

PUBLIC

MINUTES of a meeting of the **AUDIT COMMITTEE** held on 7 December 2021 at County Hall, Matlock.

PRESENT

Councillor G Musson (in the Chair)

Councillors N Atkin, J Nelson, R Mihaly and R Parkinson

Officers in attendance – D Ashcroft, D Downs, P Handford, J Lakin, J Morgan and E Scriven (representing Derbyshire County Council); and M Surridge (representing Mazars).

Declarations of Interest

There were no declarations of interest

42/21 **ADULT SOCIAL CARE AND HEALTH RISK REGISTER** Helen Jones, the Executive Director for Adult Social Care and Health had been invited to the meeting to provide Members with details of the particular areas of risk within the department. Key departmental risks were highlighted as follows:

- Covid-19 including mandatory vaccinations for residential care home staff
- increase in demand for adult social care.
- financial risks.
welfare of colleagues.
- recruitment and retention of staff, and
- Social Care Reform white paper and its implications.

The Committee was informed of the risk mitigation procedures and controls that the department had in place.

On behalf of the Committee, the Chairman thanked Ms Jones for her attendance and informative presentation.

43/21 **MINUTES RESOLVED** that the minutes of the meeting held on 21 September 2021 be confirmed as a correct record and signed by the Chairman.

44/21 **CORPORATE RISK REGISTER QUARTERLY REPORT 2021-22 QUARTER 2)** The Committee was provided with an update on strategic risks, major departmental risks and outcomes of the corporate risk management capability self-assessment.

The strategic risk register included those risks with the greatest potential

to have a negative impact on the Council's ability to deliver its core services and objectives. These were risks which were currently assessed as Red and subject to proactive monitoring and significant management action for control and mitigation. A summary of the current strategic risks was provided. All these risks had been reviewed and updated for Quarter 2 (Q2) and no risks had been added or removed since Quarter 1 (Q1).

As only risks currently assessed as Red had been included in the strategic risk register, attention should focus on how long each risk had been on the register and its assessment history. Out of the fifteen risks on the register, ten had been Red for six successive quarters. These risks were highlighted in the report. The committee should be assured that, while some risks had been Red for successive quarters, this did not mean action was not being taken. These actions were detailed in the full strategic risk register shown in Appendix 2 to the report.

The format of the register in Appendix 2 had been redesigned to include historical scoring as requested by the Audit Committee. Also shown for the first time were separate assessments of reputation and financial impact as required by the new corporate risk management strategy.

The risk scoring method had changed in September 2021 when the new strategy was introduced. The old and new scoring tables could be found at the end of Appendix 2. The new scoring method gave a greater emphasis to the impact of a risk.

The four Departmental Risk Registers (DRRs) contained the operational risks that had been identified and recorded by each department. A summary of the total risks recorded in DRRs at the end of Q2 was provided. The council classed Red and Amber risks as 'major risks' and there were 90 Red and Amber risks out of a total of 167 risks currently recorded in DRRs.

A summary of overall movement in operational risk severity (i.e. risk rating score) for the whole council was provided. A total of 12% of risks had shown improvement during Q2, with 8% worsening in score. The risk assessments for most recorded risks (80%) had remained unchanged from Q1. A summary of the distribution of major risks by category was also provided.

The Council had set itself the ambition to be among the best performing local authorities for risk management by December 2024. To deliver this ambition it had set itself stretching targets, measured using the CIPFA/ALARM (Chartered Institute of Public Finance and Accountancy/Association of Local Authority Risk Managers) risk management capability framework, as follows:

- Level 3 (Working) – by March 2022
- Level 4 (Embedded and Working) – by March 2023

- Level 5 (Driving) – by December 2024

Over the summer each department had completed an unmoderated self-assessment survey using the capability framework. This had provided a baseline assessment of current performance and identified potential strengths and weaknesses to support work to improve performance.

RESOLVED that the Committee (1) reviews the Strategic Risk Register to:

- (a) note the key risks to the Council.
- (b) note the target scores as a reflection of the aims of the Council.
- (c) note the mitigations identified to achieve target scores.

(2) notes the summary of departmental risks performance; and

(3) notes the outcome of the council's risk management capability baseline self-assessment against the CIPFA/ALARM benchmark framework.

45/21 **ASSESSMENT OF GOING CONCERN STATUS** The purpose of this report was to provide assurances to the Committee and External Audit that the Council had the ability to continue to provide core services and enable business continuity. The Director of Finance & ICT had considered the following factors which underpinned this assessment:

- Council's current financial position;
- Council's projected financial position;
- Council's governance arrangements; and
- regulatory and control environment applicable to the Council as a local authority.

The Director of Finance & ICT provided the Committee with more detail of each of these factors.

The Council had set a balanced budget for 2021-22 and over the Five-Year Financial Plan period in February 2021. Although Covid-19 had impacted significantly on the Council's activity and finances, it expected to have sufficient funding from specific and non-ring-fenced grants to offset any additional costs in the near term and therefore the pandemic was not expected to pose a significant risk to the Council's financial resilience in the year to 31 March 2022. Additional funding announced at the Spending Review 2021, on 27 October 2021, would help to support a balanced budget, with the caveat that the final detail will not be known until the Provisional Settlement, expected in mid-December 2021.

Although a funding shortfall was not anticipated, the Council had sufficient further reserves it could deploy in 2021-22 should it be required to do

so. Any use of reserves for this purpose would, however, impact on the funding of the Council's planned improvements, delay some savings plans and require additional general reserves to be set aside in order to ensure that the balance of general reserves remained at a prudent risk-assessed level. Also, because of the Council's Treasury Management Strategy over the last decade to use internal borrowing, rather than take on new long-term external borrowing, the Council had head-room, within the scope of its powers under the Prudential Framework, to take on additional external borrowing to preserve the liquidity of its cash flow, should it need to do so.

Having regard to the Council's arrangements and such factors as highlighted in the report, the Director of Finance & ICT as Section 151 Officer concluded that Derbyshire County Council remained a going concern and that it was appropriate that the Council's Statement of Accounts for 2020-21 had been prepared on this basis. The Director of Finance & ICT wished to thank all the members of staff who had been involved and had contributed to its preparation.

RESOLVED that the Committee notes this formal assessment of the Council's status as a 'going concern' and the conclusion that it was an appropriate basis for preparing the Council's Statement of Accounts 2020-21.

46/21 **STATEMENT OF ACCOUNTS 2020-21** The Council had published its certified pre-audit Statement of Accounts 2020-21 on 30 July 2021, before the statutory deadline, and had submitted them to the Council's external auditor, Mazars, on the same day.

The public inspection period had commenced at 9am on 2 August 2021 (the first working day of August 2021) and had concluded at 4pm on 13 September 2021. No queries had been received.

At the Audit Committee on 21 September 2021, a detailed presentation, followed by a Question and Answer Session, had taken place, to explain the Statement of Accounts in more detail and to respond to any particular queries Members had.

The Council had published notices of delay in publishing its audited 2020-21 Statement of Accounts on 30 September 2021, due to external audit staff resource constraints. The Council had continued to work closely with the external auditor to ensure the required work was completed as soon as possible. The final audited Statement of Accounts for the year ended 31 March 2021 will be published as soon as the audit was formally concluded, and the external audit opinions issued. The approved Statement of Accounts will be reported to full Council in February 2022.

Details of changes made to the pre-audit Statement of Accounts were included at Appendix Two to the report and a copy of the audited Statement of Accounts was appended to the report at Appendix 3. The audit opinions had yet to be inserted but would be included in the Audit Completion Reports of the external auditor presented to Audit Committee. The Annual Governance Statement was included in the Statement of Accounts at Appendix 3.

The International Standard 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. Separate letters would be provided in respect of the Council's Accounts and the Pension Fund Accounts. These letters were still to be finalised with the external auditor but would be included in the Audit Completion Reports of the external auditor presented to Audit Committee.

RESOLVED that the Committee approves the Statement of Accounts 2020-21.

47/21 PRODUCTION OF 2022-23 REVENUE BUDGET A report was presented asking the Committee to note the process towards production of the 2022-23 Revenue Budget, providing Audit Committee with an update of the Revenue Budget Forecast Outturn for 2021-22, a summary of the Autumn Budget and Spending Review 2021, and an update on Cost Pressure Bids received in respect of the 2022-23 Revenue Budget.

Forecast outturn for 2021-22 as at Quarter 2 (30 September 2021) had yet to go to Cabinet but the expectation was that it would show a small overall Council underspend, rather than a small overspend. However, the total portfolio overspend was expected to increase, mainly as a result of an increase in the Adult Care portfolio overspend.

There was a forecast underspend on the Risk Management Budget of £10.476m in 2021-22 and the Debt Charges budget was forecast to be underspent by £0.776m in 2021-22.

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. The resulting base budget overspend was offset to some extent by one-off underspends, one-off funding from earmarked reserves and additional grant funding received.

The Revenue Budget Report 2021-22 had been approved by Council on 3 February 2021. It confirmed that target savings of £72m were required by

the end of 2025-26, of which £38m had been identified. The identified savings comprised £35m of identified departmental annual budget savings and £3m of cross-departmental annual budget savings over the period of the Five-Year Financial Plan (FYFP), a summary of which was set out in the report.

The Spending Review 2021 (SR 2021) had been launched on 7 September 2021, along with plans for Social Care Reform. On 27 October 2021, the Government had announced the details of the Autumn Budget and SR 2021, which set out public spending totals for three years, from 2022-23 to 2024-25. The Office of Budget Responsibility (OBR) had forecasts that Gross Domestic Product (GDP) would rise by 6.5% in 2021. The OBR now expected the economy to regain its pre-pandemic size around the turn of the year, earlier than the previously expected mid-2022. All medium-term forecasts were revised upwards. The key announcements in the Autumn Budget and SR 2021, relevant to local government were highlighted.

At the Corporate Management Team meetings on 14 and 21 September 2021, detailed discussions had been held in respect of 2022-23 Revenue Cost Pressure Bids received. Further clarity had been requested from departments with regard to some of the bids. Updated bids had subsequently been received from departments and summarised for discussion at the CMT meeting on 2 November 2021. It was reported that Revenue Cost Pressure Bids of £50.522m ongoing and £16.803m one-off relating to 2022-23 had been received. The scale of both ongoing and one-off bids was not financially sustainable. Therefore, further work would be required to ensure that the Council can set a balanced budget in 2022-23 and over the medium-term, recognising increased costs from rising demand for services. The final Cost Pressure Bids list would be for Members to consider, in the context of the forecast available future funding, based on the latest known information. A final list would need to be agreed in early December 2021, with final proposals presented to Council in February 2022.

RESOLVED that the Committee (1) notes the Revenue Budget Forecast Outturn for 2021-22; (2) notes the key announcements in the Autumn Budget and SR 2021, relevant to local government; (3) notes the quantum of Revenue Budget pressure bids received, which cannot all be funded without significant additional budget reductions across all areas; and (4) notes the actions taken in respect of the shortlisting and agreement of Cost Pressure Bids to support the budget production process.

48/21 **ANTI-MONEY LAUNDERING POLICY** The Council's Anti-Money Laundering Policy was most recently presented to the Audit Committee at its meeting on 8 December 2020, following a review in October 2020. Following a further review of the Council's Policy in November 2021, no additional changes were required.

The Council's Policy, which takes account of the Council's exposure to money laundering, along with guidance notes and supporting documentation, was attached at Appendix 2 to the report. It had been published on the Council's website.

Government had been seeking views on amendments to the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017, in a consultation which had closed on 14 October 2021. The Government was keen to ensure that the UK's anti-money laundering and counter terrorist financing regime effectively deterred money laundering and terrorist financing activity, whilst being proportionate and managing burdens on businesses. Based on the information available, it was not expected that these changes would impact on public authorities such as the Council.

Commencing on 1 April 2022, a new tax called the Economic Crime (Anti-Money Laundering) Levy will be charged on entities regulated under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017. For the sake of clarity, this does not include the Council but does include various financial institutions, professional services firms, estate agents, casinos and art market participants.

RESOLVED that the Committee notes that a review and update of the Anti-Money Laundering Policy had taken place.

49/21 FINANCIAL SUSTAINABILITY, THE SECTION 114 REGIME AND ASSESSMENT OF THE COUNCIL'S POSITION

The Committee was provided with details of two reports from the Department for Levelling Up, Housing and Communities (DLUHC) on local authority financial sustainability and the Section 114 (S114) regime, which was a notice which Chief Finance Officers may issue if there was a significant risk that an authority would not be able to deliver a balanced budget by the end of the current financial year, along with information on assessment of the Council's position.

The DLUHC reports were:

- A response to the Housing, Communities and Local Government Select Committee's July 2021 report on Local Authority Financial Sustainability and the S114 Regime.
- A report on the Local Government Finance Review of Slough Borough Council, following its issuing a S114 notice in July 2021.

In February 2021 the Council's Director of Finance & ICT, as S151 Officer, had concluded that the Council could set a balanced budget for 2021-22 and across the period of the Five Year Financial Plan (FYFP) and that it remained a 'going concern', although difficult decisions and strong, robust

financial management would continue to be required. The Director of Finance & ICT provided details of the matters that had been considered in arriving at this conclusion.

The Committee had already considered a report at this meeting: 'Assessment of Going Concern Status 2020-21' which had informed Members of the S151 Officer's updated assessment of the Council's status as a going concern, for the purpose of producing its Statement of Accounts for 2020-21. This status will be reassessed at the time of production of the Council's budget for 2022-23 and across the period of the FYFP and will be presented to Full Council for approval in February 2022.

RESOLVED that the Committee notes the DLUHC response to the Housing, Communities and Local Government Select Committee's report on Local Authority Financial Sustainability and the S114 Regime and the DLUHC report on the Local Government Finance Review of Slough Borough Council, following its issuing a S114 notice, along with information on the assessment of the Council's going concern position.

50/21 **PSAA UPDATE** The Committee was provided with an update from a Public Sector Audit Appointments (PSAA) news release on 2020-21 audited accounts progress, issued on 12 October 2021, and a PSAA news bulletin, issued on 28 October 2021, which included:

- the outcome of PSAA research to consider options for national audit fee variations;
- a formal invitation to become opted-in authorities for local auditor appointments for the audits of financial years 2023-24 through to 2027-28;
- details of an Autumn/Winter free webinar series for Audit Committee Chairs; and
- changes to the audit Appointing Person regulations.

On 22 September 2021 PSAA had formally invited all eligible bodies to opt-in to the national scheme for local auditor appointments for the audits of financial years 2023-24 through to 2027-28. The closing date to give notice to PSAA of the Council's acceptance of its invitation to participate in a sector-led approach to procurement was 11 March 2022. A decision to become an opted-in authority must be made by the members of an authority meeting as a whole. This would mean that the decision as to which option to use for the appointment of external auditors for the five-year period commencing 1 April 2023 must be made by Full Council before 11 March 2022.

RESOLVED that the Committee notes this PSAA update in respect of national 2020-21 audited accounts progress, the outcome of PSAA research to consider options for national audit fee variations, a formal invitation to become opted-in authorities for local auditor appointments for the audits of financial

years 2023-24 through to 2027-28, details of an Autumn/Winter free webinar series for Audit Committee Chairs and changes to the audit Appointing Person regulations.

51/21 **APPOINTMENT OF EXTERNAL AUDITOR** The Council's current external auditor was Mazars. Their appointment on 14 December 2017 was made after Full Council had opted-in to a sector-led approach to appointing an external auditor on 7 December 2016, approving the use of PSAA to undertake the procurement on behalf of the Council. The current external auditor appointment had commenced on 1 April 2018 and would come to an end on 31 March 2023.

As detailed in the previous report, the PSAA had contacted the Council to again invite it to become an opted-in authority in accordance with the Regulations.

There were three broad options for local appointment of external auditors open to the Council under the Act:

- Option 1 - Opt-in to a sector led body.
- Option 2 - Make a stand-alone appointment.
- Option 3 - Set up a Joint Auditor Panel/local joint procurement arrangements.

The preferred option was Option 1, for the Council to again opt into the sector-led body, PSAA. The two other options, Options 2 and 3, to make a stand-alone appointment, or to set up joint auditor panel/local joint procurement arrangements, respectively, had been considered and details of each option were presented to the Committee. The auditor appointment would cover both the local authority and the pension fund.

RESOLVED that the Committee notes (1) the details of the requirement for the Council to procure a new external auditor for the audit of the Council's accounts for 2023-24 and the four years thereafter;

(2) the options available in respect of how to make the appointment and recommends to Full Council that they support the preferred option of opting-in to the sector-led body, Public Sector Audit Appointments (PSAA), to undertake the procurement on behalf of the Council; and

(3) that the decision to become an opted-in authority must be made by Full Council before 11 March 2022.

52/21 **AUDIT SERVICES UNIT – PROGRESS AGAINST AUDIT PLAN**
2021-22 The report updated Members on progress against the Plan for the seven months to 31 October 2021 and represented work undertaken during that

period, which was detailed in Appendix 1 to the progress report. An analysis of the progress with the Unit's Key Performance Indicators (KPIs) was detailed in Appendix 2 to the progress report.

Whilst the ongoing Covid-19 pandemic was affecting resources and staff availability throughout the Council, Audit had been working closely with Departments and service managers to schedule reviews to minimise the impact on front line services and back office functions. Although the challenging winter months that were likely to bring further pressures were approaching, it was positive to report at this point in the year, that good progress had been made to enable reasonable coverage across the Council's services and within the 2021-22 approved Audit Plan. A number of reviews were currently in progress and it was envisaged that sufficient coverage would have been completed to enable an opinion to be provided at year end.

As previously reported to the Committee, it would be a challenge to deliver the 2021-22 approved days for schools (174 days) and establishments (64 days) due to practicalities and restrictions in place at the local settings. To allow a base level assurance to be obtained across the Council's schools that may not be subject of a visit in this period, Audit staff had been working on a desktop exercise across a number of core areas including finance and governance arrangements.

Members were informed that since the last meeting of the Audit Committee a Principal Auditor had left the Unit having completed their notice period. Whilst this had further reduced resources available within the Unit, an advert was currently on the Council's website and with other professional agencies, for two Principal Auditor positions and a six-month temporary post to cover maternity leave. Although the market was very challenging at the moment, it was hoped that the recruitment process would be successful, and an update would be provided at the next Audit Committee in February 2022. Members suggested that an organisation chart or staffing structure for the departments that came under the Committee would be useful.

At 31 October 2021, a total of 1,434 productive days had been delivered against the pro-rata target of 1,588 days (total planned days for 2021-22 was 2,723).

On behalf of the Committee, the Chairman thanked the Assistant Director of Finance – Audit for her update.

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

53/21 **REPORT OF THE EXTERNAL AUDITOR** Mark SurrIDGE from Mazars, attended the meeting to present the Committee with the audit completion report for the year ended 31 March 2021.

The report set out their audit conclusions. The scope of the work undertaken, including identified significant audit risks and other areas of management judgement, had been outlined in the Audit Strategy Memorandum which was presented to the Committee on 23 March 2021. Mazars had reviewed their Audit Strategy Memorandum and had concluded that the original significant audit risks and other areas of management judgement remained appropriate.

It was reported that they anticipated issuing an unqualified opinion, without modification, on the financial statements. They also anticipated having no significant weaknesses in arrangements to report in relation to the arrangements that the Council had in place to secure economy, efficiency and effectiveness in its use of resources. Further details on their Value for Money work was provided in the report.

Mr SurrIDGE wished to thank the Director of Finance & ICT, the finance team and internal audit for the work and assistance they had provided during the audit.

On behalf of the Committee, the Chairman thanked Mr SurrIDGE for his attendance and their report.

Meeting started: 2.00pm
Meeting finished: 4.25pm