

Time Commenced: 10.00am
Time Ended: 12.13pm

AUDIT AND ACCOUNTS COMMITTEE 6 November 2019

Present: Councillor Willoughby (Chair)
Councillors Care, Dhindsa, McCristal, A Pegg, Shanker, and West
and Philip Sunderland

In attendance: Richard Boneham – Head of Internal Audit
Andy Brammall – Director of Digital and Customer Management
Steven Mason – Democratic Services Officer
John Massey - Head of Benefits & Exchequer Services
Simon Riley – Director of Financial Services
Councillor Roulstone – Cabinet Member for Finance and
Procurement
Vishal Savjani – Ernst and Young LLP
Sarah Walker - Policy and Improvement Manager

27/19 Apologies for Absence

Apologies were received from Councillor Bettany and Stuart Green.

28/19 Late Items

There were no late items.

29/19 Declarations of Interest

There were no declarations of interest.

30/19 Minutes of the meeting held on 30 July 2019

The minutes of the meeting held on 30 July 2019 were agreed as a correct record.

31/19 Risk Management Update (Q1 and Q2)

The Committee received a report of the Strategic Director of Corporate Resources on Risk Management Monitoring for the Period to 30 September 2019.

Members reviewed the 2019/20 Quarter 2 Strategic Risk Register, for the period ending 30 September 2019; with a particular focus on changes to the register and the mitigating actions that were being taken in response to the Council's most significant risks.

It was reported that there were a total of 12 risks in the Strategic Risk Register, as at end of quarter 2. It was also reported that the changes made from the position reported to Audit and Accounts at the end of quarter 4 (March 2019), were presented in paragraph 4.3 and 4.4 of the report. Members noted, that of the risks contained within the register, seven (58%) were currently judged to be 'significant risks'.

It was reported that following the quarter 4 monitoring report, there had been no risk surgeries. It was also reported that one surgery was agreed following the quarter 4 review (SR12 - Sinfon waste plant). However, following discussions between the Monitoring Officer and the Chair and Vice Chair of the Audit and Accounts Committee, it was agreed that this surgery would be put on hold, whilst work was on-going with delivering the mitigating actions for the risk.

Members noted that there had been three risks where the risk scores had been increased, from the position reported to Audit and Accounts at the end of March 2019:

- SR4 - Delivering financial plans: the likelihood of this risk was increased at the end of June 2019, due to emerging 'in-year' budget pressures and the unaddressed savings shortfall that existed for future years.
- SR10 - Managing demands in statutory social care services – the likelihood of this risk was increased at the end of June 2019, as a result of continued high numbers of children in care, and the impact that this was placing on the Council's budget.
- SR11 - Impact of No-Deal BREXIT at a local level – the likelihood of this risk had been increased, as part of the quarter 2 review, due to the national uncertainty around Brexit.

It was reported that two risks had been evaluated, with risk ratings improving since the end of March 2019:

SR7 - Procurement and contract management: the likelihood of this risk was reduced at the end of June 2019, due to the strengthening of the Council's procurement processes and the increased awareness of the necessity for effective contract management through the developing Project Management Office.

SR13 - Delivery of A52 Highway Scheme: the likelihood of this risk was reduced at the end of June 2019, following a design freeze and validation of the construction process through a LEAN workshop.

It was noted that a review of the Council's Risk Management Strategy, Handbook and supporting risk registers was due to be completed by the end of March 2020. Members agreed that the Committee should be involved in that work and that the Chair and Vice Chair should meet with the Director of Policy, Insight & Communications to agree how it would be involved. It was also agreed that the draft handbook should come to the February 2020 meeting of the Committee.

It was agreed that a risk surgery should take place in January 2020 to consider SR12 – Sinfen Waste Plant.

It was also agreed that a risk surgery should take place in February 2020 to consider SR10 – Managing demands in statutory social care services. Members put forward matters that should be considered as part of the risk surgery, such as the merging of the Derby Safeguarding Children Board with Derbyshire's to form the Derby and Derbyshire Safeguarding Children Partnership and any effects of the transitional period.

Resolved:

- 1. to note the report;**
- 2. to agree that the Committee should be involved in the review of the Council's Risk Management Strategy, Handbook and supporting risk registers;**
- 3. to agree that the draft Risk Management handbook should be brought to the February 2020 meeting of the Audit and Accounts Committee;**
- 4. to agree that a risk surgery should take place in January 2020 to consider SR12 – Sinfen Waste Plant; and**
- 5. to agree that a risk surgery should take place in February 2020 to consider SR10 – Managing demands in statutory social care services.**

32/19 Internal Audit Progress Report

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

The progress report attached at Appendix 1 of the report provided the Committee with an overview of the output from Internal Audit assurance work for the period 1 June 2019 to 16 October 2019.

Members reviewed the control issues being raised by Internal Audit and management's response to the risks and the progress being made by management in respect of the implementation of internal audit recommendations.

Members were updated on changes since publication of the report. It was agreed that the revised progress report be circulated to Members of the Committee.

In relation to audit coverage, Members were updated on the following audit assignments that had received a limited assurance rating:

- Catering 2019/20
- Coroner's service
- CCTV

It was agreed that updates on the Catering 2019/20 and the Coroner's Service audits be

brought to the next meeting of the Committee.

Members were informed about the audit work being carried out on Digital Channels and noted that during testing for the Digital Channels – terminal4 audit, a data protection risk relating to the ContrOCC database was identified. It was also noted that during the testing for the Digital Channels - Firmstep audit, some data protection risks relating to the Lagan_live database and SQL Server backup files relating to numerous applications including Servelec Synergy (Children's Management System) were identified.

Members discussed the audit assignment in relation to Sinfin Waste Plant/Incinerator and agreed that the audit should be prioritised.

Members discussed the Assembly Rooms and agreed that the audit assignment should include financial justifications.

Resolved:

- 1. to note the progress being made by Internal Audit on the 2019/20 plan, including brought forward work from 2018/19 in the report at Appendix 1;**
- 2. to agree that updates on the Catering 2019/20 and the Coroner's Service audits be brought to the next meeting of the Committee;**
- 3. to agree that the audit assignment in relation to Sinfin Waste Plant/Incinerator should be prioritised; and**
- 4. to agree that the audit assignment in relation to the Assembly Rooms should include financial justifications.**

33/19 EY – Annual Audit Letter 2018/19

The Committee received a report from Ernst and Young on Annual Audit Letter for the year ended 31 March 2019.

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 2019. It was also reported that Ernst and Young had already reported the detailed findings from its audit work in its 2018/19 Audit Results Report that went before the Audit and Accounts Committee on 30 July 2019.

Members noted that the audit completion certificate had not yet been issued but as the audit was now concluded, it would be.

It was reported that in June 2017 the external auditor exercised its powers under the Local Audit and Accountability Act 2014 and issued written recommendations to the Council. It was also reported that although some progress had been made, it was the external auditor's view that given the significance of the control weaknesses, insufficient progress had been made in the period following its report of 23 September 2016 to appropriately address the issues and strengthen the Council's control environment.

Members noted that the 2017/18 audit evidenced improvements and supported the findings of the internal audit report detailing follow up work carried out on the Ernst and Young S24 recommendations. It was also noted that the 2018/19 audit work confirmed that the controls were embedded and that the external auditors concluded that the S24 recommendations had been implemented

Members discussed the significant overspend on the A52 improvement project, as detailed on page 17 of the report, and particularly the mention of the issues around decision making by key senior Members. Members agreed that the wording should be amended to reflect decision making in general.

In relation to Member/Officer relations, as detailed on page 18, Members asked why Ernst and Young had discussed this matter with officers and not Members. It was reported that the majority of the work was based on publicly available information within the Local Government Association report of July 2017.

Resolved to approve the Annual Audit Letter, subject to the amendments as outlined at the meeting.

34/19 Counter Fraud Update

The Committee received a report of the Strategic Director of Corporate Resources on Counter Fraud Update.

Members considered the work of the Council's Counter Fraud Team over the period 1 April to 30 September 2019, together with a savings breakdown, as outlined in the report.

It was reported that the Council was continuing to investigate data matches as part of the 2018/19 National Fraud Initiative (NFI) exercise and Members considered progress on the matches.

It was noted that the Counter Fraud Team consisting of 3FTE and based within Revenues, Benefits and Exchequer Services continued to focus on:

- Raising fraud awareness
- Preventing fraud
- Detecting fraud
- Understanding emerging fraud risks

It was reported that the team was continuing to host the East Midlands Fraud Group with local partners and agencies to share best practice and identify emerging fraud risks and that it was also working with Derby Homes to undertake pro-active checks to prevent and detect fraud.

In relation to detecting and investigating fraud, it was noted that the team was

undertaking joint investigations with DWP and the Council's financial investigator.

It was reported that in addition to investigating fraud, the team was working with the following service areas to minimise their exposure to fraud risks:

- Social care and direct payments
- Homeless team
- Housing Benefits – specifically Supported Accommodation where enhanced rates of Housing Benefit can be claimed.

Members noted that at Appendix 1 of the report – Housing – Illegal succession, sublet, breach of tenancy, it should read 9x£46,500 under VFM Saving.

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

35/19 Information Security Update

The Committee received a report of the Director of Digital & Customer Management on Information Security Update.

The report provided Members of the Committee with an update on information security breaches across Derby City Council (DCC) for the first six months of the financial year 2019/20, with consideration to the current threats, success of improvements delivered and ongoing improvement plans.

It was reported that from 1 April 2019 to 30 September 2019 there were 87 information security incidents reported to the Information Governance Team and that on investigation, there were 74 actual personal data breaches, with the remaining 13 considered 'non-breaches'. It was also reported that of these breaches, eight serious breaches were voluntarily reported to the Information Commissioner's Office (ICO) and a further two breaches were reported to the ICO in complaint of the Council. Members noted that out of the ten breaches, eight had been closed without further action from the ICO and two remained open for a decision.

By comparison, it was reported that in the first six months of the 2018/19 financial year there were 116 incidents reported to the Information Governance Team, of which 95 were actual breaches and that there were three serious breaches reported to the ICO for the period.

Members noted that the online and direct guidance discussions with the ICO encouraged a positive reporting culture, in line with the accountability principles of GDPR and that whilst the number of breaches reported by DCC to the ICO seemed high, it was reflective of correct measures undertaken by the Council to respond appropriately to the subjective details of each incident. It was also noted that the fact that no action had been taken by the ICO indicated that the breaches reported had been

dealt with by DCC to the satisfaction of the ICO.

Members considered risks to the Council, how areas of significant concern had been addressed and Social Care IG Improvement.

Resolved:

- 1. to note the report; and**
- 2. to request a further Information Security Assurance update at the February 2020 meeting.**

36/19 Treasury Management Mid Year Progress

The Committee received a report of the Strategic Director of Corporate Resources on Treasury Management Mid-Year 2019/20.

The mid-year report outlined the Treasury Management activity for the period 1 April 2019 to 30 September 2019, comprising:

- Summary of the Financial Markets to date in 2019/20
- Forecast Outturn 2019/20
- Borrowing Activity
- Deposits
- Prudential Indicators.

It was reported that the Treasury Management forecast outturn for 2019/20 was a net underspend of £0.9m as at 30 September 2019 and that this was mainly because Minimum Revenue Provision (MRP) was less than originally forecast, due to reduced unsupported borrowing in 2018/19, as a result of slippage in capital expenditure in 2018/19.

Members noted that at the end of September 2019, total debt was £430.955m and total investments were £71.433m compared to £443.572m and £67.838m as at 31st March 2018. It was also noted that no new borrowings had been made or were anticipated to be made in the year and that total debt had reduced by £12.618m including the repayment of PWLB debt totalling £11.038m.

It was reported that all Treasury Management activities of the Council up to 30 September 2019 had complied with Prudential Indicators, with the exception of breaching the maximum balance to be held with Lloyds, the Council's main bank, on one occasion.

It was noted that Treasury Management advice to the Council up to 30 September 2019 had been provided by Arlingclose and that their services included economic and interest rate forecasting, advice on strategy, portfolio structure, debt restructuring, investment policy and credit ratings and technical assistance on other treasury matters as and when

required.

Members discussed readiness for Brexit

It was noted that the report was due to go before Council Cabinet on 13 November and that Cabinet would be asked to recommend to full Council that they approve the report.

Resolved to note the content of the report.

MINUTES END