

PUBLIC

**MINUTES** of a meeting of the **AUDIT COMMITTEE** held on 27 May 2020.

**PRESENT**

Councillor K S Athwal (in the Chair)

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

Officers in attendance – P Handford, C Hardman, J Lakin and P Spencer (representing Derbyshire County Council) and J Pressley (representing Mazars)

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

**Declarations of Interest**

Councillor K S Athwal declared a personal interest in Agenda Item 4(b) – Tax Strategy, as previously he was a non-executive Director of Derbyshire Developments Limited

Mr P Handford declared a personal interest in Agenda Item 4(b) – Tax Strategy, as the Chief Financial Officer for the D2N2 Local Enterprise Partnership

**8/20**        **CHAIRMAN’S ANNOUNCEMENTS** The Chairman welcomed everyone to the first virtual meeting of the Audit Committee.

**9/20**        **MINUTES RESOLVED** that the minutes of the meeting held on 4 February 2020 be confirmed as a correct record.

**10/20**       **MATTERS ARISING (a) Minute No.2/20 - Budget Monitoring 2019-20 (as at 31 October 2019)** The Director of Finance and ICT informed the committee that a response was still awaited from central government for the County Council’s request for funding towards the damage caused by the floods that took place late in the year in 2019 and early 2020. The Director of Finance and ICT would provide Members with details of the grants that had been taken up to support businesses during that particular time.

**(b) Minute No.7/20 – Training** There had been no movement on providing training during this particular time but it was still on the agenda to deliver Member training within this financial year.

## **11/20**      **BUDGET MONITORING 2019-20 (AS AT 31 DECEMBER 2019)**

A report was presented which summarised the controllable budget position by Cabinet Member portfolio as at 31 December 2019.

The COVID-19 crisis would impact on the Council's 2019-20 outturn. The additional costs of the Council's response, incurred up to 31 March 2020, were not reflected in the projected outturn at 31 December 2019 and the summary provided was before these additional costs were taken into account. However, that would mean that the total projected underspend of £5.080m was likely to be reduced to reflect the additional costs associated with the Council's response to the outbreak. These costs would be reported to Cabinet in the Revenue Outturn Report 2019-20 and the Director of Finance and ICT expanded on the latest position regarding the potential impact of the COVID-19 crisis.

A Council portfolio overspend of £0.577m was forecast, after the use of £3.382m of Earmarked Reserves to support the Highways, Transport and Infrastructure and Young People portfolios. Any underspends in 2019-20 would be used to manage the budget in 2020-21. A summary of the individual portfolio positions was detailed in the report and the main risks which could impact on the portfolio's outturn position were contained in Appendix Two to the report.

**RESOLVED** to (1) note the 2019-20 budget monitoring position as at 31 December 2019;

(2) note the proposed establishment of a Shipley County Park Consultants Earmarked Reserve and a contribution of £0.100m from the Property Services budget into this reserve; and

(3) note the proposed transfer of the current projected underspend in Adult Care of £3.861m to the Adult Care Budget Saving Pump Priming Earmarked Reserve to part fund £4.210m due to Newton Europe in 2020-21, in respect of consultancy services provided in relation to the Better Lives programme, with the balance of £0.349m to be funded by a further transfer if additional underspends become available before the end of the financial year.

**12/20**      **TAX STRATEGY** The Tax Strategy set out the overall framework for the Council's management of its tax affairs, including tax compliance, policies and procedures, tax risk, tax planning and relationship with the tax authorities.

The Finance Act 2016 Schedule 19 set out what should be included in a Tax Strategy. Whilst not required to publish a Tax Strategy by this legislation, the Council chose to do so and to follow its principles, as it wished to demonstrate transparency in its commitment to managing its tax affairs, taking into consideration its public purpose and balancing the interests of its stakeholders. The key components of the Tax Strategy were highlighted.

In line with the Council's governance framework and consistent with its wider values, the Council was committed to being fully compliant with all tax laws, rules and regulations. It will conduct its tax affairs in an open, honest and timely fashion. The Council would not seek to gain a tax advantage through tax avoidance but would seek to manage its tax affairs in an efficient manner, whilst following both the letter and the spirit of the law.

In order to achieve this, the Council undertook to:

- Take all reasonable steps to ensure that it was fully compliant with tax legislation and paid the right amount of tax at the right time.
- Maintain an open, honest, and collaborative relationship with the tax authorities.
- Respond to all queries and enquiries in a timely fashion.
- Where the correct tax treatment was ambiguous and where it was appropriate to do so, take the appropriate external advice and act in accordance with that advice, making disclosures to the tax authorities as appropriate.
- In cases of dispute, act transparently and fairly, aiming to resolve the dispute in a manner that preserves good working relationships.

The Council's overall management of tax risk and supporting governance framework was the responsibility of the Council's Director of Finance & ICT. The Audit Committee independently contributed to the Council's process of ensuring internal control systems were maintained and approved the Annual Governance Statement. It was proposed that the Council's Tax Strategy would be reviewed and reported to Audit Committee on an annual basis. A copy of the Strategy was shown at Appendix One to the report.

**RESOLVED** that the Council's Tax Strategy is approved.

**13/20**      **ACCOUNTING POLICIES** Members were provided with amendments to the Accounting Policies for 2019-20 and with the proposed Accounting Policies for 2020-21.

#### 2019-20 Accounting Policies

On 27 February 2019, Audit Committee approved the proposed Accounting Policies for the 2019-20 financial year, pending receipt of further technical guidance on IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments for 2018-19. Since then the following amendments had been made to the 2019-20 Accounting Policies:

- Amendments in respect of IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments, following receipt of further

technical guidance, as reflected in the 2018-19 Accounting Policies in the signed Statement of Accounts for the year ended 31 March 2019.

- Other minor amendments to improve the clarity of the Accounting Policies for Capital Accounting.

The updated 2019-20 Accounting Policies were attached at Appendix One to the report.

#### 2020-21 Accounting Policies

Appendix Two to the report included the proposed 2020-21 Accounting Policies. These included amendments for IFRS 16 Leases, based on technical guidance issued to date for 2020-21. Additional technical guidance was likely to be received and it was possible that this would also impact on the 2020-21 accounting policies. Any further proposed amendments would be reported to Audit Committee in due course.

**RESOLVED** to (1) approve the changes outlined in the report in relation to the Accounting Policies for 2019-20; and

(2) approve the Accounting Policies for 2020-21.

#### **14/20 EXTERNAL AUDIT – UPDATE ON 2018-19**

**RECOMMENDATIONS** The external auditor had presented its 2018-19 Audit Completion Reports at the Audit Committee meeting on 23 July 2019 and its 2018-19 Annual Audit Letters at the Audit Committee meeting on 24 September 2019. Three recommendations were raised in respect of the Council Accounts and a summary and progress update was provided as follows:

- Valuation process controls – there were a number of issues with land and buildings valuations; a misclassification of agricultural land as residential land, the omission of a school building and an inconsistent approach to the valuation of homes for older people. No material errors were identified. Steps had been taken to correct and address these matters, together with the control weaknesses identified in 2017-18; a valuation manual had been introduced to improve the accuracy and consistency of the valuation work undertaken. The valuation manual was a living document utilised by the asset valuation team to ensure effective valuation delivery. It was fully embedded and a constant reference, informing process in the production, timely checking and completion of valuations. The manual is in the process of being reviewed in preparation for the next valuation period 2020-21, to ensure continued accuracy.
- Contracts of employment controls – two contracts of employment could not be located. The Shared Services Centre (SSC) did not hold the full employee file for two school employees, as this was the schools' responsibility, as a "traded services client". Procedures had been reviewed and a change was being introduced from 20 April 2020 whereby

HR Shared Services would no longer retain the signed acceptance for traded services clients. These would be returned directly to the school/external client, as it was the responsibility of the school/employer to retain. HR Shared Services was the service provider/payroll provider and therefore would only keep information relating to contract or payroll requests for a period of six years plus the current financial year. Information would be stored in month order and financial year and sent off-site as appropriate.

- Completeness of related party transactions controls – three Members had not declared their membership of another public sector body on their declaration forms. No inherent conflicts of interest were involved. The importance of full disclosures would form part of forthcoming training of Members and Officers. The session dates would be confirmed in the near future.

One recommendation had been raised in respect of the Derbyshire Pension Fund Accounts and a summary and progress update was provided.

A detailed update on the actions being taken in response to the 2018-19 control recommendations was attached at Appendix One to the report.

The external auditor also revisited recommendations from 2017-18, when two recommendations had been raised and a detailed update on the action being taken in respect of the external auditor's revisit of 2017-18 recommendations was attached at Appendix Two to the report.

**RESOLVED** to note the actions being taken in response to the recommendations outlined in the external auditor's Audit Completion Reports and Annual Audit Letters for 2018-19.

**15/20**      **BUDGET MONITORING ARRANGEMENTS** Members were provided with details of the latest budget monitoring arrangements.

To ensure that the arrangements remained robust, reporting requirements and timescales were set out in the Budget Monitoring Policy, a copy of which was attached at Appendix One to the report. 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. The Policy had been reviewed in March 2020, and the changes that had been made were highlighted.

The inclusion of performance information in the monitoring report was also being considered.

**RESOLVED** to note the details of current budget monitoring arrangements.

**16/20**      **REVISED FINANCIAL REGULATIONS** Members were asked to consider proposed amendments to the Council's Financial Regulations and commend approval of these amendments to Cabinet and Council.

The revised Financial Regulations were appended to the report and the key areas that were being recommended for change were:

- Requirement for all Council staff to furnish information to the Chief Financial Officer with information required for the financial administration of the Council's affairs.
- Addition of the role and responsibilities of the Deputy s.151 Officer in the Statutory Officers section.
- Recognition that financial management standards should be in accordance with the principles of The CIPFA Financial Management Code.
- Clarity on where and whom to submit a Declaration of Interest
- Running costs of surplus assets to remain the responsibility of the transferee for a period of 18 months or until the asset is either sold or brought into new usage. After such time the running costs become the responsibility of Property Services.
- Authorisation of write offs reflect the latest OJEU thresholds.
- Clarification that requests for payment in advance should be made to the Chief Financial Officer.
- A requirement to review the Council's Tax Strategy at least annually.

The Standing Orders Relating to Contracts was also being reviewed and any amendments would be reported to Cabinet and Council for approval. Audit Committee would receive a subsequent report with details of the changes.

**RESOLVED** to commend the approval of the proposed amendments to the Financial Regulations to Cabinet and Council.

**17/20**      **ANNUAL STRATEGIC RISK REGISTER REVIEW** Members were advised of the outcome of the Strategic Risk Register review and the updated 2020-21 Risk Strategy together with the implementation plan.

The Risk and Insurance Manager had undertaken a wholesale review into the Strategic Risk Register with regards to appearance and content with the Strategic Risk Management Group on 30 January 2020. It was agreed that some of the content needed to be reviewed to align with the current Council Plan and that the format could be improved to provide greater ease of understanding of the mitigations that the Council was undertaking. This work was currently ongoing.

The Coronavirus had widespread implications across Derbyshire and would affect the ability to provide services to our citizens. Detailed actions with regards to the Covid-19 was encompassed within the section on Business Continuity risk mitigations. A new format had been suggested which was attached in Appendix B to the report for the Committee's consideration and agreement. The register had been updated and reflected current strategic risks. The risks noted required a further workshop to identify the mitigations and owner of each risk. This work would be carried out in the coming few months by the new Senior Risk Officer following appointment to that post.

The register highlighted the Council's ongoing business continuity arrangements in responding to the Coronavirus outbreak.

Appendix C showed the Strategic Risk Register in its previous format but was provided as a reference point to demonstrate the mitigations that were in place for the risks identified in Appendix B. A summary of changes was shown at Appendix A to the report. Subject to agreement of the revised format by the Committee, the updated format would be presented to the next meeting, together with completed mitigations for each of the identified Strategic Risks.

The Director of Finance and ICT reported that Executive Directors would be invited to future meetings of the Committee to provide Members with levels of assurance for their particular departmental risks.

The Council had compiled a risk register specific to the COVID-19 pandemic in order to actively manage the risks that this had presented. The COVID specific risk register was contained in Appendix E to the report and a summary was provided.

The Risk and Insurance Manager had updated the Risk Strategy and implementation plan which had been approved by Cabinet on 16 March 2020. The Strategy had been comprehensively reviewed to ensure that the Risk Strategy supported the aims of the Council and provided a framework for departments to produce considered decisions that were based upon awareness of the risks involved rather than being risk adverse.

How successful the Council was in dealing with the risks it faced could have a major impact on the achievement of key objectives and service delivery to the community. This Strategy would help support the corporate agenda and underpin the key Council Plan objectives.

The Risk Strategy had undergone a significant overhaul to enable the transition to an enterprising model. As risk changed through the evolution of the Council Plan, it was vital to ensure that the risk model was fit for purpose and in line with these altering opportunities and hazards. This will enable the Council

to be aware of the risks and opportunities that are presented within a clear framework of assessment and identification. The Strategy would also assist the Council to demonstrate it had full consideration of the implications of risk and the mitigations required to ensure the delivery and achievement of the Council's outcomes, strategic aims and priorities. The 2020-21 Risk Strategy was attached in Appendix D for information.

Members welcomed the revised format and the breakdown of the register to include the risks specific to Covid-19. On behalf of the Committee the Chairman wished to thank Mr Handford and all the officers involved in the review and production of the risk register.

Councillor S Brittain abstained from voting on this item due to issues with fully accessing the report and appendices.

**RESOLVED** to (1) note the updated Strategic Risk Register and approve the revised format;

(2) note the details of the revised Risk Management Strategy; and

(3) note the Covid-19 risk register.

**18/20**      **INTERNAL AUDIT PLAN 2020-21** Members were asked to consider and approve the proposed Audit Services Plan for 2020-21.

The proposed Audit Services Plan for 2020-21 was based on a staffing structure which provided for the deployment of 2,884 days. Members were aware of the staffing challenges which Audit Services had faced during the current year and which still continued. Some progress had been made recently however, and the team was nearly at full strength, including a trainee who would be joining the Unit in August.

Consequently resources available to deliver the Audit Services Plan for 2020-21 were forecast to exceed those deployed in the current year. Those projects which would not be completed during the current year had been considered for inclusion in the proposed Audit Services Plan for 2020-21 in accordance with the Internal Audit Strategy. Mazars LLP 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 at Appendix 1 to the report 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 continue to be agreed with Executive 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** that the Audit Services Plan for 2020-21 details of which were attached at Appendix to the report, be approved.

**19/20 INTERNAL AUDIT PLAN 2020-21 – SUPPLEMENTARY REPORT** The Audit Committee meeting arranged for 24 March 2020 had been cancelled due to the impact of the coronavirus pandemic. At that meeting Members were to consider and approve the proposed Audit Services Plan for 2020-21, and the accompanying report previously circulated set out detailed considerations in its formulation.

Since that time the coronavirus pandemic had had far reaching effects across the world, some of which would continue for a number of years. Currently it was not possible to determine if, how and when the Council's services would return to normal. Consequently it was not possible to quantify the effects of the changes in working arrangements on the proposed Audit Services Plan for 2020-21 at this time. However, it was clear that there would be an impact for several reasons some of which were highlighted.

The Assistant Director of Finance (Audit) reported that the current situation, together with the majority of staff working remotely, made it difficult or impossible for the Unit to progress some planned Audit work. It had been necessary for the Council to consider new systems or changes to existing systems. Audit staff had supported Senior Management by providing advice and guidance in order to ensure that governance and control systems remained effective, and discharge those responsibilities required of the Audit Services Unit by Financial Regulations and Standing Orders relating to Contracts.

During the immediate aftermath of the lockdown fraudsters had sought to take advantage of the situation that organisations and staff were working in changed circumstances and sought to exploit any vulnerabilities. Action Fraud reported coronavirus related frauds had increased by 400% in March 2020. Audit Services had acted swiftly to build on the established systems to distribute intelligence received relating to potential frauds and scams and would, of course, continue to assist in safeguarding the Council against such risks.

In the majority of cases, records required by Audit to support their work were computerised and accessible remotely with appropriate permissions. However, there were still a number of paper based systems and records which were not easily accessible when working at home.

Schools were closed and Audit staff were currently unable to visit other establishments due to increasing the risk of transmitting infection for staff and, in some cases, residents. The Unit was currently reviewing their approach to

school reviews and the extent of testing which could be performed remotely and via Skype. It was possible that Audit reviews of establishments, including visits to premises, may be resumed before the end of this calendar year.

Following the immediate impact of the lockdown it was necessary for Executive Directors to make urgent decisions using emergency powers, in accordance with guidance issued by the Director of Legal and Democratic Services. Such decisions had been recorded in a separate record.

Audit Services would need to review the effectiveness of systems to support emergency decision making and assist the return to business as usual. The delivery of Audit work is routinely monitored on a weekly basis by Senior Audit Management and progress against the Audit Services Plan is regularly reported to the Audit Committee.

It was essential that the Audit Services Plan could respond to changing and emerging threats to the Council's governance, control and risk management framework. The current situation was unparalleled and there were a significant number of factors which could impact on the proposed Audit Services Plan but these could not be accurately estimated at the present time. In the absence of such detailed estimates it was considered that as the situation evolved and any implications for, or restrictions on the Audit Services Plan were identified and quantified, that these were included in the progress reports presented to the Audit Committee. Audit resources would be targeted at the highest levels of risk but also directed to achieve a broad range of coverage across the Council's activities. Where planned Audit activity did not take place Senior Management would seek or build upon other forms of assurance and accept a higher level of risk.

**RESOLVED** that following consideration of the information provided in the supplementary report, Members approved the Audit Services Plan for 2020-21, details of which were included in a separate report.

**20/20**      **QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME (QAIP)** At the meeting of the Audit Committee on 22 November 2017 Members had received the Audit Services Unit's QAIP. The implementation of the Public Sector Internal Audit Standards (PSIAS) from 1 April 2013 required that the chief audit executive (Assistant Director of Finance (Audit)) must develop and maintain a quality assurance and improvement programme that covered all aspects of the internal audit activity.

Attached to this Report at Appendix 1 was the Unit's QAIP which set out the procedures for the ongoing monitoring, supervision, review and measurement of Audit Services' activity. It also included arrangements for both internal and external assessments of Audit Services activity. The QAIP would

also be incorporated into the Unit's Audit Manual which would be reviewed during the current year.

**RESOLVED** that the Audit Services Unit's QAIP be noted.

**21/20**      **REGULATION OF INVESTIGATORY POWERS ACT (RIPA)**  
**UPDATE** Members were informed of the outcome of the inspection of the Council's procedures relating to the use of its powers under the Regulation of Investigatory Powers Act (RIPA) by Mrs Samantha Jones of the Investigatory Powers Commissioner's Office (IPCO).

The inspection comprised the provision of a number of documents prior to and following a telephone discussion with the Inspector on 15 April 2020. These included the Council's revised RIPA Policy which had been finalised following the meeting of the Audit Committee on 4 February 2020 and Social Media Policy.

The results of the inspection were included in a letter addressed to the Executive Director Commissioning, Communities and Policy from The Investigatory Powers Commissioner dated 24 April 2020 which was attached at Appendix 1 to the report. In summary the Commissioner confirmed that the Council demonstrated a level of compliance that removed, for the present the requirement for a physical inspection.

It was confirmed that the intended training for staff involved in the RIPA process, which would include training for RIPA Liaison Officers who acted as a focal point for their Departments, would be progressed. The inclusion of RIPA in the on-line information governance training which was provided to all appropriate staff, had been discussed and agreed with the Executive Director Commissioning, Communities and Policy. These actions would increase staff awareness of RIPA and consequently should address the recommendations raised, and that had been noted by the IPCO.

**RESOLVED** that the outcome of the inspection of the Council's procedures relating to the use of its powers under the Regulation of Investigatory Powers Act by the Investigatory Powers Commissioner's Office, be noted.

**22/20**      **EXTERNAL REVIEW OF AUDIT SERVICES** Members were informed of the review of advisory actions contained in the report produced following assessment of the Audit Services Unit's compliance with the Public Sector Internal Audit Standards (PSIAS).

The Chartered Institute of Public Finance and Accountancy's (Cipfa) consultancy service (C.Co) had been selected to undertake the external

assessment. This assessment was carried out on the basis of a self-assessment with independent external validation.

Following the assessment Audit Services were judged as compliant with the PSIAS overall and in each of the four areas of focus assessed. At the meeting of the Audit Committee held on 10 December 2019 Mr Ian Kirby, C.Co Programme Director, presented the report arising from the review to Members. The report included several advisory opportunities to enhance the internal audit service which were detailed at Appendix 1 to the report, along with the response from Audit Services and any actions arising from that response.

**RESOLVED** that the Committee note the opportunities to enhance the internal audit service identified by the external assessment, the response from Audit Services and any actions arising from that response.

**23/20**      **EXTERNAL AUDIT – AUDIT STRATEGY MEMORANDUMS** John Pressley 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 2020. 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:

- Management override of controls
- Revenue recognition
- Property, plant and equipment valuation. Covid-19 had provided a high degree of estimation uncertainty in relation to the valuation at 31 March 2020.
- Defined benefit liability valuation.

Mr Pressley highlighted the enhanced risks as follows:

- Minimum revenue provision (MRP)
- Sinfin Waste Treatment Plant

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. However, a significant Value for Money risk had also been identified in relation to the acquisition and operation of the Sinfin plant.

Mr Pressley informed the Committee that they had now received the draft accounts from the Finance Manager and would commence work, as scheduled, on 8 June 2020. This should allow Mazars to provide an opinion in advance of the 30 November deadline.

On behalf of the Committee, the Chairman wished to thank External Audit, Internal Audit and Mr Handford and his Finance Team for the work they had undertaken. He also wished to thank Members and officers, particularly in the IT Department for their participation and enabling this meeting to take place virtually.

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