes from the Statement of Accounts 2015-16 had been the revised format of the Comprehensive Income and Expenditure Statement

(CIES) which provided local authorities with the opportunity to present the cost of services on the basis of their management accounts reporting and the introduction of the Expenditure and Funding Analysis (EFA). The EFA was a comparison of resources applied and charged against Council Tax.

A copy of the audited Statement of Accounts was appended to the report at Appendix One. The Auditors' Opinion was not included and would be separately provided by the external auditors. Details of changes made to the pre-audit Statement of Accounts were included at Appendix Two to the report. The International Standards on Auditing ISA 580 required the Council to provide a Management Representation Letter to the external auditors. The letter outlined the responsibilities of those charged with governance. The letter was still to be finalised but a draft was shown at Appendix Three.

The Council had submitted the pre-audited Statement of Accounts to the external auditor on 31 May 2017, which was one month ahead of the statutory deadline of 30 June, as the Council prepared for the introduction of revised timescales for completion of the accounts. The Council would be required to submit the accounts for 2017-18 and beyond to external audit by 31 May following the financial year-end. The achievement of completing the accounts early again this year represented a significant step towards the Council ensuring that it would meet its statutory obligations in future years. The Finance Team were congratulated by Members on achieving this.

The Director of Finance and ICT presented the accounts and responded to the Committee's questions and queries.

The Chairman thanked the Director of Finance and ICT for his presentation and on behalf of the Committee, thanked Mr Handford and everyone who assisted with the production of the accounts.

**RESOLVED** to approve the Statement of Accounts for 2016-17

**26/17      REPORT TO THOSE CHARGED WITH GOVERNANCE (ISA 260)** Mr Cornett, KPMG, presented a report which summarised the key issues identified during the audit of the financial statements for the year ended 31 March 2017 for both the Authority and its Pension Fund. The report also summarised the assessment of the Authority's arrangements to secure value for money (VFM).

Mr Cornett anticipated issuing an unqualified audit opinion on the Authority's financial statements following approval of the Accounts by the Audit Committee. It was also reported that the Annual Governance Statement complied with the guidance issued by CIPFA/SOLACE 'Delivering Good Governance in Local Government'.

Mr Walton, KPMG explained that a large number of issues were noted as part of the audit work in the valuation of property, plant and equipment assets held on the balance sheet. The initial trigger for this work was an audit request for information to explain all changes in asset values of over £2 million. This then highlighted that a large number of these changes were due to errors in the calculation basis in either 2015-16 or 2016-17. For each of these issues audit work had been completed to reach a conclusion that there was no adjusted material error, however in future years, management should obtain sufficient assurance as to the valuation of its asset base in advance of the final accounts audit.

It was once again highlighted that the finance team had put considerable effort into preparing the accounts earlier than in previous years, and into improving the quality of the supporting working papers. This enabled Mr Cornett to issue his unqualified audit opinion before the deadline of 30 September 2017.

It was concluded that the Authority had made proper arrangements to secure economy, efficiency and effectiveness in use of its resources and it was therefore anticipated that an unqualified VFM conclusion would be issued.

Mr Cornett informed the Committee that it was proposed to issue an additional fee due to work undertaken in relation to the Comprehensive Income and Expenditure Statement restatement and extra work in regard to the property, plant and equipment assets revaluations. The additional figure would be discussed with the Director of Finance and ICT in due course, but it was pointed out that the additional fee would have been significantly higher without the additional work undertaken by internal audit.

Mr Cornett wished to thank officers for the support and assistance they had provided in enabling them to complete their work early. The Chairman thanked Mr Cornett for his presentation.

**RESOLVED** to note the content and recommendations detailed in the report from KPMG and agree that the Chairman and Director of Finance and ICT sign off the letter of representation.

**27/17      TRAINING** The Director of Finance and ICT explained that Members would normally have received a training session focussing on the Statement of Accounts to enable them to have a greater understanding of the document. However, due to the timescales involved this had not been possible. Training would be arranged for the Committee in the near future.

**28/17      ADDITIONAL MEETING RESOLVED** that an additional meeting of the Committee be arranged for Wednesday 22 November 2017 commencing at 2.00pm.

