

ITEM 04

Time Commenced: 10.01am

Time Ended: 11.42am

AUDIT AND GOVERNANCE COMMITTEE

16 June 2021

Present: Councillor West (Chair)
Councillors Willoughby, Bettany, Care, Hussain, T Pearce,
Grimadell, Jennings and Pegg
Co-opted Member Philip Sunderland

In attendance: Richard Boneham – Head of Internal Audit
Simon Riley – Strategic Director of Corporate Resources
and S151 Officer
Helen Henshaw – Ernst and Young

01/21 Apologies for Absence

There were no apologies.

02/21 Late Items

There were no late items.

03/21 Declarations of Interest

There were no declarations of interest.

04/21 Minutes of the meeting held on 24 March 2021

The minutes of the meeting held on 24 March 2021 were agreed as a correct record.

05/21 Audit and Governance Committee – Outstanding Resolutions

The Committee received a report of the Strategic Director of Corporate Resources on Audit and Accounts Committee – Outstanding Resolutions.

Members noted that there had not been an update on the Coroners Service section at Appendix 1 since January 2021. It was noted that the previous Chair of the Audit and Accounts Committee had recently attended a meeting where they had received assurances that the correct assurance mechanisms and route-cause analysis had been conducted in relation to the Assembly Rooms. It was

agreed to remove the Assembly Rooms section from Appendix 1 of this report.

It was noted that the Committee handbook was being drafted and that it was hoped that this would be completed by 23rd July 2021. It was reported that Sharepoint would host the handbook once completed.

The Chair reminded members that the Audit and Governance Committee was an apolitical committee. It was noted that training sessions would be held a week before each committee meeting.

Resolved to note the report.

06/21 Audit and Governance Committee – Draft Work Programme 2021/22

The Committee received a report of the Strategic Director of Corporate Resources on Audit and Governance Committee – Draft Work Programme 2021/22.

Members considered the updated work programme for the Committee for the 2021/22 Municipal Year.

It was agreed that an item on the Committee's Terms of Reference would be included in the work programme and would take place before the November meeting. It was agreed that a working group would be set up to explore the Committee's Terms of Reference and would be comprised of the following members: Philip Sunderland, Cllr West, Cllr Willoughby, Cllr Bettany and Cllr Grimadell.

A Member questioned whether assurances could be given that the Final Statement of Accounts 2020/21 would be ready in time for the meeting on 29 September 2021. It was noted that due to a dependency on third party information this assurance could not be given. It was agreed that the Chair would be notified if officers became aware of any potential delays.

Resolved:

- 1. to agree the work programme for the Committee as set out in Appendix 1 with the addition of an item on the Committee's Terms of Reference.**
- 2. to set up a working group to examine the Committee's Terms of Reference.**

07/21 External Audit - Annual Audit Letter for the year ended 31 March 2020

The Committee received a report from Ernst and Young on Annual Audit Letter for the year ended 31 March 2020.

It was reported that the external auditor was required to issue an annual audit letter to the Council following completion of audit procedures for the year ended 31 March 2020. It was also reported that Ernst and Young had already reported the detailed findings from its audit work in its 2019/20 Audit Results Report that went before the Audit and Accounts Committee on 4 November 2020. It was noted that the Annual Audit Letter for the year ended 31 March 2020 also included the final close out of two matters: pension balances and the going concerns for Derby City Council.

It was reported that the following areas were considered of more significant risk to the Council and that these areas were also likely to be the focus of the 2021 Audit.

- Misstatements due to fraud or error – It was reported that the Audit did not identify any instances of management overriding controls.
- Risk of fraud in revenue and expenditure recognition – It was reported that there were no indicators that there had been transactions posted which suggested that management had manipulated expenditure/revenue. It was noted however that there were a couple of relatively minor issues relating to classification of transactions.
- Risk Valuation of land and buildings – It was reported that specialists had been engaged to value a sample of the Council's assets.

It was reported that the following areas were considered of lesser risk to the Council.

- Pension liability valuation – It was noted that there had been a £1m overstatement to the pension fund liability. It was noted that this was immaterial and that it had been agreed between EY and the S151 officer that this would not be adjusted in the final statement of accounts.
- PFI scheme – It was noted that no issues were identified.
- Grant income – It was noted that no issues were identified.

It was reported that the contract for EY to audit Derby City Council was sourced through a third organisation, Public Sector Audit Appointments Limited (PSAA) and that this organisation set the fee for audits.

It was noted that EY had incurred additional costs whilst conducting this audit

and believed that the additional costs amounted to approximately £64k. It was noted that the Council had agreed to pay £32k of these additional costs and that the remainder would be arbitrated on by PSAA.

A councillor stated that it was their belief that additional work incurred by EY had been a result of delays caused by EY. The Councillor questioned why the Council was therefore being asked to cover these additional fees. The Committee noted that the costs of EY changing the individual responsible for auditing the Council had not been included in the additional costs that were being sought by EY.

A councillor questioned whether it was likely that additional fees would be sought for the current year's audit. It was noted that the Council and EY were in discussions in order to avoid this as much as possible.

A member commented that it was important for the Council to prepare for the end of any PFI contracts by understanding the nature of any assets passed back to the Council. It was noted that the Council had a PFI reserve of approximately £28m and were taking professional advice where required.

Resolved to approve the Annual Audit Letter.

08/21 Audit and Accounts Committee Annual Report 2020/21

The Committee received a report of the Vice-chair of the Audit and Governance Committee on the Audit and Accounts Committee Annual Report 2020/21.

It was noted that every year the Council produced a short Annual Report that presented a summary of progress against agreed priorities from the last year. It was reported that this document was important in communicating the work that the Council delivers, its achievements and the challenges it has encountered.

A member suggested that the Committee's independent members should be thanked in the report's introduction. The Head of Internal Audit agreed to amend the report to include this.

A councillor queried the wording in the report which referred to the number of meetings per year. The Chair confirmed that this would be looked into.

Resolved to approve that the current Vice-Chair of Committee presents the annual report to Full Council.

09/21 Internal Audit Annual Report 2020/21 and Head of Internal Audit Opinion

The Committee received a report of the Strategic Director of Corporate Resources on Internal Audit Annual Report 2020-21 and Head of Internal Audit Opinion.

The report provided the Committee with the Annual Internal Audit Opinion as required by the Public Sector Internal Audit Standards, together with a summary of the work that the Council's Internal Audit Service had undertaken during 2020/21.

The report also provided information on the performance of the Internal Audit service in 2020/21 and an assessment of the conformance against the Public Sector Internal Auditing Standards.

It was noted that the Head of Internal Audit's professional opinion was that there is an adequate system of governance, risk and internal control. It was also noted however that there were reservations relating to information governance, project management and incomplete audits.

A councillor asked whether a metric could be provided to the Committee comparing the percentage of implementations completed on time with those not completed on time. The Head of Internal Audit agreed to discuss with the Chair and Vice-chair how this could be best presented.

A councillor questioned whether there was an escalation mechanism. The Head of Internal Audit confirmed that there was an escalation process and commented that this process would be enforced more strictly going forward.

A member commented that point 4.12 of the report should be reworded in relation to the stated target of 90%. The Head of Internal Audit agreed to look into this.

Resolved to note the Internal Audit Annual Report and Opinion for 2020/21.

10/21 A Review of the Effectiveness of Internal Audit

The Committee received a report of the Strategic Director of Corporate Resources on A Review of the Effectiveness of Internal Audit.

The Committee considered a report which was designed to give Members an overview of the effectiveness of Internal Audit, as required by the Accounts and Audit (England) Regulation 2011.

The findings of the review were highlighted in section 4 of the report and in the associated appendices and concluded that the Council had an effective internal

audit function.

It was reported that the Council's internal audit was delivered by the Central Midlands Audit Partnership. It was noted that the Council had a highly qualified internal audit section and that work was being undertaken to ensure that there was a succession plan in place.

The Strategic Director of Corporate Resources thanked the Head of Internal Audit and CMAP for their work, particularly during the pandemic.

A councillor questioned whether it would be possible for internal audit to take on colleagues from other teams; in order to provide the internal audit team with a more comprehensive understanding of how different teams functioned. The Strategic Director of Corporate Resources commented that most audits were not financial audits and stated that internal audit was moving away from hiring individuals from purely financial backgrounds. The Head of Internal Audit commented that internal audit was hiring an increasing number of colleagues from non-traditional audit backgrounds.

A member questioned whether the Committee would have an input into the review of the Audit Partnership. It was noted that the Committee Chair sat on the CMAP Board and that the Committee's views would be sought through a request for evidence, or through a meeting.

Resolved to note the report.

11/21 Internal Audit Plan 2021/22 – Quarter 2

The Committee received a report of the Strategic Director of Corporate Resources on Internal Audit Plan 2021/22 – Quarter 2.

It was noted that this report set out which areas would be audited during quarter 2 2021/22. It was reported that the Head of Internal Audit would be partnering with Corporate Resources and that the two group auditors would be partnering with Communities and Place and People Services.

A councillor commented that some of the items listed in Appendix 1 were vague. The Head of Internal Audit informed the Committee that the format of the table in Appendix 1 had been changed to include a column on 'assurance reason for audit' in order include more information where possible.

Members were invited to contact the Head of Internal Audit if they required extra information on any audits listed.

Resolved to consider and approve the Internal Audit Plan for Quarter 2 of 2021/22 at Appendix 1.

MINUTES END