

Audit Committee

28 SEPTEMBER 2015

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

Also present: David Guest from Ernst and Young LLP.

APOLOGIES: Councillors A Hetherington and H Mordue

RISK MANAGEMENT

Prior to the commencement of the formal business of the meeting, Members received a presentation from the Business Intelligence and Assurance Officer on Risk Management and the work/actions being undertaken by Council Officers and Members in response.

1. MINUTES

RESOLVED –

That the minutes of the meeting held on 27 July, 2015, be approved as a correct record.

2. EA AUDIT RESULTS REPORT (ISA 260)

The Committee had received a report on the current position with the draft Statement of Accounts for 2014-15 to the July meeting, prior to the accounts being submitted to the external auditors.

The Audit Commission's Code of Audit Practice required the external auditors to report to 'those charges with governance' on the work carried out to discharge the external auditors statutory and audit responsibilities, together with any governance issues identified.

The Committee received a report summarising the auditors findings from the 2014-15 audit which was substantially complete. It included the messages arising from the audit of the financial statements and the results of the work undertaken to assess the Council's arrangements to secure value for money in the use of resources. The report highlighted the following key findings:-

- (i) Financial Statements – it was expected to issue an unqualified opinion, subject to the satisfactory clearance of any outstanding work. The audit results demonstrated that the Council had adequately prepared the financial statements.
- (ii) Value for Money – it was expected to conclude that the Council had made appropriate arrangements to secure economy, efficiency and effectiveness in the use of resources.
- (iii) Whole of Government accounts – it was expected to issue an unqualified confirmation to the National Audit Office regarding the Whole of Government accounts submission, and that there were no significant matters to report.
- (iv) Audit Certificate – it was expected to issue the audit certificate at the same time as the Audit Opinion, which demonstrated that the full requirements of the Audit Commission's Code of Audit had been discharged for the relevant audit year.

During their work, the external auditors had identified two significant audit risks and a number of other audit risks. These had been reported to Members in the Audit Plan. An explanation of the approach taken by the external auditors to look at these and how they had gained audit assurance on them was also included in the report. The identified issues were:-

Significant Audit Risks (including fraud risks)

- Risk of Management Override – management was in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. As such, the external auditors considered this fraud risk as a part of every audit engagement.
- Revenue and expenditure recognition – ISA 240 required auditors' consideration of the risks of material misstatement due to fraud to be based on a presumption that there were risks of fraud in revenue and expenditure recognition. This was due to the potential pressures or incentives on management to commit fraudulent financial reporting to achieve an expected financial outcome through inappropriate revenue and expenditure recognition.

Given the level and nature of revenue and expenditure; and the financial challenges facing the Council, we are unable to rebut this presumption of fraud and therefore assess this as a significant risk.

Other Audit Risks

- New Monitoring Officer – the Monitoring Officer had been replaced with an interim Monitoring Officer during 2014/15. Due to the importance of this role in maintaining the highest standards of conduct for elected Councillor's and staff, there was a risk that the interim Monitoring Officer was not appropriately experienced or qualified to perform their role.
- Group Accounting – it was important that the Council's share of transactions was accounted for properly. As the Aylesbury Vale Estates accounts were produced using UKGAAP versus AVDCs using IFRS, the Council needed to ensure that arrangements were in place to make appropriate IFRS judgements.
- Property, Plant and Equipment (PPE) – an error identified in the 2013/14 accounts had required amendment. This had been caused by the useful lives of some assets not being updated in line with the External Valuers revaluations. This led to corrections being made on depreciation charges, gross book values and land and buildings figures. The impact of these errors were outlined in Appendix A to the external auditors' report.
- Non-Distributed Costs – the external auditors had identified last year that this expenditure line had been used for items which should have been classified elsewhere in the Comprehensive Income and Expenditure Statement. No issues arose this year during testing.
- Design and Operation of Internal Controls – a number of historic control issues relating to the APTOS finance system (being replaced for 2015/16) meant that the auditors were unable to rely on controls for Accounts Receivable, Accounts Payable and journal systems. The auditors' walkthrough confirmed that the

control issues remained although some work had also been done to provide controls over the financial systems in place.

The audit had identified a number of misstatements, all of which management had corrected during the course of audit work. Details of these were provided at Appendix A to the auditor's report. The auditors had not identified any misstatements that management had chosen not to adjust

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, the auditors required to communicate significant findings from the audit and other matters that were significant to the oversight of the Council's financial reporting process including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures.
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions.
- Any significant difficulties encountered during the audit.
- Other audit matters of governance interest.

However, there were no issues relating to these that the auditors wished to report.

The auditor's report also included information on the values that had been used to determine a magnitude for uncorrected misstatements to be material for the financial statements as a whole. For the Council's financial statements this was 2% of gross expenditure (£2.118m) and for the Group Accounts it was 2% of gross expenditure in the accounts (£2.066m). A Tolerance Error (TE) had also been set at the more detailed level of an individual account or balance. It had also previously been agreed with the Audit Committee that all audit differences in excess of £0.106m would be reported.

There were also a number of other matters reported including that eight Members had not responded to the Council's related party disclosure request. Six of these were for Councillors who either did not stand or were unsuccessful in being re-elected at the 2015 elections. Two related to Members who had been re-elected in 2015. While the auditors had asked for a specific representation regarding these transactions to provide assurance where the returns had not been received, it was recommended that the Council put in place arrangements to ensure that all future returns are collected in a timely manner.

The audit had looked at both the arrangements for securing financial resilience and arrangements for securing economy, efficiency and effectiveness and had not identified any significant risks under these criterion nor did they have any issues to report. It was commented that the Council continued to face financial challenges due to the ongoing austerity measures being promulgated by central Government.

The external auditors confirmed that the total audit fee was in line with the agreed fee at this point in time, subject to the clearance of the outstanding audit work. It had not been necessary to undertake any non-audit work outside of the Audit Commission's Audit Code requirements.

Members sought and were provided with additional information as follows:-

- (i) that during the course of the audit it had been identified that the information produced by the Fixed Asset Register package to reflect the movements during the year was producing an incorrect treatment of the figures. The figures relating to the revaluation of the Community Centres and Hampden House car park had been amended to show the correct position within the Income and Expenditure

account and the revaluation reserve. The supplier of the Fixed Asset Register software was currently working on correcting the reporting error.

- (ii) that the external auditors looked at the work and individual reviews being done by the Business Assurance Service as part of their work, to gain a better understanding of issues such as backlogs or issues identified in individual service areas.
- (iii) that both external and internal audit would have looked at the Aylesbury Vale Estates governance arrangements when that entity had been set up. Further reviews might take place in the future if there were changes to the arrangements.
- (iv) that the Council would review and look to put in place arrangements to ensure that all Members' related parties disclosure returns were collected in a timely manner.

RESOLVED –

- (1) That the matters raised in the external auditors' report and raised by the auditors at the meeting be noted.
- (2) That the Letter of Representation be agreed, and the Chairman of the Audit Committee be approved to sign it off on the Committee's behalf.

3. BUSINESS ASSURANCE PROGRESS REPORT

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

- (i) **Assurance Reviews completed since the last progress report** – three reviews had been completed on Enterprise Car Pool (savings), Section 106 (Developer Contributions) and Conference Centre Income. All have been given a reasonable assurance.

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

Transparency Code – Compliance: the target for all datasets had been extended from the end of July to 31 August. There were still 2 non-compliant areas that were 'The Organisation' (salaries, pay scales, senior posts and union facility time) and 'Land and Property'. The second area was more complex to resolve and work had started to update the Uniform system. It was anticipated that the HR information would be uploaded before the end of September

New Finance Software – the new finance system (Tech One) had gone live on 1 June 2015. A number of areas of control had not been implemented and these were listed in the appendix to the report. It had been agreed that the outstanding areas would be implemented by 30 September 2015, with detailed testing then carried out during October / November.

- (iii) **Assurance Plan Work in Progress**

The contract for software to assist the Council to track policy compliance (2014/15 Plan) had been agreed and the project implementation started. It was expected to go live in October 2015.

It was anticipated that the reviews of 2015/16 Data Protection (Off Site and Mobile Devices), 2015/16 Supplier Resilience and 2015/16 Housing Allocations would all commence in September 2015.

- (iv) **Service Risk Assurance 2014/15** – The Assurance Plan had been reviewed and updated for the remaining six months to reflect changes. Some reviews were no longer a priority for this year and in other cases they have been merged with other reviews or removed all together. Details of the changes and on completed and outstanding work was provided at Appendix 2.
- (v) **Update on Impact of Single Fraud Investigation Service** – the two Fraud Investigation staff who reported to the Revenues and Benefits Service Manager transferred to the DWP's Single Fraud Investigation Service on 2 February 2015. Prior to the transfer, the Revenues and Benefits Service had established a Compliance Team and the work of the team has expanded to deal with the ongoing referral of Housing Benefit fraud cases to the DWP and as the point of contact for any exchange of information between the Council and the DWP. These arrangements were documented in an SLA.

Any other allegations of council tax fraud were referred to the Compliance Team mailbox. The team were responsible for drawing information from various sources and making decisions to amend council tax accounts. Penalties were added to accounts, where appropriate. In addition the compliance team had a process for reviewing all discounts, exemptions and disregards on Council Tax which included a risk based priority system.

A more detailed update on the work of the compliance team would be reported to the Committee in November, on the number of housing benefit fraud referrals and the amount of council tax recovered through the compliance team reviews.

- (vi) **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 on recommendations over 6 months old was detailed at Appendix 4.

- (vii) **Resource Update**

As reported in April 2015, one of the internal auditors had left the Council and the work plan was being managed by the remaining auditor.

Since the last meeting the Business Assurance Manager had been seconded, initially for a 12 month period, to a new role to lead a new venture to achieve substantial future income for the Council.

The Council was legally required to have an internal audit provision (albeit it can be provided by an external provider if necessary) as directed by the Audit and Accounts Regulations 2015. As the Business Assurance Manager had responsibilities for not only internal audit the Director with responsibility Finance was seeking to find an interim solution. It was hoped that these arrangements

would be in place from October 2015. The Chairman of the Audit Committee would be consulted before any arrangements were formalised.

Members sought further information and were informed:-

- further on the arrangements being made for internal audit provision.
- on the impact of the move of two Fraud Investigation staff to the DWP's Single Fraud Investigation Service on 2 February, 2015.
- Network Drives Audit (Overdue Recommendations Tracker) – that the biggest issue for the Council in not finalising the agreed management actions (target date had been 01/05/2012) related to Data Protection Act compliance.
- that the review of Taxi Licensing was being finalised and the outcomes would be reported to the next Committee meeting.
- that the list of outstanding reviews on the Assurance Plan 2015/16 was being reviewed and re-prioritised in light of available staff resources.
- that reviews/audits that gave an overall rating of 'Substantial' or 'Reasonable', meant that there was a good level of confidence on service delivery arrangements, management of risks and the operation of controls and/or performance. Where reviews/audits had a 'Limited' or 'None' rating then a summary of them was provided with the Business Assurance Manager's Progress Reports, including information on identified risk and impact, and on management action agreed in response to them.
- that if any changes were proposed following the wider review of Shopmobility by the Engine Room, then this would be reported in due course to scrutiny and Cabinet.

Members also commented that as the Network Drives Audit target was now more than 3 years overdue it should be reviewed to ascertain whether there had been any change in the risk and impact. If there was still a requirement to share the data across service areas, then how was it intended that this would be achieved.

RESOLVED –

- (1) That the progress report be noted.
- (2) That an update on the Network Drives Audit and management action to be taken be reported to the next meeting.

4. RISK MANAGEMENT STRATEGY AND STRATEGIC RISK REGISTER

The risk management arrangements of the Council were a key part of the overall internal control arrangements of the Council and form part of the Annual Governance Statement. When risk appetite is properly understood and clearly defined, it becomes a powerful tool, not only in taking well measured risks, but also for improving overall performance and decision making.

At the most basic level, risk appetite was how much risk the Council was prepared to take in order to attain the benefit / return for our investment (£ or effort) or in other words, the individual and total impact of risk it was prepared to accept in the pursuit of the strategic objectives.

The Committee received a report and were informed that an updated and revised Risk Management Strategy had been produced (Appendix 1) to reflect changes in the Council's approach to risk and risk appetite since the last strategy had been approved in September 2013. To help update the Strategy it had been necessary to gain an insight into how we 'Think about Risk', particularly those risks associated with our emerging priorities. These had been discussed with Transition Board on 2 September, and informally with Cabinet on 21 September. Feedback from those meetings was reported verbally to Members.

The Audit Committee had a role to monitor the effectiveness of risk management and internal control across the Council and as part of discharging this role was asked to review the Strategic Risk Register.

The Strategic Risk Register provided evidence of a risk aware and risk managed organisation. While it reflected that many of the risks that were on the current radar for Transition Board were similar to those faced across other local authorities, the difference was in how they were assessed and managed. The Register had been considered by Transition Board to review the ratings, establish how effectively the risks were being managed and where further action was required.

The matrix at Appendix 1 (page 1) detailed a summary of 15 areas of risk and how they had been rated. The ratings had taken into account the importance of the risk in terms of the impact on the Council and also the confidence in managing that risk. The third dimension (size of bubble in matrix) is how likely the risk was to change in the next twelve months. This reflected that some of the risks were "slow burning" which meant there were potential longer term impacts but action to mitigate the risks might still be required.

The Risk Register was reviewed on a six monthly basis by Transition Board and reported to the Audit Committee.

Members sought further information and were informed:-

- on the various sources of assurance that the Council used to satisfy itself that it was meeting its safeguarding duties. The Council also had a new Prevent Duty from 1 July 2015, that would require additional training and putting together a Prevent Risk Assessment and Action Plan.
- that risk management was addressed as a part of every business case. For example, it would be included in any reports that came forward to scrutiny, Cabinet and Council on a unitary Council business case.
- that the Council's risk appetite on some issues had changed over the last few years, mainly due to the budgetary position brought about by reductions in Government grant. However, issues and appetite were looked at on a case-by-case basis.
- that the Strategic Risks Summary detailed the 15 principal risks facing the Council. Part of the Council's approach was to manage and mitigate these risks to decrease the likelihood of the risks increasing.
- that Risk Registers were put together for matters, depending on risk assessment results and the outcome of Risk Appetite Matrix assessments.

- on the work being done to manage risk and ensure the Vale of Aylesbury Local Plan was delivered on time, and to improve the Council's resilience and ability to respond and manage in the event of a significant loss of key buildings, staff, finance or customers.

Members also requested that an additional explanatory bullet point be included with the 'Key Roles' pyramid on Member responsibilities within the structure.

RESOLVED –

- (1) That the updated Risk Management Strategy, which defined the risks facing the Council, risk appetite and, how these were being managed, be noted.
- (2) That Cabinet and senior Officers be asked to consider the comments and feedback for future risk management decision making.

5. POST AUDIT STATEMENT OF ACCOUNTS

The Accounts and Audit Regulations state that Members should only approve the accounts when they have been made aware of the findings of the audit and hence were able to make a better informed decision.

Following on from the report on the draft accounts to the July meeting, Members received a report updating them on the audit process and the changes made to the accounts in accordance with the external auditor's recommendations. The auditors' comments and findings from their work on the 2014/15 accounts had already been reported to Members in the Annual Governance Report (AGR).

Subject to being satisfied with the revised accounts and that the auditor's comments had been correctly responded to, the Committee was required to authorise the Chairman to sign them on the Audit Committee's behalf, together with the Director with responsibility for Finance, in order to comply with the 30 September statutory deadline. However, it was requested that the Committee delegate to the Head of Finance, in consultation with the Chairman or Vice Chairman, the ability to make such changes to the accounts that are considered necessary in order to achieve the statutory deadline.

As already reported by the external auditors, a couple of amendments had been made to the accounts to revise misstatements and to better explain the nature of certain financial transactions. The changes to the accounts between the draft submitted for audit in July and the version now submitted to this meeting were:-

- Fixed Asset Register – it was identified that information produced by the Fixed Asset Register package to reflect the movements during the year was producing an incorrect treatment of the figures. This figures for the revaluation of the Community Centres and the Hampden House car park had been amended to some the correct position within the income and expenditure account and the revaluation reserve. Despite the changes, the overall year end position of the revaluation reserve was unchanged, with the contribution to balances being £135,703.
- External loan – a loan of £5.17m had been re-classified from long term borrowing to short term borrowing, as it was due for repayment in December 2015.
- Aylesbury Land Use and Transport Strategy (ALUTS) – under the financial instruments note 17.1, the ALUTS amount had been removed as it did not meet the definition of a financial instrument.

- Related Parties Transactions Note – all but 2 Members had now returned their disclosure returns. Completion of these disclosures was an audit requirement and as a result of the delays experienced this year this area had been highlighted by the auditors.

While the Council could choose whether or not to make amendments to its draft accounts for non-material errors or misstatements, the view this year had been that it would reflect all errors or misstatements in the accounts that were raised by external audit.

There was a requirement to report significant events that occur after the balance sheet date and before the sign off date, however, none had occurred since the July 2015 Audit Committee meeting.

Members sought and were provided with additional information on the Statement of Accounts 2014/15 as following:-

- (i) that the process for receiving and incorporating the Aylesbury Vale Estates group accounts into AVDC's statement of accounts was now working well.
- (ii) on senior Officer remuneration and on remuneration of over £50,000 p.a. paid to Council employees and on the number of exit packages and total cost of compulsory and other redundancies. Members were informed that the reduction in the total number of AVDC staff over the last few years had been achieved across the whole organisation.
- (iii) on the position regarding the present value of liabilities of the Local Government Pension Scheme.

Having considered the final Statement of Accounts for 2014/15, it was –

RESOLVED –

- (1) That the final outturn position of the Council's Statement of Accounts 2014/15 be noted.
- (2) That approval be given to the Chairman of the Audit Committee to sign off the Statement of Accounts for 2014/15 on the Committee's behalf.
- (3) That approval be given to the Director with responsibility for Finance, in consultation with the Chairman or Vice Chairman, to make such changes as considered necessary to achieve sign off by the statutory 30 September deadline.

6. WORK PROGRAMME

The Committee considered the future Work Programme for 2015-16 which took account of comments and requests made at Audit 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.

7. DATES OF FUTURE MEETINGS

The next meeting of the Audit Committee would be held at 6.30pm on 9 November, 2015, in the Olympic Room at The Gateway, Gatehouse Road, Aylesbury.