

PUBLIC

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

PRESENT

Councillor A Griffiths (in the Chair)

Councillors N Barker, S Brittain, and L M Chilton.

Officers in attendance – D Ashcroft, J Berry, C Hardman, P Spencer, W Sutton, and J Pressley and M Surridge (representing Mazars).

Apologies for absence were submitted on behalf of Councillors K S Athwal, P Murray and P Handford.

12/19 **MINUTES RESOLVED** that the minutes of the meeting held on 27 February 2019 be confirmed as a correct record and signed by the Chairman.

13/19 **TERMS OF REFERENCE** The current terms of reference for the committee were outlined. They remained unchanged for at least ten years and did not fully reflect the business undertaken by the committee.

A revised terms of reference had been drafted which better reflected the varied and wide-ranging brief of the committee. The revision had also considered the Chartered Institute of Public Finance publication Audit Committees: Practical Guidance for Local Authorities and Police. Members were asked to consider the revised terms of reference and recommend to Full Council for approval.

RESOLVED to approve the new terms of reference as set out in the report.

14/19 **NATIONAL FRAUD INITIATIVE** The Cabinet Office are responsible for organising and co-ordinating the NFI process. NFI is a national data matching exercise which had enabled participating organisations to prevent and detect instances of fraud and error totalling in excess of £300 million between April 2016 and March 2018. This was a record for NFI in any reporting period and brought cumulative outcomes to a total value of £1.69 billion since the inception of NFI in 1996.

Approximately 1,200 participating organisations from both the public and private sectors provided data for the NFI which currently takes place every two years. The data matching process included comparison of data sets including payroll and benefit records against other records held by the same or another

body in order to establish a match. Where such matches arose these instances were investigated in order to identify potential fraudulent or erroneous claims and payments.

In order to inform both Members, staff and pensioners of the Council's participation in the NFI exercise fair processing notices were included in the pay slips for September 2018. Pensioners were notified of NFI by the inclusion of a pay slip message in May 2018. The results of the matching exercise arising from the Authority's data being submitted to the Cabinet Office in October 2018 were made available from 31 January 2019.

Audit Services is the central coordinator for the data matches received from the Cabinet Office and ensures matches are investigated, liaising as required with Departments within the Council and other authorities. Audit Services also maintain the web based application provided by the Cabinet Office which tracks progress on matches reported.

The initial 2018-19 NFI data matching return for the Council identified a total of 6,174 matches over 22 separate reports which included matching of the Council's data in respect of pensions, payroll, blue badge, concessionary travel, accounts payable, personal budgets and private residential care homes records with that of other participants' data, including housing benefits claimants and Department for Work and Pensions deceased persons.

RESOLVED to note the progress made by the Council in respect of the NFI 2018-19 exercise.

15/19 **INTERNAL AUDIT PLAN 2019-20** The Audit Plan was designed to provide assurance that the significant risks identified as part of the risk assessment process are being managed effectively and, where appropriate, to make recommendations for improvements in overall control, efficiency and effectiveness. As part of this process Audit Services would also examine risk management frameworks, control and governance arrangements.

The Audit Plan 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 Directors, including the Strategic Director of Commissioning, Communities and Policy (Head of Paid Service), Director of Finance & ICT (Section 151 Officer) and the Director of Legal Services (Monitoring Officer). As part of this process Audit projects had been identified which would be developed specifically to address significant Corporate and Departmental risks and build on those areas where frauds/control weaknesses had previously been identified.

In common with previous years the Audit Plan would be continually reviewed to ensure that it remained aligned with significant risks whilst remaining responsive to changes in risk, operations, systems and controls. Any amendments would be identified through Audit Services' ongoing liaison and discussions with the Audit Committee, Corporate Management Team, Strategic Directors, Directors and Senior Managers. Progress against the approved Audit Plan would be monitored and regularly reported to the Audit Committee.

The Audit Plan for 2019-20 was based on a staffing structure which provided for the deployment of 2,684 days. Members were aware of the staffing challenges which Audit Services had faced throughout the past year and which still continued. Consequently resources available to deliver the approved Audit Plan for 2018-19 had been reduced, and those projects which would not be completed during the year had been considered for inclusion in the proposed Audit Plan for 2019-20 in accordance with the Internal Audit Strategy. Several assumptions had been made which had been incorporated into the estimate of resources available to deliver the proposed Audit Plan for 2019-20. The Unit was committed to providing a full range of Audit services using only in-house staff, including the specialist areas of investigative and IT Audit work.

Mazars acted as the Council's External Auditors and Audit Services would work with them in accordance with the agreed External and Internal Audit Protocol.

The Audit Services' Plan was attached and detailed the Audit Services' coverage for all Departments and the Corporate Authority, it also identified the perceived level of risk, the resource to be employed and the expected outcomes of Audit work. Timetabling of the individual projects would be agreed with Strategic Directors, Directors and Senior Management on an ongoing basis throughout the year, and this would be informed by the findings and emerging initiatives identified.

RESOLVED to approve the Audit Services' Plan for 2019-20.

16/19 **EXTERNAL AND INTERNAL AUDIT PROTOCOL** The objectives of the Protocol between Mazars and Audit Services were to:-

- provide clarity to the Audit Committee regarding the roles and objectives of internal and external audit;
- provide a framework which would optimise the benefits of audit to the Council;
- promote an effective working relationship between Audit Services and Mazars whilst enabling each to deliver their respective responsibilities.

The main areas of co-operation between Audit Services and Mazars centred on the external auditor's responsibility to:-

- satisfy themselves that the accounts complied with statutory requirements;
- satisfy themselves that proper practices had been observed in compiling the accounts;
- express an opinion on the statement of accounts.

Mazars' approach to these requirements was to identify and test the overall high-level controls at the interim audit and undertake substantive testing of the Council's year-end statements. The findings from Audit Services' work on key financial systems would be used to inform Mazars' risk assessment and develop appropriate tests.

As part of their audit, Mazars would assess the risk of fraud and consider fraud risk factors in the planning of their audit. Audit Services ensured that a risk based approach was adopted to the audit of the Council's systems of internal control and pay due regard to the risk of fraud and corruption as part of this risk based approach. Audit Services also had a responsibility to undertake special investigations in respect of all cases of suspected fraud, misappropriation or misuse of money, materials or equipment, or any mismanagement of money or other assets, or any other irregularities.

Quarterly meetings would be held between the Assistant Director of Finance (Audit) and the Mazars Director or Manager and were likely to include:-

- update against Audit Services and Mazars plans;
- matters for the Audit Committee;
- confirmation of reports finalised;
- significant concerns about financial systems or the financial performance of the Council;
- details of special investigations;
- emerging risk areas;
- other issues, for example Audit Services' involvement in system development or project work;

The Protocol would be subject to review on an annual basis.

RESOLVED to note the External and Internal Audit Protocol which would be operated.

17/19 AUDIT STRATEGY MEMORANDUM – DERBYSHIRE COUNTY COUNCIL AND DERBYSHIRE PENSION FUND Mark Surrige from Mazars attended the meeting to present Members with the Audit Strategy Memorandum for the County Council and the Derbyshire Pension Fund for the year ending 31

March 2019. The purpose of the document was to summarise their audit approach, highlight significant audit risks and areas of key judgements.

The document described how Mazars would deliver their audit work for the Authority and identified any key risks for the financial statements audit and Value for Money arrangements conclusion. The risk assessment for the financial statements audit had identified the following significant risks:-

- Valuation of property, plant and equipment, investment properties and assets held for sale; and
- Valuation of net defined benefit liability.

It was reported that, in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. For the 2018-19 financial year Mazars had not identified any significant risks to their VfM conclusion. However, one specific matter had been identified which would need to be kept under close review:

- Financial sustainability – the Council continued to face financial pressure in the coming years and the Council kept updating its medium term financial plan (MTFP) to meet these pressures.

RESOLVED to note the Audit Strategy Memorandum for Derbyshire County Council and the Derbyshire Pension Fund.

18/19 **EXTERNAL AUDITOR REPORTS** There was nothing to report on this occasion.