

ITEM 4

Time Commenced: 10.00am

Adjourned: 11.50am

Reconvened: 12.05pm

Time Ended: 12.45pm

AUDIT AND ACCOUNTS COMMITTEE

19 September 2017

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

In attendance: Janie Berry – Director of Governance and Monitoring Officer
Helen Henshaw and Steve Clark – Ernst Young
Jody Shelton – Democratic Services Officer
Mark Taylor – Interim Director of Finance, Section 151 Officer
Paul Robinson – Chief Executive
Andy Smith – Strategic Director of People Service
Christine Durrant – Strategic Director of Communities and Place

15/17 Apologies for Absence

Apologies for absence were received from Councillor Winter.

16/17 Late Items

There were no late items received.

17/17 Declarations of Interest

There were no declarations of interest.

18/7 Minutes of the meetings held on 18 July and 10 August 2017

The minutes of the meetings held on 18 July and 10 August 2017 were agreed as a correct record. Members requested that all outstanding reports/agenda items as requested in previous meetings be added to the amended work programme.

19/17 Update on the Annual Governance Statement

The Committee received a report from the Director of Governance and Monitoring Officer providing an update on the Annual Governance Statement. It was noted that given the delays in the preparation of the 2015/16 Statement of Accounts, Members had received detailed updates at their previous meetings.

Members accepted it was no longer possible to update the Annual Governance Statement for the period of 2015/16, however it was agreed that the S24 Statutory issued by Ernst & Young in June 2017, did directly relate to the preparation of the 2015/16 Statement of Accounts and a update was included as an appendix to the report. Due to the timescale of the publication of the reports across the municipal years, Members requested that the Monitoring Officer make available paper copies in each group room.

The Monitoring Officer presented a further update in respect of progress against the Public Interest Report issued by Grant Thornton in June 2016, namely the administrative system for delivery of Taxi Licensing and on-going Code of Conduct related matters.

Resolved

- 1. To accept the Interim Annual Governance Statement presented to the Audit & Accounts Committee on 29 March 2017, together with the Update to the Annual Governance Statement as it appears at Appendix Two of this Report as the Annual Governance Statement for the year 2015 / 2016;**
- 2. To note that the said Annual Governance Statement also addresses a number of issues which have arisen during the 2016 / 2017 period given the passage of time and the delays in presenting the 2015 / 2016 Statement of Accounts.**

20/17 External Audit Results Report to those Charged with Governance 2015/16 (ISA 260)

The Committee received a report from Ernst & Young on the Audit Results report ISA (UK and Ireland) 260. It was noted that this report concluded any reporting in respect of the Councils 2015/2016 Statement of Accounts. Members were informed of the unqualified opinion on the Authorities financial statements and that the Council had not put in place proper arrangements to secure value for money in the use of resources. The Committee noted that the Council had received an adverse conclusion overall for the 2015/16 accounts. It was reported that unfortunately it was likely this would also be the case for 2016/17 accounts. Members accepted that their role would be to oversee the progress of the action plans and seek assurance from the Section 151 Officer, Ernst & Young and the internal audit team that robust procedures and controls were in place to deliver a set of accounts for 2017/18 that were free from any adverse comments.

The Committee were informed that in making this adverse conclusion the following areas were considered:

- Medium Term Financial Planning and Strategic Risk Management
- Completeness, Existence and Valuation of Property, Plant and Equipment (PPE)
- Governance Issues and Management of Major Projects
- Maintaining a sound system of internal control
- Working with third parties effectively to deliver strategic priorities.

The Committee raised concern about the 4 unqualified differences within the financial statements, Stephen Clark, Ernst & Young, reported that included within the report was the management rationale as to why these corrections had not been made. It was noted that these were not material to the audit opinion.

Members were informed that there were a number of audit differences identified which were corrected during the course of the work.

Members discussed the internal controls in place within the authority. It was noted that during the audit, Ernst & Young identified a number of observations and improvement recommendations in relation to management's financial processes and controls. Stephen Clark reported that the control issues identified across a number of areas of Finance and supporting functions, such as Estates, led to a number of errors identified in the financial statement in 2015/16.

The Committee discussed several concerns with respect to the record keeping and financial controls in place around the management and recording of cash balances. It was reported that the control framework was being reviewed to ensure that effective and timely reconciliation processes were in place. It was reported that if managers followed the Oracle processes and complied with financial accounting rules these errors should not have arose, this was being addressed with reinforced financial discipline.

Members were informed that going forward, sufficient resource would be made available to ensure that the estates team were effectively supported by external expertise, and that the current team had worked hard to support the revised valuation process.

The Committee expressed their thanks to all the teams for their work on the audit and in helping the Council to be in a better position.

Resolved to note the report.

21/17 Approval of the Statement of Accounts 2015/16 Subject to Audit

The Committee received a property of the Interim Director of Finance, Section 151 Officer, on the audited Statement of Accounts 2015/16. Members noted that the report reflected the changes arising from the review of valuation estimates used in determining the reported value of the Council's property assets.

The 151 Officer reported that the main change was the total value of the Council's property, plant and equipment assets, which had reduced from £1,498m to £1,150m. The Committee were informed that the accounts needed to reflect the costs associated with preparing valuation estimates and external audit costs. Members questioned whether the policies for measurement and valuations had been changed to address the revised valuation criteria for Council estates. It was reported that the policy was unchanged, but the methodology to estimate the values had been revised.

The Committee questioned the risk to the Council with the Teacher's and NHS Pension schemes. It was reported that the arrangements for these schemes were accounted for as if they were a defined contribution scheme and no liability for future payments of benefits was recognised. Members asked what action was being taken to address the risk of the deficit in the Derby Homes Pension liability. It was reported that the Pension Actuary assesses the liability triennially and adjusts the levels of contribution required to balance the fund. The Committee noted that most Derby Homes employees were ex-council so the liability sat with the Council.

Members raised concern that the cost of the auditors would be higher than budgeted due to the increased work conducted. It was reported that the invoice had not yet been received but provision had been created within the 2015/16 accounts funded from reserves.

Resolved to approve the accounts on behalf of the Council and to authorise the Chair of the Audit and Accounts Committee and the Interim Director of Finance to sign the accounts on behalf of the Council.

22/17 External Audit Plan Year Ending 21 March 2017

The Committee received a report from Ernst & Young on the external audit plan for year ending 31 March 2017. It was reported to the Committee how Ernst & Young intended to carry out their responsibility as an auditor. It was noted that the plan covered the work the auditors planned to perform to provide the Council with their audit opinion on whether the financial statements gave a true and fair view of the financial position and the conclusion of the Council's arrangements to secure economy, efficiency and effectiveness.

Members were informed when planning the audit there were several key inputs, of which when considering these inputs the audit was focused on the areas that mattered.

Resolved to note the report.

23/17 Update Progress to Resolve S. 24 Recommendations 2015/16

The Committee received a report from the Interim Director of Finance, Section 151 Officer, updating Members on the progress to resolve S24 recommendations 2015/16.

The Section 151 Officer reported that the action plan prepared and discussed at the August meeting of the Committee was on schedule and presented to Members as an updated version.

It was noted that there was one area of slippage in respect of the reconciliation between the SAM system (used by the Estates team) and the RAM system (used by the Finance team). Members were informed there was an alternative solution being considered to both streamline the management of asset valuations and reduce the reliance on the SAM system for the production of accounts.

A key requirement of the S24 Recommendations was to ensure audited financial statements were prepared for 2015/16 by 30 September 2017 and for 2016/17 by 31 December 2017. At the meeting the Committee adopted the audited accounts for 2015/16.

Detailed questions from Members, who were fully committed to ensuring that the S24 recommendations were dealt with efficiently, were submitted at the Committee meeting to the Section 151 Officer. As part of ensuring that all the action plan issues were addressed, a written response forming a report at the next meeting of the Audit and Accounts Committee would be provided by the Section 151 Officer.

Following this it was suggested that the Section 151 Officer provide an update report on the actions as they progressed, to Members at each future meeting of the Audit and Accounts Committee.

Resolved

- 1. to note the progress made in the delivery of the Action Plan;**
- 2. to receive a report setting out the written responses to Members submitted questions at the next meeting of the Committee;**
- 3. to receive a progress update from the Section 151 Officer on the Action Plan at all future meetings;**
- 4. to refer the update on the action plan of S24 recommendations to Council for information.**

24/17 Terms of Reference and Work Programme

Members considered the current terms of reference of the Committee and their work programme. It was noted that the terms of reference required updating, and the work programme was out of date, with many reports yet to be considered by the suggested date in the work programme.

The Committee suggested that a working group be set up to progress the update and ensure that the terms of reference covered all the required areas. It was noted by Members that additional dates would be required of the Committee to enable Members

to complete the required workload.

The Chair questioned whether alongside the terms of reference it would be useful to investigate as to whether it would be helpful to the Committee for the Financial Procedure Rules and the Contract Procedure Rules to be devolved to the Committee by Council, subject to constitutional amendments. The Director of Governance reported that the constitution was updated annually, but that further consideration of this proposal could be discussed at the proposed working group.

Resolved:

- 1. to set up a working group to consider the terms of reference, the proposed constitutional amendment and the revised work programme;**
- 2. to consider the addition of extra Committee meetings to the schedule.**

MINUTES END