

AUDIT COMMITTEE

27 JULY 2015

PRESENT: Councillor T Mills (Chairman); Councillors K Hewson (Vice-Chairman), B Chapple OBE, M Collins, R Stuchbury, D Town and A Cole

Also present: David Guest from Ernst and Young LLP.

APOLOGIES: Councillors S Renshell, M Smith and H Mordue

1. TEMPORARY CHANGES TO MEMBERSHIP

Councillor A Cole substituted for Councillor Mrs Renshell

2. MINUTES

RESOLVED –

That the minutes of the meetings held on 18 March and 27 May 2015 be approved as correct records.

3. DECLARATION OF INTEREST

There were none

4. EXTERNAL AUDIT - UPDATE/PROGRESS REPORT

The Committee received a report on the progress made by the external auditors, Ernst and Young, on their audit plan for 2014/15.

It was reported that the external auditors had completed all of their walk throughs and controls testing, including their review of the work of Internal Audit. To date this work had not identified any issues considered necessary to bring to the attention of the Committee.

As part of the external auditor's planning procedures, they would consider the significant risks of giving a wrong conclusion in relation to their value for money assessment. As much work as was considered appropriate would be carried out to enable a safe conclusion to be reached on arrangements to secure value for money. This might identify other risks which might require the external auditors to focus additional attention during the course of the audit.

Due to the continuing financial pressures on local government, this had been reassessed as a significant risk. This did not reflect any particular concerns at this stage about the Council's processes, but rather reflected the environment within which the Council was working.

The Council continued to face financial challenges, with a savings requirement of £0.6m in 2016/17. The Medium Term Financial Plan (MTFP) had a cumulative budget gap of £2.5 m in 2017/18 and a savings gap of at least £1.8m per year beyond 2017/18. The MTFP set out the Council's strategic approach for closing the budget gap and key deliverables that were critical to the financial stability of the Council.

The external auditors would focus on reviewing the achievement of the planned savings in 2014/15 and reviewing the Council's on-going identification of savings or alternative income streams to reduce the budget gap in 2016/17. They would also review the Council's MTFP and the assumptions up to 2017/18.

It was reported that the Committee would be provided with formal reports throughout the audit process and the report submitted summarised the proposed timeline. In addition to this formal reporting, the external auditors would seek to give practical business insights and updates on regulatory matters via sector briefings.

Members sought clarification around several issues, including:-

- The arrangements for ensuring that sufficient funding was available to meet any obligations that might arise as a result of the Government's recent announcements concerning a National Minimum Wage.
- Whether the proposed value for money assessment was particular to this Authority or of a generic nature. It was confirmed that the latter was the case.
- The work undertaken in relation to the Corporate Risk Register and mitigation actions.
- The period over which the value for money risk assessment would take place. It was confirmed that it was not possible at this stage to give an exact end date. Members were reminded that the MTFP anticipated the loss of Government Grant and Retained Business Rates by 2019/20.
- It was confirmed that major capital projects were subject to their own individual risk registers.

RESOLVED –

That the external auditors' report be noted and it be confirmed was aligned with the Committee's expectations.

5. BUSINESS ASSURANCE PROGRESS REPORT

The Committee received a progress report on assurance work activity undertaken against the 2015/16 Assurance Plan since March 2015 and the following matters were highlighted:-

(i) Assurance / Project Delivery reviews completed since the last progress report:

- Data Transparency Code – Limited Assurance.
- 2014/15 Oyster Travel Cards – Substantial Assurance.
- 2014/15 Payroll – Substantial Assurance.
- 2014/15 Car Parking Income – Substantial Assurance.
- 2014/15 Treasury Management – Substantial Assurance.
- 2015/16 Depot Fuel Management – Substantial Assurance.

For the Data Transparency Code, a limited assurance meant that the review had identified some concerns on service delivery arrangements or the controls in place to manage identified risks. As such, the risk of the activity not achieving its objectives was medium to high.

In addition one Project Delivery Review on the Right Here Right Now project had been undertaken and had been given an Amber/Green rating (i.e. successful delivery appeared probable, although constant attention would be needed to ensure risks did not materialise into major issues threatening delivery).

(ii) Assurance Reviews Follow-up:

New Finance Software – the new finance system (Tech One) had gone live on 1 June 2015. The main internal control changes implemented that could be demonstrated as working were the procure to pay process and to a limited extent the contract payment process. (These would be subject to detailed testing in October 2015)

There were still a number of outstanding control issues which the Finance Team had not yet been able to demonstrate were working in the system to the satisfaction of Business Assurance.

The list had been reviewed by the programme board on 14 July 2015 and dates had been set for improvement actions to be completed. Without these basic controls in place and operating would likely result in a significant amount of extra testing by both Business Assurance and External Audit to provide the assurances that determine the audit opinion over the statement of accounts for 2015/16.

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

- 2014/15 Policy Compliance – The contract for software had been agreed and the project implementation started. It was expected to go live in September 2015.
- 2015/16 Section 106 Agreements – the field work was complete and the draft report was being written with a view to it being finalised by the end of July 2015.
- 2015/16 Taxi Licensing – the terms of Reference had been issued and the fieldwork had started. The target date for completion of this review was mid-August.
- 2015/16 Conference Centre income – the terms of reference had been issued and the fieldwork had started. The target date for completion of this review was mid-August.

(iv) Service Risk Assurance 2014/15

A summary of the results of the service risk assurance process for 14/15 were attached as Appendix 3 to the Committee report. The results were used to identify areas of weakness to be reported in the Annual Governance Statement.

Business continuity and information security had been identified as showing a number of “amber” ratings from the self assessment which would need to be followed up.

(v) 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.

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 4.

- (vi) **Business Assurance Customer Feedback** – the results were provided of the customer feedback surveys for reviews undertaken during 2014/15, which clearly indicated high customer satisfaction with the service. The results were reported as part of the annual review of effectiveness of internal audit in the Annual Business Assurance Manager's Report, under the headings staff performance, conduct of reviews and reporting.
- (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 5 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 commented or sought clarification around a number of issues including the following:-

- An explanation was given by the Business Assurance Services Manager of the graphical presentations showing the results of the service risk assessments and the effectiveness of the controls put in place. It was acknowledged that there was potential for making the information easier to digest.
- Again, it was confirmed that major capital projects each had individual risk registers.
- It was confirmed that the information obtained via the risk management and service risk assurance process was used to inform the budgetary planning process where this was considered appropriate.
- The Business Assurance Services Manager confirmed that existing staffing resources were such as to manage existing programmes of work and that if considered appropriate there was sufficient flexibility within the budget to buy in external expertise as and when required.
- It was confirmed that the gaps in the transparency data would be on the new web site by 31 August 2015. The exception would be the land and property register which required a further technical solution.
- It was confirmed also that details of the hits on the Transparency pages of the new web site could be reported to the Committee at its January 2016 meeting as part of the regular Business Assurance progress reporting.
- It was noted that a full update on risk management would be provided for the September meeting of the Committee, including a briefing prior to the Committee.

RESOLVED –

That the progress report be noted.

6. BUSINESS ASSURANCE SERVICES MANAGER'S ANNUAL REPORT 2014/2015

The Business Assurance Services Manager was required to provide a written annual report to those charged with governance timed to support the Annual Governance Statement (AGS), which should be presented to Members and considered separately from the AGS and the formal Accounts.

The Committee received a report detailing the Business Assurance Services Manager's opinion on risk management, control and governance and their effectiveness in achieving the Council's agreed objectives for 2014-15. Based on this work, Business Assurance Services (BAS) had reached the overall opinion that satisfactory assurance could be provided on the adequacy and effectiveness of the control environment. There were no specific governance, risk management and internal control issues of which the Manager had been made aware of during the year which caused any qualification of the above opinion.

In forming this opinion the Business Assurance Services Manager had confirmed that internal audit activity throughout 2014-15 had been independent from the rest of the organisation and had not been subject to interference in the level or scope of the audit work completed.

A total of 9 assurance reviews had been completed in 2014-2015 of which 4 had been given a "Substantial" assurance, 5 a "Reasonable" assurance and one a "Limited" assurance. In addition there had been one project review with an "amber/green" delivery confidence rating.

There were still a number of outstanding recommendations from 13/14 which related to the financial systems controls which could not be addressed by the existing finance system APTOS. However it was expected that the replacement finance system would address all of these weaknesses when it was implemented for 2015/16.

All agreed actions arising from audit reports were kept under review by Business Assurance Services and regular reports on overdue actions were provided to the Audit Committee.

Advisory work had also been completed from the Assurance Strategy and Plan on data transparency, the new finance system, project management maturity and on the Information Governance Group's Risk Register.

Business Assurance officers had attended the three levels of governance of major projects (i.e. Project Board meetings, Major Projects Project Managers Group and the Major Projects Sponsors Group) to provide advice on risk and control. As a result, advisory areas of work which were not on the plan had been initiated on areas of risk including the banking contract and on confidential shredding.

The audit of the Financial System and Budgetary control from 2012-13 had been followed up. There were a number of outstanding recommendations regarding internal controls which would be remedied when the new Finance System was in place. As such, it had been agreed with the Director with the responsibility for Finance that it was not economical to incur additional costs for the APTOS system at that time.

Other sources of assurance through the three lines of defence model, as detailed in the strategy, had been used to validate the overall opinion. The annual service risk assurance process had been completed in March 2015. This process sought to identify

from service managers which of their policy / service areas were higher risk by the nature of their activities and to identify what assurances there were in terms of responsibilities, training and monitoring. Overall compared to 2013/14, there were fewer areas where service managers considered there to be particular areas of weakness.

The Audit Committee was provided with regular progress reports on the work of the Business Assurance Service covering completed assurance work, advisory work completed, progress with current work, any other significant work, and outstanding audit recommendations that were over 6 months old. There were no significant issues to report regarding the follow up on audit recommendations.

Members were informed that the Council had revised the approach for identifying and assessing strategic risks during 2014/15. The Strategic Risk Register provided evidence of a risk aware and risk managed organisation. It reflected the risks that were on the current radar for Corporate Board and were not dissimilar to those faced across other local authorities. The difference was how the risks were assessed and how they were being managed. The Risk Register was reviewed at six monthly intervals.

Business Assurance Services continued to be the Council's key point of contact for the National Fraud Initiative (NFI) which ran every 2 years, and was co-ordinated by the Audit Commission. During 2014-15 the new Whistle Blowing policy which replaced the Confidential Reporting Policy had been published. The new policy now included reference to the key legislation contained in the Public Interest Disclosure Act.

Business Assurance had been increasing the awareness of this through a series of face to face training and information through the intranet for officers. Business Assurance had attended Managers Group twice since March to update them on the new policy and the Bribery Act 2010 and how this related to the receipt of gifts and hospitality.

The Accounts and Audit Regulations 2006 (updated subsequently) required a review of the effectiveness of internal audit to be conducted annually. A self-assessment in 2013 against the requirements of the Public Sector Internal Auditing Standards (PSIAS) and a gap analysis exercise showed that the Council's audit service operated in accordance with best practice guidelines and fully complied with the PSIA Standards. The Action Plan had been updated to reflect the current position and was detailed at Appendix B to the Committee report.

In accordance with best practice, a rigorous internal review had also been undertaken of all work undertaken by Assurance Officers, further informed by the results of the staff appraisal process. The report also detailed the other professional training and development that had been undertaken over the last 12 months.

During 2014/15 there had been two full time assurance officers (Internal Auditors) to focus on delivering the Business Assurance Plan along with the Business Assurance Manager. On 31 March 2015 one of the assurance officers had left to take up a new senior audit role and the resource implications for the 2015/16 plan were reported to the meeting. One officer was also asked to be part of the core group that managed the May Parliamentary Elections which taken approximately 10 days in total. Whilst this had had an minor impact on overall productivity, it had not impacted on the completion of the Assurance Plan.

The Fraud Investigation Officers who were part of the Revenue and Benefits Service had transferred to the DWP as part of the Single Fraud Investigation Service on 1 February 2015. The full impact of this transfer would be reported to the Committee in September 2015.

Members commented on several specific issues, including the following:-

- It was felt that there might be merit in the introduction of performance ranges for some of the quality performance standards and the Business Assurance Services Manager would consider this.
- Members commented on the possibility of some benchmarking being undertaken, but it was noted that it was not the Council's practice to embark upon this often time consuming work unless it could be demonstrated that there would be considerable advantage to the Council.
- Members asked for further information on the plans to fill the auditor vacancy and an assurance that the budget would not be subject to cuts in light of other financial pressures. It was confirmed by the Section 151 Officer that it was his responsibility to ensure that there was an effective internal audit function that was adequately resourced.

RESOLVED –

That the content of the Business Assurance Services Manager's annual report for 2014-15 be noted.

7. ANNUAL GOVERNANCE STATEMENT

The Annual Governance Statement (AGS) for Aylesbury Vale District Council, that would be signed by the Leader of the Council and the Chief Executive when approved by the Audit Committee, formed part of the Council's formal accounts for the financial year 2014-15. A draft of the Annual Governance Statement had been reported to the Audit Committee in March 2015, and Members had been given the opportunity to discuss and comment on it.

Members were advised that the assurance gathering process for preparing the Statement was based on the management and internal control framework of the Council and, in particular, on the independent report of the Council's Business Assurance Services Manager presented to this meeting. The assurance framework included reference to the sources of assurance obtained from management. This included the new service risk assurance process which had been reported in more detail in the Business Assurance Service Progress Report.

Improvements to the internal control environment were documented in Section 5 of the AGS and these would be monitored via the Business Assurance Service Progress Reports.

Having critically reviewed the Annual Governance Statement 2014-15, commenting in particular on the Council's e-learning arrangements for staff, and regular reporting on the Authority's customer comments and complaints procedure; having considered the robustness of the Council's governance arrangements, and having monitored the actions arising from the review arrangements, it was

RESOLVED –

- (1) That the content of the Annual Governance Statement 2014-15, be noted.
- (2) That the Annual Governance Statement 2014-15 be approved for inclusion in the Council's Statement of Accounts for 2014-15.

8. DRAFT STATEMENT OF ACCOUNTS

The Committee received a report on the current position in terms of accounts preparation, and which also identified significant changes to accounting policies applied in the preparation of the accounts. The budget outturn position was also reported in a management style for the information of Members.

Members were informed that whilst the Quarterly Finance Digest (QFD) did not form part of the statutory accounts, it did provide a more understandable guide to the financial events that had taken place in the last year relating to the provision of Council services. The outturn position for the year shown in the Digest was a contribution to balances of £135,703, as against a budgeted contribution to balances of £101,100. The actual contribution would have been greater but during 2014/15 the Council had agreed to a special use of balances of £10,000 to fund the continuing costs associated with HS2.

The early generation of savings in advance of 2014/15 and higher income associated with revised service provision had contributed to this underspend, although this had to be offset against a shortfall in income from investment interest.

Some of the main factors that had been reported during the year and which had contributed to the outturn position were savings/extra income from Housing Benefit Administration, Office Accommodation, Development Control higher fee income, Waterside theatre (business rates and other cost savings), and domestic refuse (savings on salaries and vehicle running costs). Factors that had negatively impacted included Environment and Health administration, partnership costs associated with iESE, business transformation (project and salary costs), redundancy costs associated with the restructure of Planning Business Support and lower income offset by reduced running expenses for the IT Division.

The latest Quarterly Finance Digest had also detailed the top 5 underspends and overspends by service areas for 2014/15, and showed that the General Fund Statement of Balances position at the year end was £3.765m after taking into account the outturn position.

During 2014/2015, transfers to and from reserves had been as follows:-

- That £2.7m had been transferred out of reserves and £6.3m transferred into reserves, making a net increase of £3.6m.
- The largest use of reserves had been £0.657m from the income investment reserve that had been transferred to the General Fund in order to meet the shortfall on investment interest. Investment interest continued to be lower than expected due to interest rates remaining unchanged throughout the year. The 2015/16 budgets had been revised to more accurately reflect the anticipated interest for the year so that there was less call on the reserve in the future.
- A contribution of £0.5m had been transferred from the Property Sinking Fund (revenue to capital) to help fund the Swan Pool improvements.
- Other movements out had been £405,000 from the Planning reserve to fund appeal costs, and £401,000 from the Repair and Renewals Fund to meet the costs of planned operational building repairs.
- There had been one sizeable contribution to reserves, which was £3.45m of New Homes Bonus into the New Homes Bonus reserve. This gave a year end balance of £7m, of which £1.113m was earmarked for Parish initiatives.

- Whilst the reserves showed a net increase for the year, this was solely due to the contribution to the New Homes Bonus. However, this reserve had committed £5 million to the Council's East / West rail contribution (Council decision of 17 July 2013). The commitment was spread over a number of years. Other commitments included £1.5m to the High Speed Broadband project, £0.986m for the Pembroke Road depot and £0.945m towards the Swan Pool improvements. Without this contribution the total amount held in reserves would have risen slightly to £24.3 million.
- A review of reserves would be carried out in advance of the 2016/2017 budget setting process, and the full list of reserves and provisions was detailed in Appendix B to the Committee report.

The Council had an approved capital programme for 2014/15 of £24.3m, of which £13.8m was earmarked for the UCAV (University Campus Aylesbury Vale) facility, £2.0m for the Swan Pool improvements and £1.5m for Pembroke Road upgrade.

The actual spend was £15.4m, of which £7.8m was for the construction of the UCAV facility. The other area of significant spend was on enabling grants to Housing Associations, which totalled £4.5m. The spend was £8.9m less than expected due to delays relating to the UCAV facility starting later than expected and with the second phase of the Depot alterations, where no agreement has been reached with AVE on which properties were available for development.

The Council was still in the position that it could not generate vast sums of capital receipts as it had disposed of the majority of its assets. During 2014/15, £6.4 million had been received. £2.8 million had come from house sales and £3.6 million from the sale of the Circus Fields site and land at Barlow Road, Wendover.

During 2014/15 the Council had taken out further long term borrowing in order to meet its capital expenditure commitments. One loan, totalling £13.5m, had been taken out with the PWLB for a period of 36 years. This took the total borrowings at the end of the year to £28.5m.

During the year the remaining balance of £2.5m being held with a Fund Manager, Investec, had been repaid.

The statutory code for the production and authorisation of the accounts, that all Councils had to follow, was set out within the Accounts and Audit Regulations. These required Members to only approve the accounts in September when they could be informed of any audit findings and, therefore, make an informed decision on their accuracy.

The Council's Chief Financial Officer had certified the draft accounts by 30 June and had published them on the Council's website. Guidance from the Accounts and Audit Regulations suggested that, while there was not a requirement to do so, it was best practice to give Members an early notification of the financial outcome of the previous financial year. As such, Members had been provided with the previous year's full statements and were asked to consider these alongside the year-end financial information contained in the Quarterly Finance Digest (QFD).

Members' attention was drawn to the two main statements, namely the Comprehensive Income and Expenditure Statement (CIES) and the Balance Sheet. The CIES contained the same spend and income information as detailed in the QFD, but it was presented in a different way to comply with the Statement of Recommended Practice (SORP).

There had not been any accounting changes that had been incorporated in the accounts this year.

There had not been any significant issues that had been required to be reflected in the 2014/15 accounts. However, some of the main information points were:-

- Icelandic Banks – Heritable Bank: No payments had been received during the year, which left a balance of £49,603 outstanding against the £1 million deposit.
- Fixed Assets – The only assets valued at the end of the year were the Community Centres.
- That the year end position was that Aylesbury Vale Estates (AVE) owed the Council £32.7m, made up of £28.6m deferred receipts, £2.9m Hale Leys loan and a debtor of £1.2m.

During the course of the year the deferred receipts balance had reduced by £3,938,903. This was a result of AVE repayments of £362,473 against loan one and a repayment of £3,576,430 against loan two, which was now fully repaid.

The provisional year end position of the AVE group was a £1.101m profit, which was made up of an AVE LLP profit of £628,000 and a Hale Leys LLP profit of £473,000. These figures were reflected differently in the AVDC and AVE accounts as they were prepared using different accounting regulations.

AVE LLP had declared a dividend of £208,388 for 2014/15, split 50/50 between AVDC and Akeman. As in previous years, AVDC had converted the Council's share of the dividend into a further loan.

Accounting estimates had needed to be used in a number of areas in the course of preparing the accounts, including for fixed assets, debtors and creditors, provisions, Pensions and Council tax accounting. To enable a better understanding of these figures, a table of estimations was included at Appendix C to the Committee report. The table highlighted how the methods and assumptions were made, and helped to explain why an estimate might be widely different from the actual position.

Members sought clarification around a number of issues, including the level of working balances, the Debtors/creditors position, the level and allocation of reserves, the position around AVE and the funds made available through the New Homes Bonus allocation. With regard to AVE, the Director with responsibility for finance indicated that the AVE Business Plan was the subject of report to the Finance and Services Scrutiny Committee annually and that a report to that Committee was imminent.

RESOLVED –

That the current position in relation to the statutory accounts preparation and the outturn be noted.

9. AUDIT COMMITTEE WORK PROGRAMME

The Committee considered the future Work Programme for 2015-16 which took account of comments and requests made at previous Committee meetings and particular views expressed at this meeting, and the requirements of the internal and external audit processes.

RESOLVED –

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

10. DATES OF FUTURE MEETINGS

It was noted that the next meeting of the Audit Committee would be held at 6.30 pm on 28 September 2015, in the Olympic Room at The Gateway, Gatehouse Road, Aylesbury.