

## **AUDIT COMMITTEE**

**18 March, 2015**

**PRESENT:-** Councillor Isham (Vice Chairman) (in the chair); Councillors Chilver, Christensen (in place of M Smith), Hunter-Watts and Mrs Renshell.

Also present: Maria Grindley and David Guest from Ernst and Young LLP.

**APOLOGIES:** Councillors N Blake (Ex-Officio), Mrs Davies, Lambert, Mills and M Smith.

### **1. MINUTES**

RESOLVED –

That the Minutes of the meeting held on 26 January 2015 be approved as a correct record.

### **2. EXTERNAL AUDIT – EXTERNAL AUDIT PLAN 2014/15 AND FEE LETTER**

The Committee received a report and Audit Plan which summarised the proposed approach and scope of work to be undertaken by the external auditors for 2015 in accordance with statutory requirements and to ensure it was aligned with the Committee's expectations.

The Audit Plan had been prepared having regard to several key inputs including:-

- Strategic, operational and financial risks relevant to the financial statements.
- Developments in financial reporting and auditing standards.
- The quality of systems and processes.
- Changes in the business and regulatory environment.
- Management's views on all the above mentioned issues.

The auditors had assessed the key risks which would drive the development of an effective audit and the planned audit strategy in response to those risks and had identified two significant risks to the opinion of the financial statements. These were the risk of management override and the risk of revenue and expenditure recognition. It would be important to consider these due to the nature of local authority finances and the ever-increasing pressures on management to achieve financial targets.

The audit work would also focus on whether there were proper arrangements in place for securing financial resilience at the Council, and to secure economy, efficiency and effectiveness in the use of resources by the Council.

An update on the results of the audit work in these areas would be reported back to the Committee in September 2015.

The indicative fee scale for the audit work was £75,713, although it was possible that this fee could increase in due course if additional testing or work was required in addition to that already identified within the Audit Plan. In addition, the estimated fee for the certification of the housing benefits subsidy claim and return was £16,600.

For the purposes of determining whether the financial statements were free from material error (i.e. the magnitude of an omission or mis-statement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements), the external auditors had determined that overall materiality for the financial statements was £2.053 million based on 2% of gross expenditure. As such, any uncorrected audit mis-statements greater than £102,000 would be reported to the Audit Committee.

Members sought clarification around several issues, and in particular the following:-

- Whether there was significant justification that suggested the need for assessing the risk of management override and the risks associated with revenue and expenditure recognition in AVDC in particular. It was confirmed that these were generic risks common to all local authorities given the increasingly challenging economic situation insofar as it affected the public sector.
- The intention to test the ability of the Interim Monitoring Officer to influence and challenge directly internal governance arrangements. It was indicated that, given that this was an interim appointment, it was the intention meet with the post holder to seek assurances that he was indeed appropriately qualified and was at the right level to challenge robustly governance and ethical standards decisions.
- The need to ensure that the Council's share of the transactions involving Aylesbury Vale Estates (AVE) were accounted for properly. This stemmed from the differences between the Council's and AVE's accounting practices. Testing would take place to ensure that arrangements were in place to enable appropriate judgements to be made in line with the Council's accounting procedures.

RESOLVED –

That the contents of the external auditors' Audit Plan for 2015 be noted.

### **3. REVIEW OF GENERAL FUND BALANCES 2015-16**

The Committee received a report which explained the risk assessment methodology applied by the Council in determining the minimum safe level of General Fund Working Balance used in budget planning.

There was a statutory requirement on all Councils to set a balanced budget each year. A balanced budget could legitimately include the use of general uncommitted balances where the Council agreed that it was appropriate to do so. It was, therefore, prudent practice for Councils to maintain a General Fund uncommitted working balance against unexpected cost pressures or loss of income in order to ensure that the Council's finances remained balanced at all times.

The level of balance maintained by AVDC was reassessed annually and the minimum recommended safe level was applied in budget setting and planning. This currently stood at £2.5 million.

Members sought clarification around a number of issues and in particular, the following:-

- Whether there was perhaps a need to review the risk classification given in relation to the recycling service in the light of recent discussions concerning the payments made to the Council for recyclable material.
- Members sought assurances around the need to continue to keep utility costs to a minimum.
- Whether there might be a need to revisit the risk classification given to Council Tax Collection rates. However Members received assurances from officers that current indications suggested that collection rates showed no demonstrable sign of declining.
- Members sought some background to the continuing inclusion of provision to meet claims arising from the Council's association with Municipal Mutual Insurance (MMI), which had gone into liquidation some years ago. It was indicated that although this had been classified as being low risk, there was still a possibility for MMI claims to arise.
- Members asked for details of the actual amount held in General Fund balances and it was indicated that this would be circulated separately to Committee Members.
- An explanation of the management arrangements for Aylesbury Vale Estates (AVE) was sought and the Committee was advised of the extent of elected Member involvement in the Company. An explanation was also given about the use of dividends payable to this Authority which it had previously been decided should be re-invested in the company.
- An explanation was also given about the current arrangements for IT recovery following a major systems failure.

RESOLVED –

That the report on the review of the General Fund Working Balances and the related risk assessment methodology used by the Council be noted.

#### **4. ANNUAL GOVERNANCE STATEMENT 2014/15**

The Committee received a report updating Members on the progress made in developing the Annual Governance Statement (AGS) for 2014/15. A copy of the current draft AGS was included at Appendix A to the Committee report.

The preparation and publication of the AGS was a statutory requirement of the Accounts and Audit Regulations 2011, with the Council required to review at least annually the effectiveness of its system of internal control and to prepare a statement on internal control in accordance with proper practices.

Part of the assurance gathering process used in putting together the draft AGS included a key assurance gathering process with Service Managers and Heads of Service, which had been introduced at the end of 2013/14 to replace the previous "Internal Control Assessment". This process had proved to be very helpful in assessing the level of assurance obtained from management. The results of all the service assessments would not be finalised until the end of March 2015. However, any early indication of issues would be highlighted and reported verbally to the Committee.

An updated and more complete version of the AGS would then be reported to the Audit Committee's next meeting in July 2015.

Members considered the draft AGS and sought clarification around a number of issues, including:-

- Officers were asked to provide more information in connection with the number of apprentices employed.
- Members felt that some more detailed information concerning data breaches would be helpful in gaining a better understanding of the mitigation actions.
- In relation to the review of financial procedures, it was reported that the implementation of the new finance system had unfortunately been delayed. The integrations between the new system and other core applications was vital to successful implementation and replicating these interfaces, which had been built up over the last twelve years or more, had proved to be more challenging than initially anticipated. The project was therefore being re-planned and it was anticipated that implementation would be a month or so latter than originally planned.
- Members expressed the hope that the new policy compliance software implementation would start in the early part of the financial year.

RESOLVED –

That the current position regarding the preparation of the Annual Governance Statement 2014/15 be noted.

## **5. AUDIT COMMITTEE REVIEW OF EFFECTIVENESS AND TERMS OF REFERENCE**

Regulation 6 of the Accounts and Audit Regulations 2011 required the Council to conduct an annual review of the effectiveness of its system of internal audit. This included the effectiveness of the Audit Committee, to the extent that its work related to internal audit, as well as the performance of the internal audit provider.

The Committee's current performance had been assessed against the recommended best practice guidance on the operation of Audit Committees. The first self assessment against these standards had been reported to the Committee in July 2014 and this had been updated, as detailed at Appendix A to the Committee report, to reflect the improvements that had been implemented since then and where there were still areas for improvement.

One of the main areas for action from the July review had been to review the terms of reference for the Committee. CIPFA had produced a sample model

and this was the basis of a suggested revised model for this Committee. There were no fundamental differences in the role of the Committee but the wording now reflected the greater emphasis on governance and risk. Appendix B to the Committee report included the proposed revised terms of reference based on the CIPFA model for inclusion in the constitution post the May elections.

Members sought clarification around the data transparency requirements and the proposed actions to try to match Members' professional skills to the specialisms associated with the work of this Committee.

Otherwise Members noted that the overall self assessment scores of 4 out of 5 in many of the assessment areas indicated that, overall, the Audit Committee was operating in a reasonably effective manner.

RESOLVED –

- (1) That the updated self assessment (Appendix A to the Committee report) be noted.
- (2) That the Council be recommended to agree the proposed revised terms of reference for the Audit Committee, as detailed at Appendix B to the Committee report, when the Council's Constitution was next reviewed after the May 2015 elections.

## **6. ANNUAL REPORT FROM THE CHAIRMAN OF THE AUDIT COMMITTEE**

The Committee received the seventh annual report from the Chairman of the Audit Committee which summarised the work carried out during the 2014/15 financial year. The preparation of an annual report represented best practice in promoting good governance and cascading information, and promoted transparency in respect of the work of the Committee.

Members sought clarification around the reference in the Draft report to IESE and contracts management given the recent awards to the Council for its work through the New Business Model. Also it was felt that there should be some consistency around the use of descriptions e.g. either the use of "Business Assurance Services" "internal Audit". Otherwise the Committee was happy with the content of the Annual Report and it was,

RESOLVED –

- (1) That the Audit Committee Chairman's Annual Report be endorsed.
- (2) That the annual report of the Audit Committee Chairman be circulated to all Members via the Members' Information Sheet.

## **7. BUSINESS ASSURANCE STRATEGY AND WORK PLAN FOR 2015-16**

The Committee received a report detailing the overall strategy and approach for providing future assurance to the Audit Committee, along with the Business Assurance Work Plan for 2015-16.

The Work Plan had been developed based on discussions with Directors and Heads of Service, with a strong focus on the key areas of strategic risk to the Council. This was reflected in most areas having a corporate rather than service specific focus.

The core financial systems areas and housing benefits and council tax remained on the list each year but the scope of reviews would be tailored to look at different areas of risk each year as well as the core key controls. As with previous years, the basic financial systems testing would be completed in order to provide assurance to the external auditors, and this would also help to keep the external audit fees lower.

The key areas for review during 2015-16 along with an outline of the scope of intended work and identified (risk) priority were set out in Appendix A to the Plan. The Business Assurance Plan would be reviewed and reported quarterly to the Audit Committee, which would allow the flexibility to pick up on new areas of risk or on organisational change.

The Business Assurance Service had been established by the Council as a key component of its governance framework and an Internal Audit Charter ensured that audit work was carried out and governed by the Public Sector Internal Audit Standards.

Members were assured that the priority classifications had been carefully considered and reflected the level of risk. Members were informed that the Assurance Plan was based on estimated numbers of days for each review to match against resources available, but were adjusted when individual reviews were scoped in detail. They also asked for and received a verbal update on the Council's rationale for the replacement of the existing web site, which was largely being driven by the need for Council services to be more easily accessible and more transactional orientated.

Members were informed that one of the two qualified internal auditors would be leaving the Council shortly to work for a Government organisation. It was the intention to replace the post holder and until then "buy in" assistance as and when necessary. Sufficient flexibility had been built into the Work Plan to enable re-prioritisation if and when appropriate and it was noted that regular reports on the progress of work included within the Work Plan would be brought to the Committee at regular intervals.

RESOLVED –

That the Business Assurance Strategy and Assurance Plan for 2015-16 be approved.

## **8. BUSINESS ASSURANCE PROGRESS REPORT – JANUARY TO FEBRUARY 2015**

The Committee received a progress report on activity undertaken against the 2014/15 Assurance Plan since January 2015 and the following matters were highlighted:-

### **(i) Assurance reviews completed since the last progress report:**

Revenues and Benefits – The review had followed up work undertaken by PWC/repeat key controls testing on the 2013/14 Collection Fund and Housing Benefit/Collection Fund. The scope of this work had expanded to cover areas like the work of the compliance team, Council Tax/NNDR inspections and write-off approval prices.

One high priority recommendation had been raised on write-off approval processes for Council Tax and Business Rates. No write-off

approval process had been in place since 2010, partly due to the current version of financial procedures/regulations not defining approval limits.

The interim Revenues and Benefits Manager had agreed to restart the write-off approvals process, with approvals under £1,000 being actioned by the Director with responsibility for Finance and approvals over £1,000 being delegated to the Cabinet Member for Resources. Further discussions would be held with Officers to ensure they understood what should be reported for approval and what level of evidence was required to substantiate the write-offs.

**(ii) Assurance Reviews Follow-up:**

- Contract Management – had been previously raised as an area for general improvement. The Council's new finance software had in-built functionality that would allow for the better management of key contracts. This would ensure that the Council had a better understanding of what was being spent and could identify overspends at an earlier stage. The software would also allow the tracking of KPIs, which had been an identified weakness in the past.

Business Assurance Services had been working with the Council's Procurement Officer to ensure that all relevant information on key contracts was captured when the new finance software was set up.

- Transfer of Fraud Investigation Staff to DWP – two Members of staff had transferred to the DWP on 2 March 2015. All ongoing case files had been successfully transferred in accordance with DWP procedures.

A fraud update would be reported to the Committee in September 2015, which would include the impact of no longer having internal qualified fraud investigation staff.

**(iii) Assurance Plan Work in Progress – the following work from the 2014/2015 plan had started:-**

- New Finance Software (Technology One) – Implementation Stage – the project was currently at the User Acceptance Stage (UAT), which was a critical stage as any areas that did not pass testing could result in further work to amend the system / processes before it could go live. As referred to elsewhere in these Minutes the implementation date had been delayed.

Ideally, Business Assurance would like to see all controls tested prior to going live but in practice some of the controls testing might have to wait until after the solution had become live and further improvements that were needed had been identified.

The most fundamental change related to the 'procure to pay' module, where it was hoped that the new finance system would offer significant improvements in the areas of control weaknesses that had been raised in previous audit reports, e. g. supplier input, authorising limits.

- Policy Compliance – The policy compliance software route would be pursued as part of the 2015/16 work programme. A business case would be submitted to Corporate Board in April 2015.
- Payroll Assurance Review (Assurance) – Field work had commenced on the Payroll review for AVDC and Wycombe District Council. The report would be completed by the end of March 2015.
- Parking Income – Work had commenced, with a report to be issued by 31 March 2015.
- Corporate Scorecard Data Quality Review – A draft report would be issued imminently.
- Income / Debtor Management – The review was intended to highlight any inconsistencies in how the Council treated income and subsequent debtors, with a view to recommending how improvements could be made.
- Treasury Management – A draft report had been issued following a review of the Council's cash flow, and investment and borrowing activity for 2014/15.

- (iv) **Overdue Audit Recommendations and Tracker** – All assurance reviews were followed up at an appropriate point in time to ensure that agreed management actions had been completed. Further follow-ups were undertaken on outstanding actions and where these were six months overdue (or more) they were reported to the Committee.

The Business Assurance Manager did not close cases until she was satisfied that the management control was fully completed or in operation. A further date was then set to review the item again.

Outstanding actions for financial controls would not be closed until the new Finance System was in place and evidence had been obtained that the new system had improved the financial control weaknesses.

A summary of the reviews completed in 2013/14 and 2014/15 was detailed at Appendix 2 to the Committee report, with information on recommendations over 6 months old which had not already been mentioned on Follow Up work detailed at Appendix 3.

- (v) **Changes to 2014-2015 Plan and Outstanding Reviews** – Due to the increased involvement of Business Assurance in reviewing the T1 finance system development and to avoid impacting on the finance staff at this critical time the Chiltern Rail Travel account, which had a low overall priority, had been transferred to 2015/16.

- (vi) the following reviews were due to be completed by 31 March 2015:-

- Rail Travel Accounts – Chiltern Rail and Oyster Cards.
- Land Line calls and costs.
- Payroll (including review for Wycombe District Council).
- Treasury Management.
- Car parking income.
- Use of Web applications

- (vii) **Response to Ernest and Young (EY) Briefing for Audit Committee** – Each quarter EY produced a briefing note aimed at Local Government Audit Committees. At the back of the latest briefing note (attached as Appendix 4 to the Committee report) was a set of questions which the Audit Committee should ask of their Officers.



Responses to these questions were provided as part of the progress report.

Members were interested to note the checks put in place to detect fraudulent invoice payment requests and an example of one such occurrence was given. Members asked for and received a verbal explanation of the position around aged debt reporting. Members also noted the position concerning remote access arrangements in relation to the iTrent payroll system.

RESOLVED –

That the progress report be noted, including the progress made by Business Assurance Services against work identified in the Assurance Plan for 2014/15.

## **9. AUDIT COMMITTEE WORK PROGRAMME**

The Committee considered the future Work Programme for 2014-15 which took account of comments and requests made at Audit previous Committee meetings and the requirements of the internal and external audit processes.

RESOLVED –

That the future Work Programme as discussed at the meeting be approved.

## **10. FUTURE MEETINGS**

The next meeting of the Audit Committee would be held at 6.30 pm on 27 July 2015, in the Olympic Room at The Gateway, Gatehouse Road, Aylesbury.