

PUBLIC

MINUTES of a meeting of the **AUDIT COMMITTEE** held on 22 September 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 – D Ashcroft, P Handford, C Hardman, J Lakin, J Morgan and P Spencer (representing Derbyshire County Council) and J Pressley and M Surridge (representing Mazars)

Declarations of Interest

There were no declarations of interest

29/20 **MINUTES RESOLVED** that the minutes of the meeting held on 21 July 2020 be confirmed as a correct record.

30/20 **ANNUAL STRATEGIC RISK REGISTER REVIEW** The Director of Finance & ICT presented the updated Strategic Risk Register.

The Strategic Risk Register was due to go before CMT in October 2020 in order to allocate the identified risks to specific risk owners. Jane Morgan, the Risk & Insurance Manager presented the Strategic Risk Register which was contained in Appendix A to the report, whilst Appendix B summarised changes to the Strategic and Departmental Risk Registers. This would enable the Executive Directors to have full oversight of the risks that could directly impact the ability of the Council to achieve its plans, whilst having an overview of the mitigations to be implemented.

The risks noted required a further workshop to identify the mitigations and owner of each risk. Unfortunately, Covid-19 had interrupted the initial timetable, however it was hoped that this would be resumed in the coming months by the new Senior Risk Officer. Upon finalisation of these details, the Strategic Risk Register would be linked to APEX to allow for live risk reporting, which would provide further assurance that risks were being actively managed within the Council. This would also link into performance monitoring.

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-19 specific risk register was contained in Appendix C to the report, however a summary was detailed in the report.

In order to respond to the Covid-19 quickly, it had been decided to reduce the risk rankings to three headings rather than the Council's usual four as was detailed in the Departmental Risk Register.

A possible combined risk was highlighted to Members and this was the impending second wave of the Covid-19 pandemic alongside the implications of any Brexit agreement. This would be raised with the Corporate Management Team to see if it required its own risk.

Members of the Committee raised various questions including an update on the recent school fires; the current situation regarding personal protective equipment (PPE) for staff; safety measures and safe working for county council staff along with safeguards for vulnerable people; and the Authorities robustness in financial terms to cope with the Covid-19 pandemic.

The Director of Finance & ICT and the Risk & Insurance Manager responded as follows:

There were significant insurance implications and huge financial costs associated with the fires at Harrington School and the Fairfield Centre. There had been lessons learned from these fires and one at Shand House. A large number of procedural updates and improvements to mitigate risk had been forwarded to the Property Division and a formal response was awaited.

The Director of Finance & ICT informed the Committee that there had been an enormous cost in providing PPE to county council establishments and the processes involved in obtaining the equipment from various suppliers had created its own difficulties. However, the Government grants would off-set the majority of the costs and it was reported that the Government were now supplying the equipment centrally which had made the procedure more straightforward.

Significant work had been undertaken across the county to enable staff to return to offices in a safe and secure manner, particularly in schools. At area offices and County Hall a one-way system had been introduced, deep cleaning took place regularly and masks and hand sanitisers were readily available. One area of concern was the transportation of children and vulnerable people to the places they wished to attend and the Government had provided guidance on how to mitigate any risk such as face coverings and social distancing.

Council and Cabinet had received update reports on the overall position and additional costs incurred due to the Covid-19 pandemic and regular returns had been submitted to MHCLG for reimbursement. However, it was estimated

that the net shortfall would be between £10-20million and this would be met from earmarked reserves.

The Committee wished to thank the Risk & Insurance Manager and her Team for the update and production of the Risk Register.

RESOLVED that the Committee (1) note the Strategic Risk Register; and
(2) note the Covid-19 Risk Register.

31/20 REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL CONTROL Members of the Committee were asked to consider the outcomes of the review of the effectiveness of the system of internal control.

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 which would be considered at the November meeting;
- The evidence of compliance with International Auditing Standards usually presented alongside the Annual Governance Statement, but attached to this report as an appendix;
- The work of internal auditors culminating in the Annual Audit Report from the Assistant Director of Finance (Audit) presented to this meeting;
- The update 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 pre-audit Statement of Accounts for 2019-20, 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;

- Reviews of service delivery were planned and underway across the Council.

As Members were aware, a review of the Audit Services Unit had been undertaken by C.Co, part of the Chartered Institute of Public Finance & Accountancy which was reported to Committee on 10 December 2019. C.Co had 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.

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.

If there was any change to this view by the time the accounts were formally approved post-audit there would be a further report on the effectiveness of the system of internal control at that meeting.

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

32/20 **ANNUAL AUDIT REPORT 2019-20** Members were informed of the work that had been undertaken by the Audit Services Unit for the financial year 2019-20 and to update Members on the overall performance against the Audit Plan.

The Annual Audit Report contained:

- an analysis of planned and actual audit activity for 2019-20,
- 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,
- the Assistant Director of Finance (Audit)'s formal controls assurance statement and opinion which contributed to the Council's Annual Governance Statement.

The Unit still did not have its full complement of staff and the ongoing impact of Covid-19 on the work of the Unit could not be fully evaluated. It was considered that these factors would have an impact on the delivery of Audit work for some time. Members expressed their concern regarding the shortfall

of actual days in relation to the planned days, but it was hoped that this trend would begin to reverse now that the Unit was nearly at a full complement of staff.

Members asked how active the Governance Group had been since it had recently been re-invigorated. The Group had widened its membership to include the Director of Finance & ICT, Director of Legal & Democratic Services, Director of Organisation Development & Policy and departmental representatives.

Along with the production of the Annual Governance Statement, the Group had been developing a Local Code of Corporate Governance. A prominent part of the group's agenda in the future would be the consideration of 'lessons learned' particularly from within the council. This would allow the improvement of our systems from past experiences.

RESOLVED to (1) note the detailed Annual Audit Report for 2019-20; and

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

33/30 **AUDIT SERVICES UNIT PROGRESS AGAINST AUDIT PLAN 2020-21** Members were informed of progress against the approved Audit Plan for 2020-21 as at 31 August 2020.

At the meeting of this Committee held on 27 May 2020 Members approved the Audit Plan for 2020-21 which had been formulated from the 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 Executive Directors and Directors. These meetings included the Executive Director of Commissioning, Communities & Policy (Head of Paid Service), Director of Finance & ICT (Section 151 Officer) and Director of Legal & Democratic Services (Monitoring Officer).

In accordance with the Audit Committee's Terms of Reference, this report updated Members on progress against the Plan for the five months to 31 August 2020 and represented work undertaken during that period which was detailed in Appendix 1 to the report. An analysis of the priority criteria for Audit recommendations and assurance levels was provided in Appendix 2. The Assistant Director of Finance (Audit) highlighted several issues for the Committee's information.

At the Audit Committee's meeting on 27 May 2020 it was reported that the coronavirus pandemic was having far reaching effects across the world, some of which would continue for a number of years. The current situation was unparalleled and there were a significant number of factors which had had an impact on the proposed Audit Services Plan for 2020-21 including:

- Timing of Audit work;
- Additional, unplanned work;
- Potential impact of frauds, scams and errors;
- Home working and social distancing;
- Access to records;
- Access to premises;
- Return to business as usual.

The impact of these restrictions on the Audit Services Plan had been identified, quantified and included in the progress report to Audit Committee and the Assistant Director of Finance (Audit) expanded on how each factor listed above had affected the work of the Unit. 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. Six months had now elapsed since the start of lockdown and it was still not possible to determine if, how and when the Council's services would return to normal.

The considerable and continuing pressures placed on the Unit's staffing resources had been reported to Audit Committee on a regular basis. It was positive to be able to report that, with the exception of a vacant Senior Auditor post, all other posts were currently occupied. In respect of the Senior Auditor post, an offer had been made and accepted by a candidate who later withdrew when their contract was issued. It was intended to advertise and recruit to this post shortly. In addition, the Unit's levels of sickness absence had remained higher than estimated and whilst staff attendance continued to be managed in accordance with the Council's Policies, this situation had also had an impact on available days to deliver the Audit Plan.

Members of the Committee thanked the Assistant Director of Finance (Audit) and his team for their continued excellent work particularly during this most difficult period.

RESOLVED that the Committee note the information on progress to date against the approved Audit Plan.

34/30 **NATIONAL FRAUD INITIATIVE** Members were informed that the 2018-2019 National Fraud Initiative (NFI) exercise had now come to a close. This latest national data matching exercise had enabled participating organisations within the UK to prevent and detect instances of fraud and error totalling £244.7 million between 1 April 2018 and 4 April 2020. This brought the cumulative outcome to a total value of £1.93 billion since the inception of NFI in 1996 as detailed in the latest NFI report, which was attached at Appendix 1 to the report.

The 2018-2019 NFI data matching exercise had resulted in 38 distinct reports being made available to the Council for investigation. At the end of the

exercise Audit Services had reported the identification of 60 instances requiring financial recovery or adjustment totalling £240,391.59. A summary of the instances where investigation had resulted in a financial outcome were detailed in the report.

The Council had now received the Cabinet Office's formal request to participate in NFI 2020-21; relevant data must be extracted from systems as at 30 September 2020 and submitted between 9 October and 1 December 2020.

The Council was required to submit the following datasets to the Cabinet Office for the main NFI 2020-21 exercise and formal confirmation was received on 13 August 2020:

- Payroll;
- Pensions;
- Deferred Pensions;
- Creditors History;
- Creditor Standing;
- Blue Badge Parking Permit (this data submission would be made directly to the Cabinet Office from the Blue Badge Improvement Service on behalf of the Council);
- Concessionary Travel Pass (this data submission would be made directly to the Cabinet Office from Applied Card Technologies on behalf of the Council).

The results of the matching exercise arising from the Council's data being submitted to the Cabinet Office in October 2020 would be made available for investigation from 28 January 2021. As in previous years reports would be brought to future meetings of the Audit Committee to provide Members with updates on progress regarding NFI 2020-21.

RESOLVED that the Committee notes (1) the progress made by the Council in respect of the NFI 2018-19 exercise; and

(2) the receipt of the request that the Council participates in NFI 2020-21.

35/20 **EXTERNAL AUDIT – UPDATE REPORT** John Pressley and Mark SurrIDGE from Mazars attended the meeting to provide Members with an update on their audit work.

Mr Pressley highlighted a few aspects for Members' attention:

- The deadline for the publication of the audited accounts had moved to 30 November 2020 due to the Covid-19 pandemic. Their work was substantially underway and would be completed in October, allowing an opinion to be given in early November;

- It was highlighted that there was a possibility of a statutory override relating to the Dedicated Schools Grant which would have implications on the reserves position;
- Due to the additional work relating to issues arising from the effect of Covid-19, there would be an additional audit fee pressure.

Mr Surridge highlighted national issues that would have implications on the audit of accounts:

- Guidance had been issued which had indicated that valuers were likely to conclude that there was an unusual 'emphasis of matters' relating to how Covid-19 had impacted on the valuation of land and buildings. An audit opinion would include reference to this with a disclosure reflection appearing in the financial statements. This was not specific to Derbyshire but was sector wide;
- A publication entitled the 'Results of the Redman Review' was highlighted. This paper would be going before Ministers later this year and the document would highlight the effectiveness of audit committees and enhance their role. If any new challenges came out of the review, training for Members' would follow;
- The Finance Team were thanked for their co-operation and support during this time;

On behalf of the Committee, the Chairman thanked Mr Pressley and Mr Surridge for their update.

RESOLVED that the progress report be noted.