

PUBLIC

MINUTES of a meeting of the **AUDIT COMMITTEE** held on 27 February 2019 at County Hall, Matlock

PRESENT

Councillor K S Athwal (in the Chair)

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

Officers in attendance – J Berry, P Handford, C Hardman, P Spencer and J Pressley (representing Mazars).

Apologies for absence were submitted on behalf of M Surridge (Mazars).

01/19 **MINUTES RESOLVED** that the minutes of the meeting held on 13 December 2018 be confirmed as a correct record and signed by the Chairman.

02/19 **EXTERNAL AUDIT ISA 260 REPORT 2017-18 – UPDATE ON RECOMMENDATIONS** The external auditor presented its External Audit ISA 260 Report 2017-18 at the Audit Committee meeting on 26 July 2018. The external auditor again acknowledged the good accounts production process, the quality of supporting working papers with clear audit trails and the responsiveness of the finance teams and others during the audit, with officers dealing efficiently, promptly and helpfully with audit queries.

Audit adjustments were required to the Statement of Accounts in respect of Property, Plant and Equipment values, as indexation in relation to property valuation was not correctly applied. An oversight in the preparation of the valuation working papers was identified by internal audit, after the pre-audit statement of accounts had been issued. Audit work was completed to reach a conclusion that there were no unadjusted material errors.

The external auditor observed that 2017-18 property revaluation work was not progressed in a timely manner, which increased pressure on finance, internal audit and external audit to complete work on the statement of accounts associated with it. A detailed update on the actions being taken, in response to the valuation process control recommendations and two additional recommendations, was attached at Appendix One.

The external auditor also revisited recommendations from 2016-17, when four recommendations were raised. They concluded that the majority of the recommendations relating to the financial statements were implemented in accordance with the timescales of the action plan, except for the

recommendation in respect of property revaluation work because the 2017-18 revaluation was not progressed in a timely manner, as referred to above. An update on the action being taken in respect of the external auditor's revisit of 2016-17 recommendations was attached at Appendix Two.

The External Audit ISA 260 Report 2017-18 was attached at Appendix Three.

RESOLVED to note the actions being taken in response to the external audit recommendations outlined in the External Audit ISA 260 Report 2017-18.

03/19 BUDGET MONITORING ARRANGEMENTS Details of the Council's budget monitoring protocols and developments had previously been reported to Audit Committee.

Departments were required to meet monthly with the Director of Finance & 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. The Policy was widely distributed to departmental Finance Managers.

The Accountancy and Budgetary Control audit undertaken by Audit Services earlier this year concluded that Budget Monitoring arrangements were embedded and generally operating effectively.

Following review of the policy in February 2019, the following changes had been made:

- The schedule of meeting dates between the departmental Finance Manager and the Director of Finance & ICT had been updated.
- The timetable for reporting the monitoring position to Cabinet and Cabinet Member portfolios had been updated.
- An explicit requirement to show significant use of earmarked reserves to support general spending had been added.
- An explicit requirement to list any significant items of one-off income included in the forecast had been added.
- The format in which the monitoring of budget savings was presented had been changed. The prescribed layout required that the current year budget reductions target was clearly identified, any targets not achieved in prior years were also identified, the expected value of reductions from new and ongoing savings initiatives were presented, along with a forecast

of the extent to which those savings were expected to be achieved by the financial year-end.

- A requirement to list additional budget “pressures” provided to the portfolio in the year, separated into ongoing and one-off allocations and how these were being used, had been included.
- A requirement to identify and quantify the factors which might negatively impact on the portfolio's outturn position from that forecast had been added.
- A definition of the meaning of budget savings and how their delivery must be measured and reported had been included.
- A requirement to provide an analysis of debts owed to the Council had been introduced, in accordance with changes made to the Financial Regulations effective from April 2019.

A new governance arrangement was currently being developed to plan and assess the viability of savings initiatives and to provide ongoing detailed review of their progress delivery. Details of this proposed arrangement would be the subject of a future Cabinet/CMT report.

Consideration was also being given to the incorporation of performance data into the budget monitoring report to provide a more complete view of departmental outcomes. This would be the subject of a further report to this meeting where appropriate.

RESOLVED to note the details of current budget monitoring arrangements.

04/19 BUDGET MONITORING 2018-19 (AS AT 31 OCTOBER 2018)

A report was presented which summarised the controllable budget position by Cabinet Member portfolio as at 31 October 2018. 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. The projected outturn compared to controllable budget was presented and this included the use of one-off funding for the Highways, Transport and Infrastructure and Young People portfolios. The Director of Finance and ICT provided a summary of the individual portfolio positions.

RESOLVED to note the 2018-19 budget monitoring position as at 31 October 2018.

05/19 ACCOUNTING POLICIES On 14 February 2018, Audit Committee approved the Accounting Policies for the 2018-19 financial year.

Since then the following amendments had been made:

- Minor amendment to the accounting policy for inventories and work in progress. Inventories were included in the Balance Sheet at the lower of cost and net realisable value. Inventory was recorded in terms of average cost; the amendment referred to the accounting treatment of fleet parts where the cost would be recorded on a first in, first out basis.
- Other minor presentational amendments had been made to improve clarity.
- Amendments to accounting policies in respect of IFRS15 Revenue from Contracts with Customers, which related to revenue from contracts with service recipients, were only required where the accounting policies were significant to the Council's financial statements. IFRS15 had been assessed as not having a significant impact on the Council's financial statements.
- Amendments had yet to be made in respect of changes in the 2018-19 Code of Practice on Local Authority Accounting for IFRS9 Financial Instruments, pending the receipt of further technical guidance on these changes.

Appendix One showed the 2018-19 Accounting Policies.

Appendix Two included the proposed 2019-20 Accounting Policies. No further changes had been identified as being required to the 2019-20 Accounting Policies. However, amendments to the 2018-19 Code of Practice on Local Authority Accounting for IFRS9 Financial Instruments, on which further technical guidance was awaited, was expected to impact on the accounting policies. Any proposed amendments would be reported to Audit Committee in due course.

RESOLVED to approve (1) the changes outlined above in relation to the Accounting Policies for 2018-19; and (2) the Accounting Policies for 2019-20.

06/19 DRAFT RISK MANAGEMENT STRATEGY 2019-21 The purpose of the Risk Management Strategy was to set out the Council's risk management aims and objectives for 2019-21. The strategy provided a framework to ensure the Council's approach to managing risk delivered Value for Money (VfM), supported delivery of the Council's Enterprising Council programme and directly contributed to the Council's strategic and policy objectives as outlined in the Council Plan.

A key aspect of the Strategy is that the Council would adopt an open approach to risk and strived to be risk aware – being prepared to accept risk at a tolerable level that could be managed and mitigated whilst ensuring that the most vulnerable were protected and there was increased collaboration with our partners, communities and residents.

The key components of the Strategy were to:

- Set out the framework for the operation of the Council's risk management services which supported the strategic and policy objectives in the Council Plan;
- Support delivery of the Council's Enterprising Council programme;
- Adopt a standardised approach across Departments to best practice in the Council's management of risk to ensure risk was of an acceptable and tolerable level;
- Maximise opportunities and demonstrate full consideration of the implications of risk in the delivery and achievement of Council outcomes;
- Establish clear member and officer roles and responsibilities covering the management of risk; and
- Commit the Council's CMT to review strategic risks on a quarterly basis.

The Council's Financial Regulations stated that the strategy should be reviewed annually to remain consistent with the Council Plan.

This Strategy would be supported by an implementation plan which would set out the actions required to deliver the aims and objectives. Performance would be monitored against this plan on an ongoing basis and the Strategy and its content would be reviewed on an annual basis with any significant changes reported to Cabinet for approval.

A copy of the Strategy was shown at Appendix One.

RESOLVED to approve the Council's draft Risk Management Strategy covering the period 2019-2021 to Cabinet.

07/19 AUDIT SERVICES PROGRESS AGAINST APPROVED AUDIT PLAN
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 updated Members on progress against the Plan for the ten months to 31 January 2019 and represented work undertaken during that period which was detailed in Appendix 1. An analysis of the priority criteria for Audit recommendations and assurance levels was provided in Appendix 2.

The Audit Committee was aware of the considerable, prolonged and continuing pressures placed on the Unit's staffing resources which had been detailed in recent reports concerning progress against the Audit Plan and the latest Audit Services Annual Report. Although some progress had been made

in this area, which was detailed below, the lack of resources remained a concern.

A recruitment process was underway to fill a Principal Auditor post which resulted from action taken in accordance with the Council's Attendance Management and Ill Health Capability Procedure. Another Principal Auditor would return to work from maternity leave at the end of February, but on a part time basis working three days per week.

At the last meeting of the Audit Committee Members were informed that a new Senior Auditor had commenced employment and that two vacancies remained at this level which would be re-advertised. Since that meeting these Senior Auditor posts had been advertised on two separate occasions. No appointment was made following the first re-advertisement and, following the second, a shortlist of candidates had been compiled and interviews would take place over the next two days. The Unit also had a further vacancy at Trainee Auditor level.

Whilst it remained a key priority to recruit suitably qualified and experienced staff to the Unit the continuing lack of resources would affect the delivery of the approved Audit Plan.

The Unit continued its approved programme of work including the provision of advice to Management at all levels within the Council. In common with previous years some work forming part of last year's approved Audit Plan was completed and reported in the current year which was identified at Appendix 1. Audit staff routinely followed up progress against agreed recommendations as part of subsequent work in that area.

Although Audit work undertaken in the year to date covered a broad range of the Council's services it had been limited by the reduction in available resources. Consequently this reduced resource had impacted on the timing and delivery of some reviews. On a pro rata basis actual days delivered at the end of January 2019 was over 300 less than planned.

Members were aware of the Unit's involvement in additional work relating to property valuations over the last two years following this area being identified as a concern by the External Auditor. The work was fundamental to the External Auditor issuing an unqualified audit opinion on the Council's Statement of Accounts for the past two years. Work to improve the robustness of systems and processes was ongoing and Audit Services would continue to focus on ensuring that identified control weaknesses were addressed as part of ongoing testing in this key area.

Work in respect of fraud and irregularity included undertaking specific investigations which might involve liaison with the Police and the deployment of

computer forensic resource. Audit staff were also involved in the dissemination of information received from sources including the National Anti-Fraud Network and the production of newsletters for Members, Strategic Directors and Directors to raise awareness and ensure that the Council was protected against known fraud risks.

Revised Financial Regulations and Standing Orders relating to Contracts were approved by Council on 6 February 2019 and would be effective from 1 April 2019. Audit Services were involved in formulating the revisions and the work would continue to assess compliance against this framework to ensure that robust controls were maintained.

Work involving IT systems' reviews and assessment of service contracts in compliance with the Authority's ISO27001 standards, the requirements of the General Data Protection Regulation and those of the protocol developed with the Director of Finance & ICT for the approval of new, or enhancements to existing systems continued. This work included an assessment of external data centres and supplier's head office information security procedures.

All Audit projects were routinely monitored on a weekly basis to assess their progress and overall completion of the approved Audit Plan. Due to the matters identified above and other factors, current projects had been reviewed and those included in the forward plan which had yet to commence. This had confirmed that the Unit had insufficient resources to complete the approved Audit Plan. However, action would continue to take place to minimize the effect of this and ensure that depending on the resources available the key areas of risk were subject to Audit review, and that there is a broad range of coverage.

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

08/19 AUDIT STRATEGY The Audit Charter was reviewed, updated and presented to the Audit Committee at its meeting on 26 September 2018. The PSIAS required that the Audit Plan *'must incorporate or be linked to a high-level statement of how the internal audit service will be delivered and developed in accordance with the internal audit charter'*.

The Audit Strategy, which was attached at Appendix 1, provided that high-level statement and set out:-

- deliverables;
- reporting arrangements;
- resource considerations;
- profile of the Unit

Arrangements for communicating the results of, and facilitating Audit work was summarised along with managing performance and identification of those risks which might impact on the Strategy.

RESOLVED to note the content of the Audit Strategy.

09/19 **MEETING DATES AND AGENDA ITEMS 2019/20** The Committee agreed likely agenda items for 2019-20 meetings of the Audit Committee.

RESOLVED to agree the proposed programme for 2019-20.

10/19 **RIPA UPDATE** In discharge of this Committee's responsibilities for on-going monitoring of activity in this area, Audit Services were requested to produce regular monitoring reports on activity for review by Members and to provide an assurance on the effective operation of the Council's Policy relating to the Act. This was the thirteenth monitoring report produced under that requirement and covered the period from 21 January 2017 to 31 January 2019.

The Council could only undertake covert surveillance if the proposed operation was authorised by one of the authorising officers and subsequently approved by a magistrate. A local authority could only use directed surveillance if it was necessary to prevent or detect criminal offences, which attracted a custodial sentence of six months or more or criminal offences relating to the underage sale of alcohol or tobacco. The authorising officer must also be satisfied that the proposed directed surveillance was proportionate to what is sought to be achieved.

No applications had been made in this period in respect of access to communications data.

No applications had been received in this period in relation to directed surveillance.

The use of the Council's powers under RIPA had reduced significantly over recent years and this was reflected by examining reports published by other authorities.

RESOLVED to note that in the period 21 January 2017 to 31 January 2019 no applications were made under the Council's powers relating to RIPA.

11/19 **EXTERNAL AUDITOR REPORTS** There was nothing to report on this occasion.