

PUBLIC

MINUTES of a meeting of the **AUDIT COMMITTEE** held on 21 September 2021 at County Hall, Matlock.

PRESENT

Councillor G Musson (in the Chair)

Councillors N Atkin, A Griffiths (substitute Member), R Mihaly and R Parkinson

Officers in attendance – D Ashcroft, H Barrington, D Downs, P Handford, E Scriven and P Spencer (representing Derbyshire County Council); and J Pressley (representing Mazars).

Apologies for absence were received on behalf of Councillors N Gourlay and J Nelson

Declarations of Interest

There were no declarations of interest

32/21 **ASSISTANT DIRECTOR OF FINANCE – AUDIT** The Chairman welcomed Dianne Downs to her first meeting of the Audit Committee since she joined the Council in a role which now encompasses both the Audit and Insurance and Risk Management functions.

33/21 **MINUTES RESOLVED** that the minutes of the meeting held on 20 July 2021 be confirmed as a correct record and signed by the Chairman.

34/21 **PRESENTATION ON FINAL ACCOUNTS 2020-21** The Director of Finance & ICT presented the pre-audit Statement of Accounts 2020-21 to the Committee.

The certified pre-audit Statement of Accounts had been submitted to the Council's external auditors, Mazars and were in the process of being audited. The external auditor's opinion was expected in November.

Mr Handford, Director of Finance & ICT provided an update on the impact that Covid-19 had had on the financial statements and in particular the implications relating to the Pension Fund and property valuations.

To date, no adjustments had been made to the numbers in the core financial statements presented in the pre-audit Statement of Accounts. It was anticipated that approval of the post-audit Statement of Accounts would be sought at the Audit Committee meeting on 7 December 2021. Should further

adjustments be identified during the course of the continuing external audit, these would be included in the report presented at that meeting. A copy of the pre-audit Statement of Accounts had been circulated to the Committee.

Eleanor Scriven, Finance Manager, went through the detail of the accounts with the Members and responded to their questions and points requiring clarification. Members were recommended to refer to the narrative report contained in the Accounts as this provided an ideal summary and overview.

On behalf of the Committee, the Chairman thanked Mr Handford and Ms Scriven for their very informative presentation and wished to thank all finance officers for the work they had undertaken, particularly under difficult circumstances, in the production of the accounts.

RESOLVED that the Committee notes the content of the pre-audit Statement of Accounts 2020-21 prior to approval of the post-audit accounts at the Audit Committee meeting on 7 December 2021.

35/21 PERFORMANCE MONITORING AND BUDGET MONITORING/FORECAST OUTTURN REPORT – 2021-22 AS AT QUARTER

1 (JUNE 2021) The report presented both Council Plan performance and financial budget monitoring and forecast outturn data. The Performance Summary set out the progress the Council was making on delivering the Council Plan with a focus on the achievement of the Council Plan priorities. The Revenue Budget Position and Financial Summary provided an overview of the Council's overall budget position and forecast outturn as at 30 June 2021.

The new Council Plan for 2021-25, which outlined the Council's priorities, key deliverables and performance measures, had been developed and approved by Council in March 2021. The performance report for Quarter 1 2021-22, set out the progress the Council had made over the last quarter on each of the deliverables and key measures set out in the Council Plan. The Council was performing well in delivering the new Council Plan, with 88% of the 63 deliverables in the Plan that had commenced showing good or strong progress. Only 10% had been rated as "Requiring Review" and one deliverable had been rated as "Requiring Action". One deliverable had been awaiting information to enable the rating.

The Council's forecast outturn for 2021-22 as at Quarter 1 (30 June 2021), compared to controllable budget had been summarised within the report. The forecast outturn table showed the position net of the impact of the ringfenced Dedicated Schools Grant (DSG) of £378.684m and Public Health grant of £42.607m, other ring-fenced grants and income from other third parties and their associated spend. There had been a forecast underspend on the Risk Management Budget of £10.476m in 2021-22.

A summary of the achievement of budget savings targets had been provided. The budget savings target for 2021-22 was £13.291m, with a further £12.768m target brought forward from previous years. The savings initiatives identified to meet this target fell short by £9.604m, therefore further proposals would need to be brought forward to ensure the Council continued to balance its budget. Of this total target of £26.059m, £9.777m was forecast to be achieved by the end of the financial year. Therefore, there was a £16.282m forecast shortfall in achievement of budget savings.

RESOLVED to (1) note the update of Council Plan performance and the Revenue Budget position/forecast outturn for 2021-22 as at 30 June 2021 (Quarter 1); and (2) note the position on General and Earmarked Reserves.

36/21 **FINANCIAL MANAGEMENT CODE** The Committee were provided with an update of the Council's progress towards complying with the Financial Management Code standards.

The first full year of compliance will be 2021-22. This recognised that organisations would require time to reflect on the contents of the FM Code and allowed them to use 2020-21 financial year to demonstrate how they were working towards compliance. However, in February 2021, the Chartered Institute of Public Finance & Accountancy had issued clarification on compliance with the FM Code to reflect Covid pressures. It concluded that whilst the first full year of compliance will remain at 2021-22, it can do so within a more flexible framework where a proportionate approach was encouraged. In practice this was likely to mean that adherence to some parts of the FM Code would demonstrate a direction of travel. The Council considered that it had strong levels of compliance and this was further enforced by addressing the areas where further work had previously been identified.

The FM Code required the completion of a financial resilience assessment which had been completed as part of the Council's submission of its pre-audit Statement of Accounts 2020-21 to the external auditor, Mazars, for consideration. This comprised of a short report to support External Audit in arriving at their Value for Money (VfM) opinion.

Actions had been taken to address the areas where there was a need for improvement which were reported to Audit Committee on 8 December 2020, which reinforced the Council's strong financial management. However, the Council must not become complacent and would continually monitor its financial management practices. The recent Accountancy and Budgetary Control and Financial Resilience Audit Services Review had concluded with an audit opinion of substantial assurance, underpinning robust financial procedures that were embedded across the Council.

RESOLVED to note progress against the requirements of the Financial Management Code

37/21 **REVIEW OF EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROLS** 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 this review of the effectiveness of the system of internal control.

The Council must take two actions as part of the requirement to review the internal control system, they were:

- (i) conduct a review of the effectiveness of the system of internal control; and
- (ii) prepare an annual governance statement.

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.

As reported to the Committee in December 2019, a review of the Audit Services Unit had been undertaken by C.Co, part of the Chartered Institute of Public Finance & Accountancy. The Public Sector Internal Audit Standards required an external review to be conducted at least once every five years. C.Co had provided a positive view of the Unit's effectiveness and compliance with the PSIAS. Additionally, the External Auditor had continued to use the work of Internal Audit to inform their assessment of the Council's significant risks.

Consequently, the Director of Finance & 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 could rely on the assurances provided by Audit Services in respect of the effectiveness of the internal control system.

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

38/21 **REDMOND REVIEW** On 8 December 2020 the Committee had considered a report setting out details of the Redmond Review (the Review). The Review was published in September 2020 and in December 2020, the Government had delivered its response to the Redmond Review. That report set out the planned response to the 23 recommendations made by Sir Tony and grouped them under 5 themes:

- Action to support immediate market stability
- Consideration of system leadership options
- Enhancing the functioning of local audit, and the governance for responding to its findings
- Improving transparency of local authorities' accounts to the public
- Action to further consider the functioning of local audit for smaller bodies

The Committee were updated on the details and progress against each theme.

The Government would work closely with stakeholders, including local bodies and audit firms, to refine its proposals for implementing its commitments around system leadership, as well as the range of other commitments it had made in response to the Redmond Review, ahead of publishing a public consultation on the proposals in advance of summer recess. It was highlighted that some of these changes would require primary legislation, and so the Government would look to introduce them, subject to public consultation, as part of broader draft legislation with the Department for Business, Energy and Industrial Strategy to implement the Government's broader corporate audit reforms when Parliamentary time allowed.

RESOLVED to note the Government's response to the Redmond Review and details of the next steps.

39/21 **WHISTLEBLOWING POLICY** The Committee was asked to consider the draft Whistleblowing Policy and refer it to Cabinet for formal approval.

The Council currently had in place the Confidential Reporting Code which was approved in November 2016. It had been reviewed to ensure that it was up to date and fit for purpose. When conducting the review, the Guidance for Employers and Code of Practice issued by the Department for Business Innovation & Skills had been taken into account. The guidance made it clear there was no one-size-fits-all whistleblowing policy, however provided some tips about what a policy should include. It recognised policies would vary depending on the size and nature of the organisation, but should be clear, simple and easily understood.

In light of the guidance, the Confidential Reporting Code had been renamed Whistleblowing Policy as it was considered the purpose of the document would be more clearly understood. The document had also been re-drafted so that it was easier to read. The draft Policy set out how the Council would handle and respond to any whistleblowing allegations.

It was proposed that the Audit Committee considered the draft Policy,

made comments and referred it to Cabinet for formal approval. Once the Policy had been approved, the Council would ensure it was publicised via the intranet and the employee newsletter and training was provided. It would also be published on the internet. This would ensure that individuals were aware of the policy and how to make a disclosure.

RESOLVED that the Committee approves the draft Whistleblowing Policy attached at Appendix 3 to the report and refers it to Cabinet for formal approval.

40/21 AUDIT SERVICES UNIT – PROGRESS AGAINST AUDIT PLAN

2021-22 The Committee was informed of the progress against the approved Audit Services Plan for 2021-22 as at 31 August 2021.

Whilst the majority of national Covid-19 restrictions had been lifted and elements of normal life had returned, significant aspects of the Council's operations were still encountering resource challenges and subject to local risk assessments for on-site visitors. The initial phases of the Modern Ways of Working (MWow) project were progressing in terms of County Hall and other administrative accommodation, although the majority of staff who worked from home in 2020, would continue to do so over the next few months. Auditing remotely had increased the time required to complete the review and limited the opportunity to assess local risk factors such as health and safety and information security, especially as the audit was restricted to what could be seen on a screen.

Progress had been made in commencing and delivering reviews within the 2021-22 approved Audit Plan, discussed and agreed with Senior Management, prior to its approval on 23 March 2021. This included the delivery of operational projects within certain Departments (i.e. Children's Services) and elements of the core finance reviews within Corporate Finance. However, as the halfway point in the year approached, there were areas where limited audit activity had taken place in either 2020-21 or the current year's Plan. Whilst Audit would continue to deliver the range of reviews within the Plan including establishment and school visits, where possible, the support of senior management to provide resources to complete certain reviews was an ongoing challenge.

Unfortunately, as reported in previous progress updates, the ability to attract professional audit staff remained an ever-present challenge. Colleagues across the County Council Chief Internal Auditors network had reported similar problems in the successful recruitment and retention of suitably experience professionals.

Since the issue of the Annual Audit Report, a Principal Auditor had commenced maternity leave with another submitting their notice to leave the Council at the end of October 2021. Due to the existing Principal Auditor

vacancy within the Audit structure, this would place additional pressures at this critical operational level within the Unit. Steps had been taken to seek replacements for the Audit staff and increase resources at this level. On a more positive note Dianne Downs had now started with the Council on 6 September 2021 as the new Head of Audit, Insurance and Risk Management, following the retirement of Carl Hardman in March 2021.

At 31 August 2021, a total of 983 productive days had been delivered against the pro-rata target of 1,134 days (total planned days for 2021-22 was 2,723).

RESOLVED that the Committee note the performance of the Audit Services Unit during this period.

41/21 AUDIT PROGRESS REPORT – DERBYSHIRE PENSION FUND – YEAR ENDED MARCH 2021 John Pressley from Mazars, attended the meeting to update the Committee on the progress made in relation to the audit of the Derbyshire Pension Fund.

The report set out their conclusions and significant findings from the audit work carried put to date. The conclusions so far on the audit risks and areas of management judgement in the Audit Strategy Memorandum included:

- Management override of controls; and
- Valuation of investments within level 3 of the fair value hierarchy.

Based on the audit work that had been completed to date there were no identified significant control deficiencies and no unadjusted misstatements envisaged that would be required to be reported to the Committee.

It was reported that to date, a substantial proportion of the fieldwork on the financial statements for the year ended 31 March 2021 had been completed. Mazars envisaged giving their opinion in November 2021 in line with the proposed timeframe for issuing their report on the County Council's financial statements.

On behalf of the Committee, the Chairman thanked Mr Pressley for his attendance and progress update for the Members.