

**MINUTES** of a meeting of the **AUDIT COMMITTEE** held on 8 December 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 M Surridge (representing Mazars)

Apologies for absence were received on behalf of J Pressley (Mazars)

**Declarations of Interest**

There were no declarations of interest

**42/20** **MINUTES RESOLVED** that the minutes of the meeting held on 24 November 2020 be confirmed as a correct record.

**43/20** **ANNUAL STRATEGIC RISK REGISTER REVIEW** The Director of Finance & ICT updated Members on the Strategic Risk Register and Covid-19 Risk Register.

The Strategic Risk Register had been considered by Corporate Management Team on 1 December 2020 in order to allocate the identified risks to specific risk owners. Consideration would be given on how to insert controls into the document from the Departmental Risk Registers. The Strategic Risk Register was contained in Appendix A to the report, whilst Appendix B summarised the changes to the Strategic and Departmental Risk Registers.

At the meeting of Corporate Management Team on 1 December 2020, it was agreed that each Executive Director would attend a meeting of the Audit Committee to explain the risks and justify the mitigations within their area. The Corporate Management Team also agreed to review the Risk Register on a quarterly basis.

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 would resume in the coming months co-ordinated by the new Senior Risk Officer, who was returning to post the week commencing 7 December 2020 following their secondment to the PPE hub.

Upon finalisation of these details, the Strategic Risk Register would be linked to the Council's performance management system, APEX, to allow for live risk reporting. This would provide further assurance that risks were being actively managed within the Council and would also link into performance and financial monitoring.

The Risk & Insurance Manager informed Members of two new risks that were noted on the Departmental Risk Registers which would feed into the Strategic Risk of maintenance of assets. The first risk related to hot works associated with schools and the insurance implications. Work was being undertaken with the Property Team, the Risk & Insurance Manager and the County Council's insurers to review the actions that would be required to complete the work. Members enquired what the implications would be regarding the ability to obtain insurance. The Risk & Insurance Manager informed Members that the implications would be significant, however, work was being undertaken with Property Services to review the mitigations and the Action Plan to follow up the recommendations made to them. The action taken should satisfy the insurers.

The Risk & Insurance Manager brought to Members' attention the risk of the financial viability of Concertus and Vertas as a Joint Venture Partner for the County Council. The Risk Score of 25 would be reduced to 6 due to work undertaken by Property Services.

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 and a summary was provided. The Director of Finance & ICT provided the Committee with assurances that the Council had robust measures in place to deal with any future pandemic, which included lessons learned from earlier in the year. Members of the Committee wished to place on record their thanks to all officers for their continued commitment during these difficult times.

The Chairman thanked the Director of Finance & ICT and the Risk & Insurance Manager for their update.

**RESOLVED** to note (1) the Strategic Risk Register; and

(2) the Covid-19 Risk Register

**44/20      TREASURY MANAGEMENT ANNUAL REPORT 2019-20**

Treasury management at the Council was conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which required the Council to approve a Treasury Management Strategy before the

start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. This report fulfilled the Council's obligation under the CIPFA Code to produce a Treasury Management Annual Report.

The Council's Treasury Management Strategy for 2019-20 had been approved by Council on 6 February 2019, as part of the Capital Programme Approvals, Treasury Management and Capital Strategies Report. The Council had borrowed and invested substantial sums of money and was therefore potentially exposed to financial risks, including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk was therefore central to the Council's Treasury Management Strategy.

The Director of Finance & ICT reported that all treasury management activities undertaken during 2019-20 complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy. Compliance with the authorised limit and operational boundary for external debt and compliance with specific investment limits was highlighted.

Members were pleased to note that the Council had achieved its 2019-20 investment target and continued to exceed the Other Counties Benchmark, which was a credit to the finance team.

**RESOLVED** that the Committee notes the Treasury Management Annual Report 2019-20 and notes the Council's compliance with the prudential indicators set by Council for 2019-20, in accordance with the terms of the Treasury Management in the Public Services: Code of Practice and Cross-Sectorial Guidance Notes 2017.

**45/20**      **CIPFA FINANCIAL MANAGEMENT CODE** The Chartered Institute of Public Finance and Accountancy (CIPFA) had published The Financial Management Code (FM Code) in October 2019. The FM Code provided guidance for good and sustainable financial management in local authorities, giving assurance that authorities were managing resources effectively.

The FM Code required authorities to demonstrate that the processes they had in place satisfied the principles of good financial management, which was an essential part of ensuring that public sector finances were sustainable. The FM Code identified risks to financial sustainability and introduced a framework of assurance. This framework was built on existing successful practices and sets explicit standards of financial management. Complying with the standards set out in the FM Code was the collective responsibility of elected members, the chief finance officer and their professional colleagues in the leadership team. Complying with the FM Code would help strengthen the framework that surrounded financial decision making.

The FM Code builds on elements of other CIPFA codes, such as The Prudential Code for Capital Finance, the Treasury Management in the Public Sector Code of Practice and the Code of Practice on Local Authority Accounting in the United Kingdom. By following the essential aspects of the FM Code, local authorities were providing evidence to show they were meeting important legislative requirements. The first full year of compliance would be 2021-22. This recognised that organisations would require time to reflect on the contents of the FM Code and allowed them to use the 2020-21 financial year to demonstrate how they were working towards compliance.

The FM Code had established an approach based on six principles of good financial management:

- Organisational leadership
- Accountability
- Transparency
- Professional standards
- Assurance
- Long-term sustainability

Explicit standards of financial management were also set out by the FM Code. These were the minimum standards which had to be complied with in order for the Council to demonstrate its compliance with the FM Code. The standards articulate the practical application of the principles of financial management based on the requirements of primary legislation, associated CIPFA codes and guidance on professional codes of practice and ethics. Whilst compliance with the standards was mandatory, the FM Code did not prescribe how they should be achieved. The standards were summarised in Appendix One to the report.

The significant areas where further work was required to document how the Council was compliant with the FM Code related to governance and financial management style. Members sought assurance and asked what steps were being taken to improve this. The Director of Finance & ICT highlighted the work that was being carried out internally, which included regular meetings between the statutory officers of the Council to consider issues which could influence the governance framework. These issues would then be highlighted to the Governance Group or the Audit Committee. The Director of Finance & ICT reported that the Governance Group would have a role to play in ensuring that governance and financial resilience was being addressed.

An annual report detailing issues of compliance with the FM Code will be taken to Full Council alongside the Statement of Accounts in late Autumn each year, commencing in 2022, following the first full financial year of the FM Code's application. This Full Council meeting would also include a presentation by the

external auditor on the accounts and their value for money opinion, or its replacement.

The FM Code required financial resilience and Members asked what the risks were to the Council on attaining an unqualified value for money opinion.

Mr Surridge from Mazars reported that the new value for money conclusion was more broad ranging and he would circulate a briefing note on this issue to Members of the Committee for discussion at a future meeting.

**RESOLVED** that the Committee notes this overview of the FM Code and the progress made in identifying and recording the Council's current level of compliance and also notes details of the areas where compliance has been assessed as particularly strong, where further work was required to document compliance, or where it was acknowledged that compliance was weaker, with a need for improvement and action required.

**46/30**      **AUDIT SERVICES UNIT PROGRESS AGAINST AUDIT PLAN 2020-21** Members were informed of progress against the approved Audit Plan for 2020-21 as at 30 November 2020.

At the last meeting of the Audit Committee on 24 November 2020 Members had received a detailed report providing an update on progress against the Audit Services Plan for the seven months to 31 October 2020. That report also set out those factors which may impact on Audit work due to the pandemic, and the impact of vacancies and sickness on Audit Services' resources.

Members were aware that the delivery of Audit work was routinely monitored on a weekly basis by Senior Audit Management and it was essential that the Audit Services Plan can continue to respond to changing and emerging threats to the Council's governance, control and risk management framework.

The current situation was unparalleled and although the country was emerging from a second lockdown it remained unclear when the Council's services would return to normal. The Assistant Director of Finance (Audit) had undertaken a detailed review of the Audit Services Plan, including the status of individual projects identified, and forecast potential, available resources to 31 March 2021 and this was attached at Appendix 1 to the report.

Members of the Committee were informed of the status of the approved Plan, work completed, projects to be scheduled during the remainder of the financial year and those which Audit would be unable to undertake due to the impact of coronavirus.

Members would also recall that at the last meeting of the Audit Committee the detailed progress report had identified work undertaken on projects not included in the original Audit Services Plan totalling 449 days as at 31 October 2020. This covered a wide range of activity and would contribute to the assurance which can be drawn on the Council's system of governance, risk management and control.

Further detailed reports showing progress against the Audit Services Plan would be brought to future meetings of the Audit Committee in order that Members were aware of how Audit resources have been deployed.

The Chairman acknowledged that this had been a very difficult year and the Committee appreciated the flexibility of the Unit in the work that had been carried out

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

**47/20 ANNUAL REVIEW OF THE COUNTY COUNCIL'S REGULATORY FRAMEWORK**

The Assistant Director of Finance (Audit) updated Members on the continued effectiveness of the Council's Constitution, Financial Regulations and Standing Orders relating to Contracts, Anti-Fraud and Anti-Corruption Strategy, Fraud Response Plan, Whistleblowing Policy and Codes of Conduct for Members and Employees. Members had previously decided that officers should provide an annual report on:-

- the continued relevance of these documents;
- the extent of any noted non-compliance with the requirements detailed which had been disclosed during the year;
- the need for any potential review or amendment of their contents; and
- those measures taken to ensure that the requirements contained within these regulations were made known to staff.

The Governance Group was chaired by the Managing Executive Director of Commissioning, Communities and Policy and was comprised of the Director of Finance & ICT, Director of Legal and Democratic Services, Director of Organisation Development and Policy, Assistant Director of Finance (Audit) and a Service/Assistant Director from each Department. The Group had two main purposes:-

- to promote and enhance a robust governance and assurance framework which supported the global functions of Derbyshire County Council and the continuous development of the Council's Annual Governance Statement;
- to support the work of the Council's Audit Committee and the Governance, Ethics and Standards Committee.

The previous Director of Legal and Democratic Services had undertaken a significant review and refresh of the Constitution which was approved by Council on 15 May 2019. Similarly Financial Regulations and Standing Orders relating to Contracts had been reviewed, refreshed and approved by Council on 6 February 2019.

The Anti-Fraud and Anti-Corruption Strategy and Fraud Response Plan had been reviewed. The review of the Whistleblowing Policy was currently underway and Codes of Conduct for Members and Employees required review, which will be undertaken as part of the work scheduled for the Governance Group. Any revisions to the Code of Conduct for Members was the responsibility of Council, oversight of the Whistleblowing Policy was the responsibility of the Governance, Ethics and Standards Committee, whilst the Code of Conduct for Employees was the responsibility of the Appointments and Conditions of Service Committee.

These key documents underpinned the Council's governance framework and compliance would continue to be assessed by Audit Services as part of their work.

**RESOLVED** that the Committee notes the current status of, and arrangements for the review of those key policies underpinning the Council's governance framework.

**48/20**      **REDMOND REVIEW** The Committee were provided with an overview of the report on the Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting, known as the 'Redmond Review'.

In June 2019 Sir Tony Redmond was asked by the then Secretary of State for the Ministry of Housing, Communities and Local Government (MHCLG) to undertake an independent review of the effectiveness of local audit and the transparency of local authority financial reporting – The Redmond Review. The Review also considered how local authorities were accountable to service users and taxpayers, how auditors were accountable for the quality of their work and how easy was it for those same individuals to understand how their local authority had performed and what assurance they could take from external audit work. It encompassed not only principal local authorities but also Police and Crime Commissioners, Fire and Rescue Authorities and Parish Councils.

In summary, the outcome of the Review was designed to deliver a new framework for effective local audit and an annual financial statement, which enabled all stakeholders to hold local authorities to account for their performance, together with a robust and effective audit reporting regime. The Review report noted that aside from the additional costs arising from a fee

increase, the resource implications of the new regulatory body would amount to approximately £5m per annum after taking into account the amount related to staff subject to transfer under TUPE arrangements.

A complete list of the Recommendations from the Review was included at Appendix One to the report, alongside comments, where relevant, on the Council's position. Implementation of the Review recommendations would, in part, require regulatory or legislative change but the Review report noted that many of the issues identified required urgent attention, given the current concerns about local audit demonstrated in the Review.

The Council has commenced a dialogue with its external auditors to discuss the findings of the Review.

Members of the Committee welcomed the Review and the recommendations which would provide the opportunity for improvement. Members of the Committee asked questions on the merits of producing simplified accounts, along with the role of the proposed independent member and what benefits the authority would get from the proposed increased external auditor fees?

The Director of Finance & ICT explained the benefits of producing simplified accounts and in particular making them easier to read for the general public. A document similar to the County Council's council tax leaflet would be a way forward.

The appointment of an independent member would be endorsed by the Council following a recruitment process. The role of the independent member would be defined and the criteria developed. They would be expected to attend meetings and have suitable experience to be able to provide guidance to Members.

Mr Surridge referred to the proposed increase in fees and acknowledged that the work now required on the financial statements had changed significantly from when the external audit contract had begun. Also, due to the introduction of the new value for money code, this too would result in additional work. However, it was expected to result in them delivering a quality audit opinion.

**RESOLVED** that the Committee notes the overview of the Redmond Review and the recommendations arising from it, as set out in the associated report.

**49/20**      **ANTI-MONEY LAUNDERING POLICY** The Council's Anti-Money Laundering Policy was most recently presented to the Audit Committee at its meeting on 10 December 2019, following a review of the Policy in November



2019. Following a further review of the Policy in October 2020, the following changes had been made:

- reference to UK legislation and regulations on money laundering had been updated to refer to The Money Laundering and Terrorist Financing (Amendment) Regulations 2019, which came into force on 10 January 2020 and The Money Laundering and Terrorist Financing (Amendment) (EU Exit) Regulations 2020, which comes into force in part on 6 April 2021, 10 March 2022 or Implementation Period completion day (31 December 2020), the ending of the 11 month period from 31 January 2020 during which the UK continues to be subject to EU rules, and otherwise on 6 October 2020 (as 21 days after the day on which they were laid). No changes were required to the Council's Anti-Money Laundering Policy, other than to update the legislation reference.
- reduction in the high value receipts cash limit, from £2,500 as a matter of course and £10,000 by exception, to £2,500 for each transaction in all cases (decision previously made and included on invoices).

The Policy, which took account of the Council's exposure to money laundering, along with guidance notes and supporting documentation, was attached in the Appendix to the report.

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

**50/20**      **EXTERNAL AUDIT – UPDATE REPORT** Mark SurrIDGE from Mazars updated the Committee on the situation regarding the accounts. Information was still required relating to the pension fund audit and it was anticipated that they would issue an opinion imminently.