

PUBLIC

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

**PRESENT**

Councillor K S Athwal (in the Chair)

Councillors N Barker, S Brittain, A Griffiths and P Murray

Officers in attendance – D Ashcroft, J Berry, P Handford, C Hardman, and P Spencer (Derbyshire County Council) and J Cornett and R Walton (representing KPMG)

Apologies for absence were submitted on behalf of Councillor L Chilton

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

**24/18** **MINUTES RESOLVED** that the minutes of the meeting held on 13 June 2018 be confirmed as a correct record, following amendment, and signed by the Chairman.

**25/18** **MONITORING OFFICER** Janie Berry presented a progress report following her appointment in May 2018, addressing the Council's governance and assurance frameworks. She had met with a number of internal and external officers and was satisfied that effective governance and assurance frameworks were in place. Whilst working towards becoming an Enterprising Council, a comprehensive review of these frameworks, together with the ethical governance framework, would be undertaken to ensure the Council would continue to safely deliver its aims and aspirations.

**RESOLVED** (1) to note that the Standards Committee had approved a review of the Council's Constitution and ethical governance framework which was due to conclude during 2018/19; and (2) that the Monitoring Officer provide an annual report to the Audit Committee to support the Council's Annual Governance Statement, commencing 2018/19.

**26/18** **STATEMENT OF ACCOUNTS 2017-18** 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 1 June to 12 July 2018 and no queries had been raised.

The main change from the Statement of Accounts 2016-17 was the reflection of restructured portfolios, with the Council reporting through seven Cabinet Member Portfolios during 2017-18. These portfolios were Adult Care, Council Services, Economic Development and Regeneration, Health and Communities, Highways, Transport and Infrastructure, Strategic Leadership, Culture and Tourism and Young People. CIES and EFA portfolio income and expenditure figures for 2016-17 had been restated to ensure that they were comparable with 2017-18 portfolios. The Council's 2016-17 total portfolio income, expenditure and Net Cost of Services remained unchanged from the audited 2016-17 accounts.

In September, the approved Statement of Accounts would be reported to full Council and the Pension Fund Accounts would be reported to the Pensions and Investment Committee.

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, KPMG. The Annual Governance Statement was presented in a separate report. Details of changes made to the pre-audit Statement of Accounts were included at Appendix Two to the report; point 6 Valuations was a major amendment but Mr Handford was confident that all had been done to correct the discrepancies. 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 to the report.

The Director of Finance and ICT presented the accounts and responded to the Committee's many questions and queries. Councillor Brittain made particular mention of there being an increase in the Reserves Fund however the local authority had increased the Council Tax. Mr Handford referred Members to the narrative report contained in the Accounts as this provided an ideal summary and overview.

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 2017-18.

**27/18      REVIEW OF THE EFFECTIVENESS OF THE SYSTEM ON INTERNAL CONTROL** The Audit Committee was responsible for reviewing the Annual Governance Statement, reviewing and approving other aspects of the

Council's governance framework and for approving, monitoring and reviewing the outcome of audit activity throughout the Authority. It was, therefore, the appropriate Committee of the County Council to consider the outcomes of the review of the effectiveness of the system of internal control. 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 the 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 the meeting;
- The ISA260 report presented to the 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 2017-18 and in particular the transparency illustrated by the disclosures made and the opportunity given to the Committee to discuss its contents;
- 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.

PwC concluded a review of the Audit Services Unit (reported to Committee 28 July 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 use the work of Internal Audit to inform their assessment of the Council's significant risks. The Director of Finance and ICT was satisfied that Audit Services had achieved adherence to the standards set out in the PSIAS, and 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. An external review of the effectiveness of Internal Audit would be conducted shortly for reporting in early 2019.

The work of Audit Services was subject to the requirements of the Unit's Audit Manual. This Manual was regularly reviewed as part of consideration of the systems and procedures used by the Unit alongside the Quality Assessment and Improvement Programme. Cabinet had recently approved the Council's "Audit Charter" as part of a review of that document.

**RESOLVED** that the information provided in the report was evidence of the effective operation of the internal control system.

**28/18      ANNUAL GOVERNMENT STATEMENT AND SYSTEM OF INTERNAL CONTROL** The Director of Finance and ICT informed Members of 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 Statement (AGS). In accordance with previously stated aims, the AGS also included details of the Council's compliance with International Auditing Standards.

Regulation 6 of the Accounts and Audit Regulations 2015 required a relevant body to "conduct a review of the effectiveness of the system of internal control" and "prepare an annual governance statement in accordance with proper practices". Cipfa/Solace had produced a framework Delivering Good Governance in Local Government which was supplemented by an Application Note specifically developed to advise on Cipfa's Statement on the Role of the Chief Financial Officer. The Cipfa/Solace framework outlined the approach which should be taken to review existing governance arrangements and produce an Annual Governance Statement. The Draft Annual Governance Statement for 2017-18 was attached as Appendix 1 to the Report.

A Governance Group was established to conduct an on-going 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 Annual Governance Statement once approved would be included in the Council's Statement of Accounts for 2017-18.

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.

**29/18      ANNUAL AUDIT REPORT 2017-18** Members were informed of the work undertaken by the Audit Services Unit for the Financial Year 2017-18 and updated on the overall performance against the Audit Plan. The Audit Services Unit discharged the Authority's statutory responsibilities under Regulation 5 of the Accounts & Audit Regulations 2015, and significant aspects of the Director of Finance's statutory duties under Section 151 of the Local

Government Act 1972. The Unit also worked with the Council's appointed auditors KPMG.

The role and responsibilities of the Unit were further clarified and reinforced in the Council's Financial Regulations, Standing Orders, Anti-Fraud and Anti-Corruption Strategy, Fraud Response Plan and the requirements of the Confidential Reporting Code. The Authority had approved an Audit Charter in compliance with the Public Sector Internal Audit Standards (PSIAS). The Annual Audit Report contained:

- an analysis of planned and actual audit activity for 2017-18;
- an analysis of reports issued, assurance levels and recommendations made and agreed;
- productivity statistics;
- areas of good practice identified and areas for improvement;
- 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 PSIAS required that the "chief audit executive (Assistant Director of Finance (Audit)) must deliver an annual internal audit opinion and report that can 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. It must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme." The Opinion was:

"I am satisfied that sufficient assurance work had been carried out to allow me to form a reasonable conclusion on the Council's internal control framework.

In my opinion whilst some critical/high priority recommendations had been made to address potentially significant or serious weaknesses identified, the Council's framework of governance, risk management and control was basically sound. Audit Services' staff had worked with Senior Management to agree appropriate corrective actions and a timescale for improvement which were incorporated into relevant action plans. Should these weaknesses remain unaddressed they may result in continued, significant control failure which in turn could increase reputational risk, potential for financial loss and/or incur financial penalty.

As of this date I am satisfied that there are no matters which would cause the External Auditor to consider any qualification of his certification of the Council's Annual Accounts".

**RESOLVED** that Committee (1) considered the detailed Annual Audit Report for 2017-18; and (2) noted the overall quality of the performance of the Audit Services Unit during the period.

**30/18      EXTERNAL AUDIT - ISA 260 REQUIREMENTS 2017-18** 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 2018, 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. A significant risk had been identified on the Valuation of PPE; indexation had not been correctly applied. The recommendation had been accepted and completion of the audit was imminent. It was anticipated that the completion certificate and Annual Audit letter would be issued accordingly. It was also reported that KPMG anticipated issuing an unqualified audit opinion in relation to the Pension Fund's financial statements by 31 July 2018.

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. A recommendation had been made that the Authority should constantly refresh savings plans to ensure they were achievable as well as minimising overspends against budgets to reduce savings further.

Mr Cornett informed the Committee that there had been an omission from the Summary of Fees and that an additional fee, in the region of £50,000, should have been included to show work undertaken relating to waste.

Mr Cornett suggested that the Committee considered how the Valuers were taking forward the recommendation made to them, and if so, how. He also suggested that the Committee considered what it wanted to achieve in order to present the annual accounts.

Mr Cornett wished to thank officers of the finance team and Members for their continued help and support in relation to their work done with KPMG and wished them success with the new external auditors.

The Chairman and the Director of Finance and ICT expressed their thanks to Mr Cornett and Mr Walton of KPMG for all the hard work they had done for the Authority during their tenure as its external auditors.

**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.

**31/18      TRAINING** The Director of Finance and ICT informed the Committee that training for them to enable a greater understanding of the accounts and other financial documents, was available on 22 & 29 August and 5 September 2018.