

PUBLIC

MINUTES of a meeting of the **AUDIT COMMITTEE** held on 23 July 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 – E Alexander, J Berry, P Handford, C Hardman and P Spencer (representing Derbyshire County Council) and J Pressley and M Surrige (representing Mazars)

Declarations of Interest

Councillor K S Athwal declared a personal interest in Minute No.25/19 as a Director of Derbyshire Developments Limited.

21/19 **MINUTES** An amendment be made to Minute No 20/19 to read: “Following concerns expressed from a Member, Mr Handford provided an update on the issues surrounding the New Waste Treatment Facility in Sinfyn, Derby.”

RESOLVED that the minutes of the meeting held on 20 June 2019 be confirmed as a correct record and signed by the Chairman.

At the request of the Director of Finance & ICT and for ease of clarity, it was agreed that the report for the Statement of Accounts 2018-19 be received after the report of the Annual Audit Report.

22/19 **REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROL** The Director of Finance & ICT advised the Committee that the Accounts and Audit Regulations 2015 required it to review the effectiveness of the system of internal control which:

- (a) facilitated the effective exercise of its functions and the achievement of its aims and objectives;
- (b) ensured the financial and operational management of the authority was effective; and
- (c) included effective arrangements for the management of risk.

There were two actions as part of the requirement to review the internal control system that needed to be considered:

- (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. In particular it was appropriate to refer Members to the following:

- That the Council had thoroughly reviewed its Constitution, including Financial Regulations & Standing Orders Relating to Contracts during the past year;
- The Annual Governance Statement was considered at this meeting;
- The evidence of compliance with International Auditing Standards was 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 this meeting;
- The ISA260 report presented to this meeting by the Council's external auditor Mazars;
- 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 2018-19 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; and
- Reviews of service delivery were planned and underway across the Council.

PwC concluded a review of the Audit Services Unit (reported to Audit Committee on 28 July 2014). The Public Sector Internal Audit Standards (PSIAS) required an external review to be conducted at least once every five years. PwC 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.

An internal self-assessment of performance against the recommended checklist provided by CIPFA in the Local Government Application Note for the UK PSIAS had been undertaken by the Assistant Director of Finance (Audit).

The Director of Finance & ICT had reviewed the self-assessment to ensure it provided an objective, evidence based view and confirmed that it was a sound assessment of Audit's and the Council's adherence to the PSIAS. Areas for improvement were identified and would be monitored as part of wider actions from the Annual Governance Statement.

The Director of Finance & ICT also stated that he was satisfied that Audit Services achieved adherence to the standards set out in the PSIAS, and provided a sound basis from which the Council rely 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 over the coming months ready for reporting in late 2019.

The work of Audit Services was subject to the requirements of the Unit's Audit Manual, which was regularly reviewed as part of consideration of the systems and procedures used by the Unit alongside the Quality Assurance and Improvement Programme. Cabinet had also approved the Council's "Audit Charter" as required by the PSIAS.

RESOLVED that the report be noted.

23/19 ANNUAL GOVERNANCE STATEMENT AND SYSTEM OF INTERNAL CONTROL The Director of Legal and Democratic Services 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). The AGS also included details of the Council's compliance with International Auditing Standards.

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 framework outlined the approach to reviewing existing governance arrangements and an Annual Governance Statement. The Draft Annual Governance Statement for 2018-19 was attached at Appendix 1 and was included in the pre-audit accounts reported to Audit Committee on 20 June 2019.

A Governance Group was established to conduct an ongoing review of key systems and processes operated within the County Council to ensure that they deliver 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 can be assessed. The Annual Governance Statement once approved would be included in the Council's post audit Statement of Accounts for 2018-19.

The External Auditors had specific duties placed on them under International Auditing Standards relating to fraud in the audit of financial

statements, laws, regulation, litigation and claims; the Council's assurance was detailed in Appendix 2.

RESOLVED to (1) consider the information provided as evidence of the Council's effective compliance with the statutory requirement to produce an Annual Governance Statement; and

(2) recommend the AGS for inclusion in the Council's Statement of Accounts.

24/19 **ANNUAL AUDIT REPORT** The Assistant Director of Finance (Audit) presented the report outlining the work undertaken by the Audit Services Unit for the financial year 2018-19 and to update Members on the overall performance against the Audit Plan.

The Audit Services Unit discharged the Council's statutory responsibilities under Regulation 5 of the Accounts & Audit Regulations 2015, and significant aspects of the Director of Finance & ICT's statutory duties under Section 151 of the Local Government Act 1972. The Unit also worked with the Council's appointed auditors Mazars in accordance with the External and Internal Audit Protocol which was reported to the Audit Committee on 27 March 2019.

The role and responsibilities of the Unit were further clarified and reinforced in the Council's Financial Regulations and Standing Orders relating to Contracts, Anti-Fraud and Anti-Corruption Strategy, Fraud Response Plan and the requirements of the Confidential Reporting Code. The Council had approved an Audit Charter in compliance with the PSIAS.

The Annual Audit Report contained:

- an analysis of planned and actual audit activity for 2018-19;
- 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; and
- the Assistant Director of Finance (Audit)'s formal controls assurance statement and opinion which contributes to the Council'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 would be used by the organisation to inform its governance statement. The opinion concluded on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The annual report also included a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

The Opinion was as follows:

“I am satisfied that sufficient assurance work has 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 have been made to address potentially significant or serious weaknesses and/or evidence of a level of non-compliance with some controls identified, the Council’s framework of governance, risk management and control is basically sound. Audit Services’ staff have worked with Senior Management to agree appropriate corrective actions and a timescale for improvement which are 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 Statement of Accounts”.

RESOLVED that the Committee (1) consider the detailed Annual Audit Report for 2018-19; and

(2) note the overall quality of the performance of the Audit Services Unit during the period.

25/19 **STATEMENT OF ACCOUNTS 2018-19** The Accounts and Audit Regulations 2015 require the Director of Finance & ICT to certify the pre-audit Statement of Accounts by 31 May and the Audit Committee to approve the post-audit version by 31 July. The certified pre-audit Statement of Accounts were submitted to the Council’s external auditors, Mazars, on 31 May 2019. At Audit Committee on 20 June 2019, a detailed presentation, followed by a Question and Answer Session, took place to explain the Statement of Accounts in more detail and respond to any particular questions which Members had.

Under the Local Audit and Accountability Act 2014 (Sections 25 to 28) and the Accounts and Audit Regulations 2015 (Regulations 10, 14 and 15), the Council’s accounts for the year ended 31 March 2019 and certain related documents were made available for public inspection from 1 June 2019 to 12 July 2019, Monday to Friday. One query was received, in relation to two grants awarded under the Community Priorities Programme (CPP) and seven projects supported under the Community Leadership Scheme (CLP). The enquirer visited the Council to inspect CPP Cabinet papers and grant application forms and was interested in the grant approval and assurance process. A challenge to the accounts was received by Mazars on 11 July 2019. The elector challenged whether arrangements in place were sufficiently adequate to ensure that a grant provided under the CPP, and grants provided under the CLP,

delivered value for money. This challenge was being considered by the external auditor at the time of writing.

The core financial statements in the Statement of Accounts were listed. The approved Statement of Accounts would be reported to full Council in October. The Pension Fund Accounts would be reported to the Pensions and Investment Committee in August.

A copy of the audited Statement of Accounts was appended to the report at Appendix One. The included the Annual Governance Statement which was in draft form and was presented separately at the meeting. Details of changes made to the pre-audit Statement of Accounts were included at Appendix Two.

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 had been provided in respect of the Council's Accounts and the Pension Fund Accounts. These letters were yet to be finalised but drafts were included at Appendix Three and Appendix Four, respectively.

RESOLVED that the Committee approve the Statement of Accounts 2018-19.

26/19 **EXTERNAL AUDITOR REPORTS** J Pressley and M SurrIDGE, representatives of Mazars presented two Audit Completion Reports: "Derbyshire County Council" and "Derbyshire Pension Fund", both for year ending 31 March 2019. The documents summarised their audit conclusion and outlined the work done and their conclusion was that the significant audit risks and other areas of management judgement remain appropriate.

For Derbyshire County Council, J Pressley/M SurrIDGE discussed the executive summary and the status of the four areas of work:

- Financial statements - there were now shorter deadlines to work to. A letter would be sent to the Director of Finance & ICT to confirm that everything was closed off.
- Value for Money – adequate arrangements were in place to secure value for money. It was recognised that the County Council had an adequate approach and was in a stable state. Some uncertainties would be considered, with challenges facing the Council in 2020-21.
- Whole of Government Accounts (WGA) - anticipated completing their work on the WGA submission, in line with the instructions issued by the NAO, by the extended deadline. It was anticipated reporting that the WGA submission was consistent with the audited financial statements.

- Wider powers - A letter of objection to the accounts had been received. The matter was not material to the accounts and did not have an effect on the work but some investigation to be made before certificate was produced. This would be reported back to Committee.

The County Council's Statement of Accounts 2018-19 were formally noted.

J Pressley/M SurrIDGE summarised the executive summary and the status of the three areas of work:

- Financial statements – anticipated issuing an unqualified opinion, without modification.
- Consistency Report – there was a delay in issuing the audit certificate following minor work that needs to be done.
- Wider powers – more than happy with the arrangements in place.

Some final checks needed to be completed with a recommendation regarding the reconciliation on the pensions payroll and ledger. Management were in agreement and this would avoid delays next year. Work was being completed on the pensions administration system with on-going negotiations with the software supplier.

RESOLVED that the reports be noted.

The Director of Finance & ICT acknowledged the work done by Mazars and thanked all for the work they had carried out.

On behalf of the Committee, the Chairman also thanked the officers involved and Mazars for their professionalism and the work they had undertaken. It was also pointed out that in order to do justice to the various reports, they needed to be made available to Members with the other Committee papers and any late reports in the future, may not be accepted by the Committee.