

ITEM 4

Time Commenced: 11.00am

Time Ended: 13.04pm

AUDIT AND ACCOUNTS COMMITTEE

19 December 2017

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

In attendance: Janie Berry – Director of Governance and Monitoring Officer
Amanda Fletcher – Head of Finance – Communities and
Place
Jacinta Fru – Audit Manager
Ranjit Gill – Principal Auditor
Gemma Hadfield – Principal Accountant
Helen Henshaw and Steve Clark – Ernst and Young LLP
Steven Mason – Democratic Services Officer
Toni Nash – Head of Finance - Organisation and
Governance
Alison Parkin – Head of Finance – Children and Young
People
Lynn Parkin – Principal Auditor
Mark Taylor – Interim Director of Finance, Section 151
Officer
Paul Robinson – Chief Executive
Jayne Sowerby-Warrington – Head of Strategic Asset
Management and Estates
Yvonne Wilkinson – Head of Communications and
Consultation

46/17 Apologies for Absence

Apologies for absence were received from Councillor Care.

47/17 Late Items

There were no late items received.

48/17 Declarations of Interest

There were no declarations of interest.

49/17 Minutes of the meeting held on 28 November 2017

The minutes of the meeting held on 28 November 2017 were agreed as a correct record.

50/17 Internal Audit Annual Report 2016/17 and Annual Governance Statement 2016/17

The Committee received a report of the Audit Manager on Internal Audit Annual Report 2016-17.

It was reported that the Public Sector Requirement of Standard 2450 of the Public Sector Internal Audit Standards (PSIAS) required that the 'Chief Audit Executive' (in the case of Derby City Council the Audit Manager) must deliver an annual internal audit opinion and report that could be used by the Council to inform its Annual Governance Statement.

It was noted that the annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. It was also noted that the annual report must also include a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.

Members noted that the report set out the overall Audit Opinion together with a summary of the work that the Council's Internal Audit Service had undertaken during 2016-17. It was noted that the report also provided information on the performance of the Internal Audit service in 2016/17.

The Audit Manager reported that sufficient assurance work had been carried out to allow her to form a conclusion on the adequacy and effectiveness of Derby City Council's internal control environment. Members noted that based on the work undertaken during the year, in the Audit Managers opinion, Derby City Council's framework of governance, risk management and management control was inadequate. It was also noted that audit testing had demonstrated that controls were not working in practice across key areas and there was need for urgent remedial actions. It was reported that where weaknesses had been identified through internal audit review, internal audit had worked with management to agree appropriate corrective actions and a timescale for improvement.

Members noted that the Council's External Auditors issued a letter to the Secretary of State, notifying the department that the Council had been issued with recommendations pursuant to S24 of the Local Audit & Accountability Act 2014. It was reported that the letter dated 27 June 2017 noted that progress made by the Council to address significant control weaknesses highlighted by

them during 2016/17 was insufficient and required that an action plan be put in place and progress be monitored. It was noted that independent assessment of the action plan had begun.

There was discussion around the embedding of risk management. It was reported that training was being delivered to Elected Members.

It was noted that in their report to those charged with governance for 2015/16, the External Auditor observed that 'the Council has not worked effectively with CMAP to deliver a robust internal audit'. It was reported that while various steps had been implemented to secure improvement to the effectiveness of the relationship, due to pressure to deliver the financial statements for the two preceding years, efforts had faltered, with audit reviews on financial systems being constrained. It was noted that the situation was being reviewed with the support of the Head of Paid Service.

The Committee received a report of the Chief Executive on Annual Governance Statement 2016/17. The report was presented by the Director of Governance.

It was reported that the production and publication of an Annual Governance Statement was a statutory requirement. It was also reported that the final version of the Annual Governance Statement 2015/2016 was approved by the Audit and Accounts Committee in September 2017 and included details pertinent to the Annual Governance Statement 2016/2017 and had therefore informed it.

It was noted that the 2016/17 Statement reflected the ongoing work within the Council to improve its governance framework and covered the period from April 2017 to December 2017.

Resolved:

- 1. to note the Internal Audit Annual Report 2016/17, as set out in Appendix 2 of that report;**
- 2. to note that the Annual Governance Statement 2015/2016 approved by the Audit and Accounts Committee in September 2017 includes details pertinent to the Annual Governance Statement 2016/2017; and**
- 3. to approve the Annual Governance Statement 2016/17 as detailed at Appendix 2 of that report.**

51/17 ISA Audit Letter for the year ended 31 March 2017

The Committee received a report of the External Auditor on ISA Audit Letter for the year ended 31 March 2017. The report was presented by Steve Clark and Helen Henshaw – Ernst and Young LLP.

It was reported that Derby City Council's Audit Results Report – Year ended 31 March 2017 had been circulated to Members of the Committee. The report provided Members with the external auditor's overall findings and audit opinion in respect of the 2016/17 financial year.

Members noted that subject to concluding the outstanding matters listed in the report, the External Auditors confirmed that they would issue an unqualified audit report on the financial statements in the form at section 3 of their report. It was noted that this was after the statutory deadline of 30 September 2017.

It was reported that the draft financial statements had not been adjusted for a misclassification error in respect of Assets Held for Sale. It was also reported that, technically, these assets must be being actively marketed to be so classified but at the year-end date a number had not been. It was noted, however, at the date of preparing the financial statements, all these properties were being actively marketed and as a result had been included in Assets Held for Resale in the balance sheet rather than as surplus assets. It was reported that the total value of these assets was £8.548m.

Members noted that the External Auditor had evaluated the work of the external valuers and that this work had highlighted two assets where the Council's external valuers had made errors in the valuation. It was reported that the total value of these errors was £4.9m and the Council had adjusted the financial statements.

It was noted that the External Auditor could not formally conclude the audit and issue an audit certificate until they had completed the work necessary to issue their assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. It was also noted that the External Auditors were satisfied that this work did not have a material effect on the financial statements or on their value for money conclusion.

The External Auditors addressed the Assessment of Control Environment. It was reported that the Council incurred expenditure through an outsourced payroll provider – EPM that supported 5 schools. It was reported that no internal audit work was currently being performed over the internal control environment, operating effectiveness and reporting at EPM by the Council nor had any service organisation auditors report been requested from EPM by the Council. It was noted that there was a risk that payroll processing by EPM was inaccurate, incorrect or incomplete. The External Auditor recommended that the Council should seek assurance over the robustness of controls at the outsourced provider and the schools to ensure amounts being included in the financial statements of the Authority were free from material misstatement. Members agreed an extra recommendation that internal audit should investigate this matter and report back to the Audit and Accounts Committee.

Members discussed the 'dysfunctional' relationship with internal audit. Members supported managements drive for internal audit to be fully supported. It was reported that a full review of internal audit was taking place and that this would include how the resource was to be used. Members noted that the results of the review would be reported back to the Audit and Accounts Committee.

Resolved:

- 1. to note the contents of the letter;**
- 2. to agree that internal audit should investigate the use of the outsourced payroll provider and report back to the Audit and Accounts Committee;**
- 3. to agree to support managements drive for internal audit to be fully supported; and**
- 4. to agree that the results of the full review of internal audit be reported back to a future meeting of the Audit and Accounts Committee.**

52/17 Audited Financial Statement for the year ended 31 March 2017

The Committee received a report of the Interim Director of Finance on Audited Financial Statement for the year ended 31 March 2017.

The Committee considered the final accounts in the light of the findings of the External Auditor.

The Interim Director of Finance updated Members on amendments to 'Adjustments for items that are investing or financing activities' and 'Cash Flow Statement – Investigating Activities' on pages 106 and 107 of the Final Statement of Accounts 2016-2017.

During consideration of the accounts, a Member of the Committee, Councillor Willoughby, stated that he had a number of questions in relation to the accounts. It was agreed that the questions be forwarded to the Interim Director of Finance after the meeting. It was also agreed that the questions and the responses to them be published as part of the business of the Audit and Accounts Committee.

Resolved:

- 1. to approve the audited Financial Statements for the year ended 31 March 2017; and**
- 2. to agree that the questions from Councillor Willoughby and the responses from the Interim Director of Finance be published as part of the business of the Audit and Accounts Committee.**

MINUTES END