

Time Commenced: 10.03am
Adjourned: 10.33am
Reconvened: 10.38am
Time Ended: 12.19pm

AUDIT AND GOVERNANCE COMMITTEE

3 November 2021

Present: Councillor West (Chair)
Councillors Bettany, Care, Grimadell, T Pearce

Co-opted Members Philip Sunderland and Stuart Green

In attendance: Richard Boneham – Head of Internal Audit
Simon Riley – Strategic Director of Corporate Resources
and S151 Officer
Hassan Rohimun – Ernst and Young
Vishal Savjani – Ernst and Young
Pete Shillcock – Group Accountant – Corporate Finance
Linda Spiby – Head of Procurement & Contracting
Tracey Thomas – Senior Corporate Fraud Investigator
Martin Shipley – Group Auditor
Hannah McDonald – Group Auditor

34/21 Apologies for Absence

Apologies were received for Councillors Willoughby, Jennings, Pegg and Hussain. Councillors Jennings, Pegg and Hussain were attending licensing training.

35/21 Late Items

The Chair introduced a late item on Public Sector Audit Appointments Limited (PSAA). It was noted that it was important for the Committee to consider PSAA at this meeting as the next Audit and Governance Committee meeting would not take place until 2022.

36/21 Declarations of Interest

There were no declarations of interest.

37/21 Minutes of the meeting held on 29 September 2021

The minutes of the meeting held on 29 September 2021 were agreed as a correct record. A councillor questioned whether all of the Committee's comments on the Annual Governance Statement had been reflected in the updated Annual Governance Statement. The Strategic Director of Corporate Resources confirmed that all comments had been included.

38/21 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.

In relation to the outstanding resolution from January 2021, it was noted that a small group had been formed to review the current policies/strategies. It was reported that the revised policies will be brought to the January 2022 Committee meeting.

It was noted that the Terms of Reference Working Group was reviewing the Terms of Reference and that any revisions will be brought to the January 2022 meeting for consideration by the Committee.

It was reported that the Chair had reviewed the handbook and that content would be tidied up and the handbook made available to all Committee members by 1st December 2021. It was noted that co-opted members would be able to access the handbook.

Resolved to note the report.

39/21 Updated Audit and Governance Committee Work Programme 2021-22

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

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

It was noted that the Final Statement of Accounts 2020/21 and the EY - ISA 260 - Report to those charged with governance were on the agenda for this meeting as they had not gone to the meeting on 29 September.

It was noted that the Risk Based Verification Policy would now go to the meeting on 24 March 2022.

Resolved to note the changes (shown in red) made to the work programme for the Committee as set out in Appendix 1.

40/21 Internal Audit Plan 2021/22 – Quarter 4

The Committee received a report of the Strategic Director of Corporate Resources on Internal Audit Plan 2021/22 – Quarter 4.

It was noted that this report set out which areas would be audited during quarter 4 2021/22. It was reported that Internal Audit would bring this report back to the Committee's meeting in January 2022 should any changes be made.

Resolved to consider and approve the Internal Audit Plan for Quarter 4 of 2021/22 at Appendix 1.

41/21 Internal Audit Progress Report

The Committee received a report of the Strategic Director of Corporate Resources on Internal Audit Progress Report.

It was noted that there were a number of brough forward audits. It was reported that the Business Continuity - Impact of Covid 19 audit was of concern. The Committee noted that the scope of this audit had been altered but the scope was now returning to its original form. It was reported that the Committee would be informed if this audit faced any further delays.

It was noted that the Section 106 Agreements 2020-21 audit had now been issued and that progress had been made on the Boundary Defence audit. It was reported that the Budget Management audit and the Payment Systems - Impact of Covid 19 audit had been sent out in draft.

It was noted that since the Committee last considered a progress report, six audits had been issued of which two had been given substantial assurance and two given reasonable assurance.

It was reported that the Head of Internal Audit had contacted the Strategic Director of Communities and Place regarding the CCTV and Bus Station recommendations. It was noted that the Strategic Director of Communities had contacted the relevant service directors and that managers would now respond to these recommendations. It was note that a business case was being put together for Bereavement Services and that the Committee had received an update on this.

It was reported that the Committee had been kept up to date with the Catering 2019-20 moderate risk and that this recommendation would be analysed when

discussing system weaknesses.

A member questioned whether declarations of interest needed to be looked at further. The Head of Internal Audit informed the Committee that work was needed on this area as some officers were unsure of their responsibilities in making declarations. The Strategic Director of Corporate Resources informed the Committee that a new project management platform was being introduced which would assist in providing a standard control.

A councillor questioned whether there had been an update on the sixth Bed and Breakfast Framework point. The Head of Internal Audit informed the Committee that there had not been a response on this point and that they would chase this up.

A councillor questioned whether the use of Amazon Prime was aligned with the Council's policies. It was noted that having a corporate account for Amazon Prime provided an important financial control. The Chair suggested that this could be discussed with Procurement at a training meeting. It was noted that Business Support would also be able to provide information on this.

A councillor asked for reassurance that concerns over cash handling at the bus station were being taken seriously. The Head of Internal Audit informed the Committee that the Strategic Director of Communities and Place was seeking responses from the relevant officers and that if an update was not received soon the relevant managers would be invited to the Committee's January meeting.

A councillor questioned whether offsite document storage had been audited. It was noted that this had been audited previously and that Internal Audit had been involved in the set up of this and considered it low risk. It was noted that this would be looked at through retention policy.

A councillor asked when the Commercial Strategy would be developed. It was noted that the Director of Public Protection and Streetpride was leading this and that a Commercial Officer had been appointed six months ago. It was noted that progress on this was being reported to the Working Smarter Board and that a Commercial Strategy was expected to be produced by March 2022.

A councillor asked whether the CCTV recommendation was being taken seriously. It was noted that Internal Audit were working with the directorate to arrange for someone to take ownership of this. The Chair asked for the Strategic Director of Communities and Place to attend the Committee's January meeting to provide an update on this.

A councillor asked whether Committee members could see how the Council's CCTV systems worked. The Strategic Director of Corporate Resources informed members that they could see a 'non-live' version.

Resolved:

- 1. to note the progress being made by Internal Audit on its work in 2021/22.**
- 2. To invite the Strategic Director of Communities and Place to attend the Committee's January 2022 meeting to provide an update on CCTV.**

42/21 Counter Fraud Update

The Committee received a report of the Strategic Director of Corporate Resources on Counter Fraud Update. This report provided an update on the counter fraud activities, including the National Fraud Initiative, being undertaken within the Council.

The Committee noted that the Council's data was submitted in line with the NFI timetable and the majority of matches were released on the 29th January 2021. It was reported that matches of Council data against HMRC data were released at the end of March 2021 and Covid-19 Business Grant matches in mid-May 2021. It was noted that to date, 1,838 of the matches had been processed (38%) and 83 were in progress. It was noted that this had resulted in the identification of four frauds and 168 errors.

It was noted that there had been five whistleblowing disclosures in the current municipal year, two of which had been completed with a third due to be completed shortly.

It was noted that the Counter Fraud Team had been supporting colleagues in Housing, Social Care and Parking in addition to the work the Team did with DWP and NFI data matching. It was reported that the Team had been involved in the Business Grant Scheme and the post payment debt recovery scheme.

A member questioned how the Counter Fraud Team dealt with emerging fraud risks. It was noted that the Team were part of the national anti-fraud network and that this network issued alerts on emerging risks which were then passed on to the relevant teams.

A councillor questioned whether the Council had promoted the Business Grant post payment debt recovery scheme. The Senior Corporate Fraud Investigator informed the Committee that their Team would look into this.

A councillor questioned whether the Council assisted housing associations in their due diligence processes. The Senior Corporate Fraud Investigator informed the Committee that, prior to the pandemic, several housing associations had asked the Counter Fraud Team to undertake work for them; and that this work would be picked up now that the team was back to business as usual.

The Head of Internal Audit informed the Committee that the review of the Whistleblowing Policy would include a review of how colleagues should use the grievance process rather than the Whistleblowing Policy when appropriate.

A member questioned whether the Council had direct contact with the police on fraud investigations. It was noted that the Counter Fraud Team did have direct contact with the police. It was reported that this was on a case-by-case basis.

Resolved to note the actions taken and the progress being made on counter fraud activities across the Council.

43/21 Ernst and Young ISA260 audit letter for the year ended 31 March 2021

The Committee received a report of the Strategic Director of Corporate Resources on Ernst and Young ISA260 audit letter for the year ended 31 March 2021.

It was noted that EY had substantially completed their audit of Derby City Council's financial statements for the year ended 31 March 2021 and had performed the procedures outlined in their Audit planning report. It was reported that, subject to satisfactory completion of the following outstanding items, EY expected to issue an unqualified opinion on the Authority's financial statements:

- Conclude on the pensions disclosures pending IAS 19 assurances from the pension fund auditor
- Conclude on valuation of property, plant and equipment
- Conclude on group accounts procedures
- Conclude on managements going concern assessment and disclosures
- Conclude on our review of value for money arrangements
- Completion of internal quality review processes including final review of the file by Senior Manager, Partner in Charge and Engagement Quality Control Reviewer
- Final review of the narrative report, annual governance statement and financial statements for disclosure requirements and agreement of amendments
- Receipt of a signed letter of management representation on conclusion of the audit
- Completion of subsequent event review procedures including minute review update
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts (WGA) submission.

It was noted that EY 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 WGA consolidation pack.

It was noted that for the risk of fraud in revenue and expenditure recognition for year end accruals, capitalisation of revenue expenditure and the recognition and treatment of the additional grants received in year for Covid 19; EY's testing had identified one audit adjustment:

The Council's group accounts, included transactions incurred by Derby Homes Limited (DHL), DHL recorded a prepayment of £2.4m in respect of additional employer contributions paid in advance for the 2021/21 financial year. The auditors of DHL requested an audit adjustment as the employer contribution had already been offset against the overall pension liability and in effect was being double counted. EY engaged their internal pension experts and concluded the additional £2.4m employer contribution paid in 2020/21 had now been appropriately accounted for by DHL. The Council's accounts were prepared based on DHL draft accounts and had been updated, to include the audit adjustment of £2.4m.

Misstatements due to fraud or error. It was noted that EY's testing undertaken to date had not identified any findings to report.

Valuation of Land and Buildings. EY were satisfied with the Assembly Rooms Car Park valuation as reported within the Council's financial statement.

PFI Financing. EY engaged their PFI expert to review the application of the PFI accounting model. EY's expert did not identify any issues and their testing undertaken to date did not identify any findings to report.

It was noted that for the valuation of Local Government Pension Scheme (LGPS) liability from the procedures undertaken to date, EY highlighted the following:

The pension fund auditor had communicated that their audit work was expected to be completed in November. As part of their procedures to date, the pension fund auditor had noted a difference between the valuation information supplied to the actuary and the valuations used to prepare the draft pension fund accounts, of £24.6m. The estimated impact of this difference to the Council was a £4.5m reduction to the Council's share of assets, which would result in an estimated increase to the net pension liability by the same value. EY had requested the accounts to be updated for this, the Council had concluded no adjustments to the accounts would be made in respect of £4.5m variance noted. The findings would be revisited on conclusion of the pension fund auditor's testing and if no further variances were noted, the variance would be left unadjusted.

Accounting for Sinfon Waste Plant. It was noted that from the procedures undertaken to date management had agreed to make an additional disclosure to highlight the strategic risk to the Council and the associated contingent liability.

EY had also raised additional queries in respect of the Sinfin Waste Plant, including the rights and obligations of the Council to recognise an asset under construction, which have yet to be concluded.

It was noted that EY had now completed, their Value For Money risk assessment and had not identified a risk of significant weakness. Subject to review process and concluding their work, EY anticipated that they would have no matters to report by exception in the auditor's report. It was noted that EY planned to issue the VFM commentary, incorporating the work carried out against the risks identified in their 2020/21 audit plan by the end of December 2021 as part of issuing the Auditor's Annual Report.

It was noted that the Committee had hoped to receive the completed ISA260 by the end of September 2021. It was reported that a completed value for money judgement would not be received by the Committee until 2022. The Strategic Director for Corporate Resources expressed disappointment that a final audit had not been given by the end of November for the second year running. It was noted that this had a negative impact on the Committee's ability to discharge their governance role. The EY representative informed the Committee that they expected the final audit to be completed within two weeks. The EY representative informed the Committee that the annual auditors report would be brought to the January 2022 meeting.

A member questioned whether the failure to conclude the audit was EY's responsibility or the Council's responsibility. The EY representative informed the Committee that for some issues, such as the pension fund and Sinfin, EY were waiting for information. The Committee noted that for certain elements the delay was due to EY's team.

A member questioned why the £4.5m misstatement on the pension fund had not been altered. The Strategic Director of Corporate Resources informed the Committee that they would not recommend that this figure is changed as it was not considered to be material. EY informed the Committee that this figure was above their reporting threshold but below their materiality level.

The Chair raised concerns that the audit letter included spelling mistakes such as 'SinFin' and asked for these to be amended.

A member asked whether fees were included in the ISA260. The Strategic Director of Corporate Resources informed the Committee that the ISA260 set out the core fees along with any variations for works. It was noted that the ISA260 also set out what would be a reasonable fee for an audit of this size.

Resolved to note the content of the letter.

44/21 Audited Financial Statements for the year ended

31 March 2021

The Committee received a report of the Strategic Director of Corporate Resources on Audited Financial Statements for the year ended 31 March 2021.

Members noted that the Financial Statements should be read in conjunction with the findings of Ernst Young (External Auditor) as stated in their ISA 260 letter also included on the agenda.

A member questioned whether more work was required on examining the provision of Council mainstream services by Derby Homes. The Strategic Director of Corporate Resources informed the Committee that Derby Homes was not under the remit of the Council's financial reporting. The Committee noted that the Council did seek assurances from Derby Homes.

The Chair questioned the figure for travel expenses for 2019/20. The Group Accountant for Corporate Finance informed the Committee that this figure included members' travel outside of Derby.

The Committee wished its thanks to the Strategic Director of Corporate Resources and his team to be noted.

Resolved:

- 1. to approve the audited Financial Statements for the year ended 31 March 2021 – subject to outcome of Derbyshire County Council pension audit and completion of Ernst and Young's (EY) quality review.**
- 2. to delegate authority for the final approval of the Financial Statements to the Strategic Director of Corporate Resources and Chair of the Audit and Governance Committee, subject to satisfactory pension audit and any amendments arising from EY's quality review.**
- 3. to note that the S151 officer will sign the letter of representation once the audit is complete, and the accounts are signed-off.**
- 4. to agree that the thanks of the Committee to the Strategic Director of Corporate Resources and his team be noted.**

45/21 Contract Waivers for the period 1 January 2021 to 30 September 2021

The Committee received a report of the Strategic Director of Corporate Resources on Contract Waivers for the period 1 January 2021 to 30 September 2021.

The report brought to the attention of the Audit and Accounts Committee approved waivers in line with Contract Procedure Rules.

It was reported that a waiver for Traffic Signal Maintenance - contract extension was due to the previous provided going into liquidation which required the Council to act quickly on this issue. It was noted that there was an argument that this waiver was actually unavoidable as the Council need to act. It was noted that a future report would provide an updated definition of unavoidable.

It was reported that a waiver for Signalised Pedestrian Crossing Refurbishments was for the supply of equipment and that a waiver was necessary due to the lead time of this equipment.

It was reported that Derby Street Lighting Private Finance Initiative – LED Project Invest to Save was a works contract and that public regulations were not being waived. It was noted that the threshold for works was £5m.

It was reported that a waiver for preparation of a Master Plan for an area within the city centre referred to as the cultural heart was so that a consultant with local expertise could be used. It was noted that there was also an urgency for this work as it was needed to feed into the business case for the long-term development of the assembly rooms.

It was reported that a waiver for Catering Staff Recruitment was linked to the outcomes of work done by Internal Audit and the Counter Fraud Team. It was noted that the Head of Internal Audit had outlined the ongoing work in this area to the Committee and would provide an update when it was prudent to do so.

It was reported that a waiver for Building Management Remote Monitoring System was due to an existing contract being extended. It was noted that this extension will last until 2023 but was done at 2015 rates.

It was reported that the waivers for Project Manager and Project Supervisor Contract were related to the property projects and technical services area. It was noted that the Council struggled to recruit staff for these roles and therefore needed to use agencies.

It was reported that a waiver for Lift Consultant was required so that a contract could be extended which had originally been put in place via a framework. It was noted that this consultant had been in place since 2014 and that a waiver was required so that the Council could keep this individual's expertise.

It was reported that a waiver for Business Intelligence to retain the services to provide technical expertise and capacity for development of the Outline Business Case (OBC) was to retain the consultant who had originally completed the data

strategy.

It was reported that a waiver for Best Interest Assessor was to extend a contract to allow the Council to complete a statutory requirement around adult social care safeguard assessments. It was noted that there was not an internal resource available to complete these assessments.

It was noted that the Transition Project waiver was to enable the Council to use Derby College to support post-16 students who had educational health and care plans in place. It was noted that this funding was for a fixed period of time.

It was noted that the Digital Transfer Equipment - DORO Care waiver was due to equipment becoming obsolete because of updated completed by BT. It was noted these funds would allow the Council to complete urgent works and that a report would be going to Cabinet on further funds for this.

A member asked about the waiver for Specification production for Snelsmoor Grange Primary School. It was noted that the Planning Control Committee had raised concerns on this item. A member questioned whether an evaluation of the quality of outcomes could be done for when waivers were used and were not used. It was noted that this would be an enormous piece of work to undertake, but that this would be touched upon with the contract savings spending review. It was noted that the Strategic Director of Corporate Resources would consider the member's observation further.

Resolved that the Committee note the contents of the report and the quarterly comparison of the total number of waivers being reported.

46/21 Minute Extract from Children and Young People Scrutiny Review Board - Special Needs Provision Recommendation to Audit & Governance Committee

The Committee received a Minute Extract from the Children and Young People Scrutiny Review Board on Special Needs Provision Recommendation to Audit & Governance Committee.

It was noted that the Chair had spoken to the CYP Chair and the Strategic Director of Corporate Resources. It was noted that Internal Audit was due to undertake an audit of SEND during quarter 4. It was suggested that a small working group made up of the Committee Chair, Vice-chair, Head of Internal Audit and Strategic Director of Corporate Resources was formed to address this matter alongside Internal Audit.

A member raised a concern that this issue demonstrated the potential for

creating conflicts of interests between different Council Committees by putting pressure on their decision-making processes, which could lead to reputational and/or financial risks.

Resolved:

- 1. to recommend that this is included in Internal Audit's quarter 4 SEND audit.**
- 2. to set up a small working group made up of the Committee Chair, Vice-chair, Head of Internal Audit and Strategic Director of Corporate Resources to address this matter alongside Internal Audit.**

47/21 Late Item - Public Sector Audit Appointments Limited (PSAA)

The Committee received a report of the Strategic Director of Corporate Resources on Late Item - Public Sector Audit Appointments Limited (PSAA).

Members noted that on 27 October 2016, the Council received an invitation from Public Sector Audit Appointments Limited (PSAA) to become an opt-in local authority for the purposes of appointment of an external audit from 1st April 2018. The compulsory appointment period was 5 consecutive financial years from 1st April 2018.

It was noted that PSAA duly confirmed that the Council's then current auditor – Ernst and Young – would continue in the role for a further period of 5 years ending 31 March 2023.

It was noted that on 22 September 2021, the Council received an invitation from PSAA to retain its status as an opt-in local authority for a period of 5 years commencing 1 April 2023.

It was reported that, in summary, the benefits of this would be, the PSAA would continue to, on the Council's behalf:

- Undertake all procurement requirements in respect of the appointment including contract management and securing the best price;
- Monitor independence of the appointed auditor throughout the duration of the appointment and;
- Arrange the replacement of an auditor during the appointed period if so required.

The Committee noted that it was a statutory requirement that the acceptance for PSAA to act is taken by Full Council by 9 March 2022.

A councillor questioned whether there were benefits with the same auditor

carrying out audits for local authorities and their subsidiary companies. EY informed the Committee that there were pros and cons to this approach. The Strategic Director of Corporate Resources commented that they would be happy for the Committee Chair to discuss this with the Chair of the Derby Homes Audit Committee and the Finance Director and Company Secretary at Derby Homes.

Resolved to recommend to Full Council that the Council becomes an opt-in local authority for Public Sector Audit Appointments Limited to make all arrangements for the appointment of its external auditor from 1st April 2023, for a compulsory appointment time period of 5 financial years.

MINUTES END