

PUBLIC

**MINUTES** of a meeting of the **AUDIT COMMITTEE** held on 14 February 2018 at County Hall, Matlock

**PRESENT**

Councillor K S Athwal (in the Chair)

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

Officers in attendance – D Ashcroft, P Handford, C Hardman, S Hobbs and L Wild (representing Derbyshire County Council) and J Cornett and R Walton (representing KPMG)

**1/18**        **GENERAL DATA PROTECTION REGULATION (GDPR)** Simon Hobbs, the Council Data Protection Officer and Liz Wild, Principal Solicitor attended the meeting and provided Members with an overview of the General Data Protection Regulation (GDPR) and Data Protection Bill (DPB), which would be effective from 25 May 2018. In particular, the briefing session highlighted the impact the new regulations would have on elected Members.

A series of workshops had been arranged and elected Members and Council staff were encouraged to attend.

On behalf of the Committee, the Chairman thanked Mr Hobbs and Mrs Wild for their most informative presentation and Members of the Committee would be attending the workshops.

**2/18**        **MINUTES RESOLVED** that the minutes of the meeting held on 22 November 2017 be confirmed as a correct record and signed by the Chairman.

**3/18**        **EXTERNAL AUDIT REPORT 2016-17 – UPDATE ON RECOMMENDATIONS** The external auditor presented the ‘External Audit Report 2016-17’ at the Audit Committee meeting on 27 September 2017. The Council’s well-established and strong accounts production process, the high standard of accounts, the quality of supporting working papers and the responsiveness of the finance teams during the audit, with officers dealing promptly and helpfully with audit queries were again acknowledged.

Audit adjustments were required to the Statement of Accounts in respect of Property, Plant and Equipment values in 2016-17. Audit work was completed to reach a conclusion that there were no unadjusted material errors. The external auditor recommended that, in future years, sufficient assurance on asset valuations should be obtained in advance of the final accounts audit, to

ensure that the tighter statutory deadline in 2017-18 was met. A detailed update on the actions being taken, in response to the valuation process control recommendations, was attached at Appendix One to the report. An update on the actions being taken in respect of the external auditor's revisit of 2015-16 recommendations was attached at Appendix Two. The 'External Audit Report 2016-17' was attached at Appendix Three.

Mr Handford updated the Committee on the latest position regarding the production of the accounts and how the Authority had acted to mitigate the issues that arose last year in relation to Property, Plant and Equipment values and to provide assurances to the external auditor. Issues with the asset valuation work were still ongoing and failure to complete this work would result in the inability for the Council to close the accounts at the expected time. Members of the Committee noted the work that was being undertaken and the timescales that were involved. However, they expressed their concern regarding the possible delay to the closure of the accounts and questioned if temporary external resources could be recruited to assist in meeting the deadline. Mr Handford informed Members that he would have a clearer picture of the situation in the next few days, which may result in further mitigating steps being taken. Mr Cornett was fully supportive of the approach that was being adopted and the position at this moment in time.

**RESOLVED** to note the actions being taken in response to the external auditors' recommendations outlined in the 'External Audit Report 2016-17'

**4/18**        **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.

**5/18**        **BUDGET MONITORING 2017-18 (AS AT 31 OCTOBER 2017)**  
A report was presented which summarised the controllable budget position by Cabinet Member portfolio as at 31 October 2017. In addition to this report, further reports would also be considered at Cabinet Member meetings and Council in accordance with the Budget Monitoring Policy and Financial

Regulations. There were overspends on the Young People and Economic Development and Regeneration portfolios. The projected outturn compared to controllable budget was presented and the Director of Finance and ICT provided a summary of the individual portfolio positions.

It was highlighted that the Council's total Earmarked Reserves stood at £115.136m. The Director of Finance and ICT explained that the Earmarked Reserves were reserved balances which had been set aside for future spending in a specific area or for unexpected liabilities.

**RESOLVED** to note the 2017-18 budget monitoring position as at 31 October 2017.

**6/18**        **ACCOUNTING POLICIES** On 7 February 2017 the Committee approved the Accounting Policies for the 2017-18 financial year. Since they were approved the following amendments had been made:-

- Amendments to reflect the decision on 8 March 2017 of the CIPFA/LASAAC Local Authority Accounting Code Board (CIPFA/LASAAC) not to proceed with the measurement of the Highways Network Asset at Depreciated Replacement Cost in local authority financial statements. Previously CIPFA/LASAAC had decided to postpone implementation until 2017-18.
- Other minor amendments had been made to improve clarity.

Appendix One to the report showed the changes made to the 2017-18 Accounting Policies. The 2018-19 Accounting Policies were also presented at Appendix Two to the report and no further changes had been identified as being required. However, amendments to the Code of Practice on Local Authority Accounting for IFRS9 Financial Instruments and IFRS15 Revenue from Contracts with Customers, were expected to impact on the accounting policies. Any proposed amendments would be reported to this Committee in due course.

**RESOLVED** to approve (1) the changes outlined in relation to the Accounting Policies for 2017-18; and

(2) the Accounting Policies for 2018-19.

**7/18**        **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 nine months to 31 December 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.

On 10 January 2018 the Cabinet Member for Council Services approved a restructure of the Unit to create two Audit Manager posts (Grade 14) and the deletion of the posts of Principal Auditor and Projects Manager and Principal Auditor and IT Manager (both Grade 13). This change was necessary in order to meet the dynamic and complex challenges facing the Council, provide further support to, and increased resilience in the absence of, the Assistant Director of Finance (Audit) and offer opportunities for succession planning. It was reported that these Audit Manager posts had now been filled by internal candidates.

The Unit had been able to retain a particularly stable staffing base for over two years and continued to hold one vacancy at Auditor level which was subject to ongoing review. However, increased levels of sickness absence and minor changes to hours worked by staff would impact on the days available to deliver the approved Audit Plan for the current year. At 31 December 2017, 102 sickness absence days had been taken by staff against a provision of 70 days.

Members were updated on the current pressures on Audit resources. Mr Hardman considered that the Unit had insufficient resources to complete the approved Audit Plan. However, action would continue to be taken to minimise the effect of this, ensure that key risks were subject to Audit and that there was a broad range of coverage. Consequently, this would not adversely affect the Audit opinion for the current year.

Mr Hardman considered that the reduced level of resource was inadequate going forward and this had been brought to the attention of Senior Management. Measures were being taken to ensure that an adequate level of resource was maintained.

Members suggested that to further understand the work undertaken by the Audit Services Unit, it would be helpful to follow an internal audit review from 'cradle to grave', from the commencement of the review to the issuing of the recommendations. Mr Hardman would arrange this for the near future.

**RESOLVED** to note (1) the information on progress to date against the approved Audit Plan for 2017-18; and

(2) the position regarding staffing resources currently available to the Audit Services Unit and potential future impact.

**8/18**      **NATIONAL FRAUD INITIATIVE** A report was presented informing Members of the Council's progress in scrutinising the data matches arising from participation in the National Fraud Initiative (NFI) 2016-17.

The 2016-2017 NFI data matching exercise resulted in forty-two distinct reports being made available for investigation. At 1 January 2018 Audit Services had continued to manage the investigation and closed twenty-five of the forty-two reports originally released. The NFI exercise thus far had resulted in the

investigation of 8,913 individual records culminating in the identification of 1,249 errors totalling £112,868. Analysis of the instances where investigation had resulted in a financial outcome were detailed in the report. The outstanding seventeen reports were currently under investigation and the outcome would be reported in due course.

**RESOLVED** to note progress made by the Council in respect of the NFI 2016-17 exercise.

**9/18**            **MEETING DATES AND AGENDA ITEMS FOR 2018-19** Potential agenda items and meeting dates were presented and Members were asked to agree the proposed programme for 2018-19.

**RESOLVED** that the meeting dates for 2018-19 be agreed as follows:-

13 June 2018 at 2.00pm  
26 July 2018 at 10.00am  
26 September 2018 at 2.00pm  
13 February 2019 at 2.00pm  
27 March 2019 at 2.00pm

**10/18**            **EXTERNAL AUDIT PLAN 2017-18** Richard Walton from KPMG attended the meeting to present Members with the External Audit Plan for 2017-18. There were no significant changes to the Code of Practice on Local Authority Accounting in 2017-18, which provided stability in terms of the accounting standards the Authority needed to comply with.

Significant risks which required specific audit attention and procedures to address the likelihood of a material financial statement error had been identified as, the valuation of property, plant and equipment (PPE); and pension liabilities. Both of these were considered to be high risk.

Those risks with less likelihood of giving rise to a material error but which were nevertheless worthy of additional audit focus had been identified as:

- progress in relation to the recommendations that were made as a result of the 2016-17 work in relation to valuation of PPE and embedding the pension fund administration system;
- related party transactions; and
- group accounts

The risk assessment regarding the arrangements to secure value for money had identified delivery of budgets as a significant risk to date, and discussions relating to this had already been held with officers.

The planned fee for 2017-18 audit was £125,356. The Chairman thanked Richard Walton and John Cornett for their presentation of the Plan.

**RESOLVED** to note the report.

**11/18** **FUTURE TRAINING** In addition to the internal audit training already requested, Members recognised that they would benefit from further briefing on treasury and risk management. At the meeting in June the accounts would be presented to the Committee and a detailed presentation would help explain certain elements of the accounts.

It was suggested that a session on risk management could be arranged for the meeting in July or September.

**12/18** **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 confirm the exempt minutes of the meeting held on 22 November 2017 (contains exempt information)

**13/18** **MINUTES** **RESOLVED** that the exempt minutes of the meeting held on 22 November 2017 be confirmed as a correct record and signed by the Chairman.