

Time Commenced: 11.00am

Time Ended: 2.15pm

AUDIT AND ACCOUNTS COMMITTEE

20 March 2018

Present: Councillor Hezelgrave (Chair)
Councillors Ashburner, Care, Eldret, Grimadell, Jackson, Turner,
Willoughby and Winter

In attendance: Richard Boneham – Head of Audit Partnership
Bernard Fenton – Head of Customer Management
Stephen Clark and Helen Henshaw – Ernst and Young LLP
Jacinta Fru – Audit Manager
Ranjit Gill – Principal Auditor
Matt Hardwick – Zurich Municipal
Wendy Johnson – Head of Occupational Health, Health and Food
Safety, Attendance, Wellbeing and Markets
Steven Mason – Democratic Services Officer
John Massey – Head of Benefits and Exchequer Services
Toni Nash – Head of Finance – Organisation and Governance
Lynn Parkin – Principal Auditor

70/17 Apologies for Absence

Apologies were received from Councillor Roulstone.

71/17 Late Items

There were no late items received.

72/17 Declarations of Interest

There were no declarations of interest.

73/17 Minutes of the meeting held on 13 February 2018

The minutes of the meeting held on 13 February 2018 were agreed as a correct record.

74/17 Internal Audit Plan 2018/19 and Progress Report 2017/18

The Committee received a report of the Interim Strategic Director of Corporate Resources on Internal Audit Plan 2018/19 and Progress Report 2017/18.

It was reported that Internal Audit had developed a risk based Internal Audit Work Plan which incorporated sufficient work to enable it to provide an opinion on the adequacy of the Council's overall control environment. Members noted that the audit work planned for 2018/19 was outlined at Appendix 1 of the report and performance against the Audit Plan 2017/18 was outlined at Appendix 2.

Firstly, Members considered the Internal Audit Plan for 2018/19. It was reported that the aim of the plan was to provide Members and senior management with independent assurance on the organisation's overall control environment. Members considered individual risk ratings contained within the plan. It was agreed that Internal Audit should have full access to up-to-date risk registers.

Members then considered the Internal Audit Progress Report covering the period April 2017 to February 2018. It was noted that the progress report was intended to provide members with an overview of the output from Internal audit assurance work and the implementation status of all agreed actions to address the control weaknesses highlighted by audit recommendations.

Members noted the proposed plan in relation to partnership development, including effectiveness of the relationship within the Council, the CMAP change programme and staff development.

Members were updated on assignments completed during the period 1 January 2018 to 23 February 2018.

Members considered original action dates exceeded by over 12 months. It was agreed that a mechanism should be put in place to report to COG instances of revised action dates not met and that relevant Cabinet Members should be briefed, for information. Members also felt that Internal Audit should revisit the revised action dates that had not been met.

The Head of Customer management attended and provided an update on outstanding actions relating to Registrars. Members noted that the outstanding actions had been completed.

The Head of Occupational Health, Health and Food Safety, Attendance, Wellbeing and Markets attended and provided an update on the action relating to Markets. Members noted that this related to there being no approved Council policy for offering concessions on rental charges to market stall traders. It was reported that the action had been put on hold due to work being carried out in the Guildhall. Members agreed that a draft policy should be brought to the September meeting of the Audit and Accounts Committee.

Resolved:

1. **to note the report;**
2. **to agree that Internal Audit should have full access to up-to-date risk registers;**
3. **to agree that a mechanism should be put in place to report to COG instances of revised action dates not met and that relevant Cabinet Members should be briefed, for information; and**
4. **to agree that a draft policy for offering concessions on rental charges to market stall traders should be brought to the September meeting of the Audit and Accounts Committee.**

75/17 Section 24 Recommendations

The Committee received a report of the Interim Strategic Director of Corporate Resources on EY Section 24 Report – Action Plan Update. The report was presented by the Head of Finance – Organisation and Governance.

Members were provided with an update in relation to resolving the matters raised within the Section 24 Recommendations issued by EY in July 2017.

It was noted that the Section 24 Update had been reviewed and updated with appropriate actions and the detail was outlined in Appendix 2 of the report.

Members discussed the Section 24 Recommendations Action Plan. It was noted that, going forward, any outstanding actions would ultimately be brought within the Corporate Improvement Plan.

Resolved to note the progress made, outlined in Appendix 2 of the report.

76/17 EY – Derby City Council Audit Planning Report

The Committee received a report of the External Auditor on External Audit Plan 2017/18. The report was presented by Stephen Clark and Helen Henshaw – Ernst and Young LLP (EY).

It was reported that the External Audit Plan set out how EY intended to carry out its responsibilities as auditor. It was also reported that the purpose of the plan was to provide the Audit and Accounts Committee with a basis to review the external auditors proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

Members noted that the purpose of the plan was also to ensure that EYs audit was aligned with the Committee's service expectations.

Members discussed the move to open housing rent system in Derby Homes and noted that this had been identified as a significant risk to the financial statement audit.

In relation to working with partners and other third parties to effectively deliver strategic priorities, it was reported that EY had attended all Audit and Accounts Committee meetings held throughout the 2016-17 reporting period. It was also reported that in EY's view, the reporting to the Committee by internal audit was superficial, and the challenge provided by the Committee to the matters raised by internal audit was often weak. Members noted that EY had not seen evidence of officers being held to account for issues highlighted in internal audit reports but not addressed in a timely manner, nor evidence of challenge where risks were considered 'acceptable' by Officers.

In relation to the absence of a corporate risk strategy and risk register, it was reported that there was no corporate risk strategy in place that covered 2016/17. Members noted that the draft strategic risk register went to Chief Officer Group in November 2015, as a working copy for them to comment on and it was agreed that a clearer definition of the risk appetite and what would and would not be tolerated was needed.

In relation to the valuation of land and buildings, it was reported that the fair value of Property, Plant and Equipment (PPE) represented significant balances in the Council's accounts and were subject to valuation changes, impairment reviews and depreciation charges. It was noted that management was required to make material judgmental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Members were updated with the evaluation work that EY would carry out in relation to this risk.

Resolved to approve the External Audit Plan for the 2017/18 audit.

77/17 Effectiveness of the Audit and Accounts Committee – Self Assessment Questionnaire

The Committee received a report of the Chair of the audit and Accounts Committee on Effectiveness of the Audit and Accounts Committee – Self Assessment Questionnaire. The report was presented by the Head of Audit Partnership.

Members noted that the report outlined the issues raised by Members who completed the recent self-assessment questionnaire to ascertain the effectiveness of the Audit and Accounts Committee.

It was reported that there were a number of instances where the statement/question in the self-assessment, demonstrated a potential lack of awareness of the issue being explored. It was also reported that the following were areas that needed to be covered in the induction training for Members of the Committee at the start of each Municipal Year:

- Assessing the meaningfulness of the Annual Governance Statement

- How the authority assesses its risk
- Annual Accounts - The committee's role in the consideration and/or approval of the annual accounts and the procedures for preparing them
- Reviewing management's letter of representation
- Internal audit work and how it addresses the Council's significant risks
- Co-operation between the internal and external auditors
- Obtaining the level of information that the Committee wishes to receive from internal audit
- Gaining awareness of any significant problems external audit faces in completing its work.
- Producing the Committee's annual work programme

It was noted that one Member had made the suggestion that an Audit and Accounts Committee Members manual/handbook should be produced that contained all relevant information that each Member needed to fulfil their role effectively. Members agreed that this should be done.

Members considered the proposed action plan at Appendix 2 and put forward a number of amendments and matters for further consideration.

Resolved:

- 1. to agree the proposed actions contained within Appendix 2 of the report, with amendments as discussed, to improve effectiveness that are detailed in it; and**
- 2. to agree that officers should draft a handbook for Audit and Accounts Committee Members which includes essential information to enable them to effectively carry out their role as a Member of the Committee.**

78/17 Appointment of Independent Persons to the Audit & Accounts Committee

The Committee received a report of the Interim Strategic Director of Corporate Resources on Appointment of Independent Persons to the Audit & Accounts Committee. The report was presented by the Head of Audit Partnership.

It was noted that the report sought the agreement of the Committee to ask Council to approve the appointment of 2 independent members to the Audit and Accounts Committee.

It was reported that having independent members on Local Authority Audit Committees had proven to add value and enhance the reputation of the Committee from a good governance and independence perspective, for those Councils who had adopted this approach. It was also reported that this practice was also encouraged by the Chartered Institute of Public Finance and Accountancy (CIPFA) as the main accountancy body for

local government.

Members considered the role description and person specification and put forward a number of amendments.

Resolved:

- 1. to request that Full Council approve a change to the membership of the Audit and Accounts Committee to include the appointment of two independent persons; and**
- 2. to note that an annual allowance of £500 may be payable to the Independent Members, subject to the approval of Council following a recommendation from the Independent Remuneration Panel.**

79/17 Risk Management Strategy Handbook

The Committee received a report of the Interim Strategic Director of Corporate Resources on Risk Management Strategy and Handbook. The report was presented by Matt Hardwick – Zurich Municipal.

Members noted that the report sought the Committee's approval of the revised Risk Management Strategy and Risk Management Handbook.

It was reported that the revised Strategy and handbook were key documents of the Council's risk management framework and processes.

It was noted that the Council had commissioned Zurich Risk Engineering Strategic Consultancy in November 2017 to fulfil the role of the authorities Risk Management function on a secondment basis until March 2018. It was also noted that the main aspects of the role were to review and update the existing Risk Management Strategy and Risk Management Handbook; review the existing identified strategic risks; review identified solutions to existing risk management process to ensure greater emphasis and embedding of risk reporting takes places across the authority and provide training to senior offices, members and directorate leads.

Members felt that Council Committees and the Cabinet Member with the relevant portfolio should be built into the strategy.

Members agreed that training on the strategy and handbook should be provided to relevant employees.

Resolved:

- 1. to approve the revised Risk Management Strategy;**
- 2. to approve the revised Risk Management Handbook; and**
- 3. to agree that training on the Risk Management Strategy and Risk**

Management Handbook should be provided to relevant employees.

80/17 Exclude Press and Public

Resolved that under Section 100A(4) of the Local Government Act 1972 the public be excluded from the meeting during discussion of the following item of business on the grounds that it involved the likely disclosure of exempt information as defined in Paragraphs 3 & 7 of Part 1 of Schedule 12A of the Act and that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

81/17 Risk Based Verification Policy from 1 April 2018

The Committee received a report of the Interim Strategic Director of Corporate Resources on Risk Based Verification Policy from 1 April 2018. The report was presented by the Head of Benefits and Exchequer Services.

It was agreed that the Risk Based Verification Policy should come before the Audit and Accounts Committee for approval on an annual basis.

Resolved:

- 1. to approve the Council's Risk Based Verification Policy from 1 April 2018;**
- 2. to delegate to the Section 151 Officer, in consultation with the Chair, authority to sign off necessary updates to the policy arising through technical or operational software changes, as set out in paragraphs 4.5 – 4.6 of the report; and**
- 3. to agree that the Risk Based Verification Policy should come before the Audit and Accounts Committee for approval on an annual basis.**

MINUTES END