

PUBLIC

**MINUTES** of a meeting of the **AUDIT COMMITTEE** held on 22 November 2017 at County Hall, Matlock

**PRESENT**

Councillor K S Athwal (in the Chair)

Councillors S Brittain, L M Chilton, A Griffiths and P Murray

Apologies for absence were received on behalf of Councillor N Barker

**29/17**      **MINUTES RESOLVED** that the minutes of the meeting held on 27 September 2017 be confirmed as a correct record and signed by the Chairman.

**30/17**      **STRATEGIC RISK REGISTER REVIEW** Members of the Committee were informed of the proposed changes to the Strategic Risk Register and a proposed review of the Corporate Risk Management Strategy and the Strategic Risks facing the Council.

The Council currently undertook a quarterly review of departmental risks and the detailed assessment of the highest ranking risks formed the Council's Strategic Risk Register. It was proposed that the Council identified and managed its approach to Strategic Risk to bring it into line with accepted Enterprise Risk Management (ERM) Standards working to the Chartered Institute of Public Finance and Accountancy best practice standards.

As the most important aspect within ERM, Strategic Risk Management (SRM) was the process of identifying, quantifying, and mitigating any risk that affected or was inherent in a company's business strategy, strategic objectives, and strategy execution.

In order for the Strategic Risk Register to be updated to ensure it reflected the Council's strategic risks, it was proposed that:

- The Strategic Risk Register was reviewed in full by CMT at their earliest convenience to ensure that all of the strategic risks had been captured and reflect the Council Plan.
- Each Strategic Risk should be owned by an individual member of CMT and overseen by a Cabinet Member to ensure that the risks were being proactively managed and monitored.
- Strategic Risks should be reviewed and updated on a bi-annual basis with any new Strategic Risks incorporated as and when they were identified.

- Any Risks that should be classified as departmental risks be removed from the Strategic Risk Register.
- Departmental risks were to be assessed on a quarterly basis by the Council's Risk Champions and, Insurance and Risk Manager. Risks would be subsequently referred to CMT for inclusion within the SRR if they met additional criteria that would deem them to be of a significant risk to the Council as a whole if they were not mitigated correctly.
- All Cabinet Member reports were to include details of significant risks and opportunities that had been identified.
- All Cabinet Member reports were to be signed off by appropriate Members to confirm that they were aware of the department's risks and were satisfied with the plans in place to mitigate or tolerate risks.

The current full Strategic Risk Register was attached at Appendix A to the report. The items in green were risks which should probably remain on the Risk Register whilst those that may be better suited to departmental level were identified in red pending a full review by CMT.

Members requested if the risk register could be rationalised and made more concise.

**RESOLVED** to note the proposals in the report for revising the Council's approach to risk management. Councillor S Brittain requested that his vote against the recommendation, be recorded.

**31/17      TO SEEK APPROVAL FOR THE ADOPTION OF THE REVISED FINANCIAL REGULATIONS** A detailed revision of the Council's Financial Regulations had taken place in 2014. Whilst the changes that were implemented were working well, it was felt appropriate to revisit and review them. The emphasis had been to examine the areas where 'lower level', routine decisions could be delegated to officers, to reduce the number of reports taken to Portfolio meetings, and also to address the need for Departments to be able to respond in a timely manner to purchasing decisions. These changes would be underpinned by a revised scheme of delegation which would set out the requirements required to ensure compliance with the revised regulations.

The key areas that were being recommended for change were: procurement; capital programme, property related issues; write off of redundant stock/stores; imprest and debit cards; write off of bad debt; work for third parties and secondary employment. The Director of Finance and ICT provided a brief explanation of where the changes would be made. These changes would be implemented from 1 January 2018 and would be reviewed in twelve months' time.

A copy of the revised Financial Regulations would be sent to each Committee member by email for reference only.

**RESOLVED** that the Committee commends the approval of the proposed amendments to the Financial Regulations to Cabinet and Council.

**32/17      ANTI-MONEY LAUNDERING POLICY** The Council's Anti-Money Laundering Policy was most recently presented to the Audit Committee at its meeting on 4 October 2016, following a review of the Policy in August 2016. Following a further review of the Policy in July 2017, the following changes had been made:-

- Reference to UK legislation and regulations on money laundering had been changed to refer to The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, which were effective from 26 June 2017 and replaced The Money Laundering Regulations 2007. The regulations built on the current regulatory framework but in general terms, these regulations imposed requirements on those conducting "relevant business". "Relevant businesses" did not include local authorities, therefore no changes were required to the Council's Anti-Money Laundering Policy, other than to update the legislation reference. The explanatory memorandum to the regulations confirms this, stating that "The impact on the public sector was predominantly the costs incurred by the statutory supervisors (FCA, HMRC and the Gambling Commission) in implementing any changes".
- The post of one deputy Money Laundering Reporting Officer had been changed, after the retirement and removal of the post of Assistant Director of Finance (Pension Fund) who was the previous holder. The deputy Money Laundering Reporting Officer positions were now filled by the replacement post of Finance Manager (Accountancy) and the existing post of Head of Investments.
- References to the Director of Finance had been updated to reflect the new post title of the holder of that position, Director of Finance & ICT.
- The Council's old logo had been removed.

The Policy, which took account of the Council's exposure to money laundering, along with guidance notes and supporting documentation, was attached in the Appendix to this report.

Members asked as to what training had been provided to staff to avoid money laundering.

**RESOLVED** to note that a review and update of the Anti-Money Laundering Policy had taken place.

**33/17      ANNUAL AUDIT LETTER 2016-17** 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 reported 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 marked the end of the audit process for 2016-17. The Council published on its website that the audit had been concluded in accordance with the Accounts and Audit Regulations 2015.

A copy of the letter was shown at Appendix One to the report. The details contained within the letter represented a positive outcome for the Council and had been reported to the Committee previously.

**RESOLVED** to note the details of the Annual Audit Letter 2016-17.

**34/17      BUDGET MONITORING ARRANGEMENTS** Members were provided with details of the latest budget monitoring arrangements.

Departments were required to meet monthly with the Director of Finance and ICT and provide details of their latest budget monitoring position. The information was generally presented in a consistent format by all departments, showing the year to date position and the projected outturn for the year, together with a brief summary of the major variances.

To ensure that the arrangements remained robust, reporting requirements and timescales were set out in the Budget Monitoring Policy, a copy of which was shown at Appendix One to the report. The Policy was widely distributed to departmental Finance Managers.

**RESOLVED** to note the details of current budget monitoring arrangements.

**35/17      FINANCE TIMETABLE** A report was presented informing Members of the key finance processes which would be undertaken by the Council during the 2017 and 2018 calendar year.

Appendix One to the report provided a general overview of the budget setting, financial management and closedown processes which were fundamental in ensuring that the Council met its statutory and legislative financial requirements. In addition to the key tasks outlined in Appendix One, there would be substantial activity in response to the Government's announcement regarding the proposal to allow local authorities to retain 100% of business rates. The Government would need to obtain primary legislation for these changes. The Government had already issues two consultations and there would be a significant period of engagement with councils before the

revised scheme was implemented. At present there was a further pilot exercise being planned for 2018-19.

**RESOLVED** to note the details of the Finance Timetable.

**36/17      TREASURY MANAGEMENT** The Director of Finance and ICT presented a mid-year update on Treasury Management activities for 2017-18. A summary of the Prudential Indicators set for 2017-18 was attached at Appendix 1 to the report.

The Director of Finance and ICT provided details on the current economic background, interest rates, borrowing, lending and a summary of the Prudential Indicators set for 2017-18.

**RESOLVED** to note (1) the interim report on Treasury Management for 2017-18; and

(2) compliance with the prudential indicators as shown in Appendix 1 to the report.

**37/17      AUDIT SERVICES UNIT – PROGRESS AGAINST AUDIT PLAN 2017-18** At the meeting of this Committee on 28 March 2017 Members approved the Audit Plan for 2017-18 which incorporated the outcome of discussions with individual Strategic Directors and the Chief Executive. In accordance with the Audit Committee's Terms of Reference this report updated Members on progress against the Plan for the six months to 30 September 2017 and represented 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 shown in Appendix 2.

Following the meeting of the Committee in March, and during the update and finalisation of the Unit's IT system for monitoring the Audit Plan, minor amendments were made to the programme of establishment audits; these changes had no effect on the overall number of planned days.

Members should note that the full assurance classification had been removed on the basis that the Unit performed sample testing and consequently cannot formulate an Audit opinion which was based on findings from a complete review of systems and transactions.

The Unit continued to retain a particularly stable staffing base which significantly aided operational planning and delivery of Audit work. The Assistant Director of Finance (Audit) updated Members on the current programme of work and activity.

Members had previously been informed of the Unit's involvement in additional work relating to property valuations which was identified as an area of concern by the External Auditor and referred to in the last Audit Services

Annual Report. This work was fundamental to the External Auditor issuing an unqualified audit opinion on the Authority's 2016-17 financial statements although a number of detailed actions had been agreed. The Unit had deployed resources from the contingency to meet this unplanned work but it could impact on the completion of the approved Audit Plan.

The Chairman and Vice-Chairman would be meeting with Internal Audit, in the near future to discuss what recommendations had not been implemented and the reasons for this.

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

**38/17      PUBLIC SECTOR INTERNAL AUDIT STANDARDS** The Public Sector Internal Audit Standards (PSIAS) was implemented in April 2013 and the objectives were to:-

- define the nature of internal auditing within the UK public sector;
- set basic principles for carrying out internal audit in the UK public sector;
- establish a framework for providing internal audit services, which added value to the organisation, leading to improved organisational processes and operations; and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

The PSIAS were last revised in 2016 and the latest revisions which were effective from 1 April 2017, and followed a period of public consultation which involved audit practitioners and other interested parties, were highlighted in Appendix 1 to the report.

**RESOLVED** to note the revisions to the PSIAS.

**39/17      QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME (QAIP)** One of the requirements of the PSIAS was that the chief audit executive (Assistant Director of Finance (Audit)) must develop and maintain a quality assurance and improvement programme that covered all aspects of the internal audit activity.

Attached at Appendix 1 to the report was the Unit's QAIP which set out the procedures for the ongoing monitoring, supervision, review and measurement of Audit Services' activity. It also included arrangements for the external assessment of Audit Services which must be conducted at least once every five years. The last external assessment was undertaken by PwC in March 2014. During the current year the Unit would deploy resources to prepare for its next external assessment. The QAIP would also be incorporated into the Unit's Audit Manual which would be reviewed during the current year.

**RESOLVED** to note the Audit Services Unit's QAIP.

**40/17      GENERAL DATA PROTECTION REGULATION (GDPR)** The European Union Parliament approved the General Data Protection Regulation (GDPR) on 14 April 2016 which was enforceable within member states from 25 May 2018. Although the United Kingdom was in the process of withdrawing from the EU as a result of the Brexit referendum, the GDPR would be brought into UK law by the Government's Data Protection Bill which was currently being read in the House of Lords.

The GDPR included provisions that promoted accountability and governance which complemented the GDPR's transparency requirements. Whilst those principles of accountability and transparency had previously been implicit requirements of data protection law, the GDPR's emphasis elevated their significance. The new accountability principle in Article 5(2) of the regulations required that the Council had policies and procedures in place to demonstrate compliance with the data protection principles. It clearly defined and obligated the Council to undertake various actions when dealing with personal data.

Earlier in the year, the Information Commissioner's Office (ICO) published a useful document entitled Preparing for the General Data Protection Regulation (GDPR) - 12 steps to take now, which provided an overview of the key areas. This document was attached as Appendix 1 to the report. Failure to comply with the new regulations, or being unable to demonstrate that suitable data protection controls were in place, could lead to the Council being subject to a significant, higher financial penalty being imposed by the ICO than was previously possible. As the rules applied equally to all of the Council's services and maintained schools, there was the potential for an impact on current Departmental budgets.

In response to the new data protection obligations the Council had already appointed the Deputy Director of Legal Services as the Council's Data Protection Officer and taken steps to build on its ISO27001:2013 certification to refine current data protection procedures. These included:-

- Participating in a consensual ICO audit of the Council's data protection procedures relating to governance arrangements, subject access requests and privacy impact assessments; the ICO audit's overall conclusion was that in the areas audited the Council's existing arrangements were satisfactory;
- Facilitating a working group of Departmental officers to address the Council's obligations under GDPR;
- Implement new data protection procedures including a Privacy Impact Assessment Policy;

- Conducting an information audit to assess where the Council's personal data was stored across Departments and with external organisations;
- The Council had approved a temporary Programme Manager post to assist in the process;
- Introductory seminars were held in September involving approximately 100 members of staff;
- A Bulletin had been sent to schools to inform them as to steps they needed to take to comply with the new legislation;
- Implementing the action plan arising from the ICO Audit which was being overseen by the Information Governance Group.

**RESOLVED** that Members note the content of the report and that a GDPR briefing session be arranged prior to a future Committee meeting

**41/17      TRAINING** It was highlighted that training for members in understanding council finances was required in early 2018.

**42/17      EXCLUSION OF THE PUBLIC RESOLVED** to exclude the public from the meeting during the consideration of the remaining items on the agenda to avoid the disclosure of exempt or confidential information.

### **SUMMARY OF PROCEEDINGS CONDUCTED AFTER THE PUBLIC WERE EXCLUDED FROM THE MEETING**

1. To consider the exempt report of the Director of Finance and ICT on Serious and Organised Crime in Procurement (contains information relating to the financial or business affairs of any particular person (including the Authority holding that information))
2. To consider the exempt report of the Assistant Director of Finance (Audit) on Cipfa Internal Audit Benchmarking Club 2017 (contains information relating to the financial or business affairs of any particular person (including the Authority holding that information))