

# **AUDIT COMMITTEE**

**25 JULY 2016**

**PRESENT:** Councillor K Hewson (Chairman); Councillors B Chapple OBE (Vice-Chairman), C Adams, P Agoro (in place of M Smith), Branston, M Collins, R Stuchbury, D Town and H Mordue (ex-Officio)

**APOLOGIES:** Councillors P Irwin and M Smith

## **1. MINUTES**

RESOLVED –

That the Minutes of the meetings held on 21 March 2016 and 8 May 2016 be approved as correct records.

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

The Committee received the annual report from the Chairman of the Audit Committee which summarised the work carried out during the 2015/16 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.

The report also took into account the review of the effectiveness of the committee which was a self assessment against CIPFA's best practice guidance. This was attached as Appendix B to the Committee report. In most areas the Committee was meeting good practice requirements and was actively and effectively supporting improvement across the specified areas. A number of actions had been identified to further improve, including an assessment of the membership of the committee against the CIPFA core knowledge and skills framework.

As well as circulating the final version of the report to all Members via the Members' Information Sheet it would also be published on the Council's website. Members considered the self assessment (Appendix B) regarding their effectiveness and the CIPFA Audit Committee Members' knowledge and skills framework (Appendix C) and discussed their training needs for the coming period. Members agreed that they would benefit from training that covered issues including the financial accounts, legal/regulatory obligations, risk management, financial governance principles, and compliance / local procedures. It would also be helpful to have a better understanding of audit terminology and

RESOLVED –

- (1) That the Audit Committee Chairman's Annual Report be endorsed.
- (2) That the Officers, in consultation with the Chairman, be asked to put together a timetable of training to be scheduled with future Audit Committee meetings.

## **3. EXTERNAL AUDIT PROGRESS REPORT**

The Committee received a report on the progress made by the external auditors, Ernst and Young, on their audit plan for 2015/16. To date, three weeks of final accounts testing had been undertaken and no issues had been identified at the moment that needed to be brought to the Committee's attention.

The auditors would continue to hold regular meetings with key Officers as part of the ongoing audit process. Meetings had also been held with the Housing Benefits team and selected samples for testing for the initial work which had been completed in mid June. These interim reviews had not identified any issues considered necessary to bring to the Committee's attention.

The year-end audit results including the opinion on the financial statements, conclusions on the arrangements for securing economy, efficiency and effectiveness in the use of resources, and opinion on the whole of Government accounts would be reported to the next meeting in September 2016.

Members confirmed that the Plan and work aligned with the Committee's expectations and

RESOLVED –

That the external auditors' report be noted.

#### **4. INTERNAL AUDIT ANNUAL REPORT**

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), and 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 (BAS) Manager's opinion on risk management, control and governance and their effectiveness in achieving the Council's agreed objectives for 2015-16. Based on this work, the BAS Manager had provided the following opinion:-

"Generally satisfactory with some improvements required to specific systems and processes."

Governance, risk management and control in relation to business critical areas was generally satisfactory. However, there were some weaknesses in the framework of governance, risk management and control which potentially put the achievement of the Council's objectives at risk.

Improvements were required in those areas to enhance the adequacy and effectiveness of governance, risk management and control."

In forming this opinion the Business Assurance Services Manager had confirmed that internal audit activity throughout 2015-16 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 13 assurance reviews had been completed in 2015/16 of which 2 had been given a "substantial" assurance, 8 a "reasonable" assurance and 3 a "limited" assurance. This had resulted in the identification of 6 high, 22 medium and 9 low priority actions to improve weaknesses in the design and operating effectiveness of controls. This compared to 9 assurance reviews (6 high, 23 medium and 12 low priority recommendations) in 2014/15, although a direct comparison could not be made.

A summary of the reviews undertaken and the opinion given was detailed at Section 3 of the BAS Manager's report.

A number of weaknesses had been identified that needed to be reported in the Annual Governance Statement, and which related to the limited assurance reports issued for core financial systems. A summary of these limited assurances was also detailed in Section 3 of the BAS Manager's report.

Other internal audit work undertaken during the year included a review of risk management arrangements and had led to a revised risk management strategy being approved by the Audit Committee in September 2015. The annual service risk assurance process had been facilitated by internal audit in March 2016 and sought to identify from service managers which policy areas were higher risk to their service by the nature of their activities and what assurance they could give in terms of responsibilities, training and monitoring.

One investigation into a data breach had taken place during the year.

A limited assurance report had been issued for data transparency (finding that the Transparency Code had not been complied with in 5 out of 10 areas) but subsequent work during the course of the year had ensured that the required information had been updated and published as required.

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. There were no significant issues to report regarding the follow up of any audit recommendations.

A self-assessment against the requirements of the Public Sector Internal Auditing Standards (PSIAS) had been conducted in 2013 and the gap analysis and action plan had been last updated in July 2015. During 2016, the requirements of PSIAS had been considered and there are no areas of concern to indicate that the current arrangements were not fully compliant with the Standards. Compliance with PSIAS would be considered as part of the review of service provision going forward.

As part of discussions, and using the Business Assurance report on Council Tax and Business Rates for 2015/16 which had received a "Reasonable" assurance opinion as an example, Members were provided with a detailed explanation of the background, scoping, terms of reference and work that went into producing the assurance report and assurance rating. It was explained that a similar process had been undertaken for all assurance reviews, although the level and type of testing would differ from review to review. Due to the different mix and focus of reviews the overall results could not directly be compared from year to year.

It was further explained that the assurance testing methodology was not AVDC specific and took account of factors such as best practice, established audit methodologies, current risk information and the experience of the audit team.

Members requested further information and were informed that going forward audit work would need to take account of the Council working and acting in a more commercial manner, although AVDC owned or part owned companies would operate as separate entities in line with their Business Plans, articles of association and shareholders powers.

RESOLVED –

That the content of the Business Assurance Services Manager's annual report for 2015-16 be noted.

## **5. 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 2015-16. A draft of the Annual Governance Statement had been reported to the Audit Committee in March 2016, and Members had been given the opportunity to discuss and comment on it.

The statement explained how AVDC had complied with the principles of corporate governance and also met the requirements of regulations 4(2) and 4(3) of the Accounts and Audit Regulations, which required all relevant bodies to prepare an AGS in accordance with proper practices in relation to internal control.

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.

During 2015 the Council had implemented a new finance system with the objective to improve automated work-flow and establish a system that was widely used by budget managers across the Authority. The system went live in June 2015.

Internal audit work highlighted a number of weaknesses relating to the design of financial controls and processes and the way they were operating within the new financial system. Some of the issues identified were relevant to the overall financial control environment. Weaknesses had also been identified in the reconciliation processes between the corporate finance and other systems, such as the revenues and benefits system.

A detailed plan had been developed to address the weaknesses identified and prompt action had been taken by management. Progress was being monitored by the Financial Review Programme Board and would be reported to the Audit Committee.

Having critically reviewed the Annual Governance Statement 2015-16 and the robustness of the Council's governance arrangements, it was

RESOLVED –

- (1) That the content of the Annual Governance Statement 2015-16, be noted.
- (2) That the Annual Governance Statement 2015-16 be approved for inclusion in the Council's Statement of Accounts for 2015-16.

## **6. INTERNAL AUDIT PROGRESS REPORT**

The Committee received a progress report of activity undertaken since March 2016 that highlighted the following matters:-

- (i) Final reports – the following had been issued since March 2016, with the full internal audit reports attached at Appendix 4.

Council Tax and Business Rates – overall, the controls and processes were found to be operating effectively to provide reasonable assurance over billing

and recovery. However, there were a number of areas (set out in Appendix 4 to the Committee report) where action was needed to improve the integrity of financial information, control and monitoring processes.

General Ledger and Budgetary Control – the review had been given a Limited assurance and had raised 2 high priority and 1 medium priority recommendations over the management and control of the general ledger and one medium recommendation for budgetary control.

Housing Benefits – the draft report had been issued to management and had a Reasonable assurance conclusion. Overall the controls and processes over housing benefits were found to be operating effectively to provide reasonable assurance over the accuracy and efficiency of claims handling. There were a number of areas where action was needed to improve the integrity of financial information and performance monitoring processes. There was also a need to consider the Council's level of overpayment and the approach to recovery.

Data Protection (Mobile Devices) – this review had been undertaken by an external data security specialist and been given a Reasonable assurance. A number of recommendations had been raised but the overriding one concerned the need to develop and maintain awareness of the importance of information security, and the precautions that users were expected to maintain when mobile working.

Vale Lottery – this review had focussed on four areas identified as being key to ensuring that the lottery is being operated effectively and in compliance with the Gambling Act, namely Governance and Legislation, Financial Transparency, Day to Day Operation and Performance Management. Overall, the processes and controls operating over the Vale Lottery were found to be operating adequately to ensure that it was operating effectively, with transparency and in compliance with the Gambling Act.

(ii) Assurance Plan Work in Progress – the following work had started:-

- Debt Recovery – work had commenced to identify the level of debt for each revenue stream, the ageing profile and establishing the existing recovery processes. Following this initial exercise the scope of the review would be developed.
- Information Governance Effectiveness – the review would assess the Council's information governance effectiveness using a benchmark approach centred on 23 'killer questions' across 5 key domains; Culture, Management, People, Process and Technology. Work would be performed by external specialists following on from the Mobile Devices review.
- Contracts – Internal audit has contributed to the Commercial AVDC Procurement and Contracts Review by performing data analytics of T1 contract/supplier spend and risk assessing the contract portfolio.

Progress against the 2016/17 Annual Internal Audit Plan, as approved by the Audit Committee in March 2016, was further detailed at Appendix 2 to the Committee report.

(ii) Overdue Audit Recommendations and follow up work

- Housing Allocations – The Bucks Home Choice Partnership policy had not yet formally reviewed the outcomes of lettings through Bucks Home Choice. A brief review of the Allocation scheme’s objectives had been recently finalised that would allow the BHC review to be undertaken by the end of July 2016.
  - Taxi Licensing – work was underway, although not completed, on the policy for document retention governing the licensing application process and which incorporated the whole licensing function. The data retention policy was currently in draft, with a view to it being agreed and fully implemented by December 2016.
- (iii) Internal Audit classification definitions – the basis for classifying internal audit findings and overall reports had been revised to enhance the transparency of internal audit work and the reporting methodology. Each individual finding was allocated a “risk rating”. The overall report classification was determined by allocating points to each of the individual findings included in the report, providing an overall level of risk. This enabled the risk profile to be compared across areas under review and progress to be monitored from year to year.

The definitions of the individual finding risk ratings and overall reporting classification were detailed in Appendix 1 to the committee report.

- (iv) Commercial AVDC and internal audit – the Business Assurance Team, which included internal audit was involved in a number of the business reviews being undertaken as part of the fundamental restructure and business transformation programme of the Council - Commercial AVDC. The annual internal audit plan had been focused to assist these across the Council.

The review that the Business Assurance team falls under was known as “Business Governance”, overseen by the Business Strategy & Governance Sector Lead, Andy Barton. This area covered audit and risk, insurance, information governance and security, health and safety, emergency planning, and business resilience and disaster recovery.

The outcome of the review would confirm the new structure, how the services were delivered, and would include an assessment of internal, external and partner based provision of the functions, opportunities to improve automation of processes, and deliver a business plan for the functions going forward.

In the mean time the functions would continue to be delivered as usual. For the internal audit and risk elements, this was a combination of interim staff and contracted work mixed with the existing resources in the team. The Audit Committee would be kept updated with the progress and on any developments.

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

- (a) Technology 1 – that the new financial system included more complete controls and checks for the management and control of the general ledger.

The Council had several key financial systems that fed into the T1 General Ledger, including iTrent (Payroll) and iWorld (Housing Benefits, Council Tax and Business Rates). During the year to March 2016 there had been inconsistent, incomplete or no reconciliation of these financial systems to the General Ledger.

Work was underway to map the interrelationships between the General Ledger and all other financial systems and roles and responsibilities for reconciliations

within the finance team and service areas would be clarified. Standards procedures would be documented and implemented.

- (b) Suspense accounts – it was confirmed that these accounts had been reviewed and were now being cleared daily and at month-end, as per agreed procedures and responsibilities.
- (c) that the Action Plans at Appendix 3 to the Committee report included details of diagnosis and proposed actions and the timetable for implement them.

RESOLVED –

That the progress report be noted, including the progress made by Business Assurance Services against work identified in the Assurance Plan for 2015/16.

## **7. RISK MANAGEMENT REPORT**

The Committee had received a report on Risk Management and the results of the Service Risk Assurance for 2015/16 in March 2016 and had requested that a further report on risk management be submitted to the July meeting, with information evidencing that the Council was ensuring that risk management was being embedded in processes being implemented to advance the Council's commercial ambitions.

The Corporate Risk Register provided evidence of a risk aware and risk managed organisation. It reflected the risks that were on the current radar for Transition Board. Some of these were not dissimilar to those faced by other local authorities.

The Risk Register had been refreshed and updated taking into account the Commercial AVDC programme and been discussed by Transition Board on 6 July who had reviewed the risks and ratings and considered how effectively risks were being managed and where further action was required. The style of reporting had also been revised.

Since the previous review in September 2015, four new risks had been added to the register, one had been removed and a number of other risks had been subsumed into other overarching risks resulting from the Commercial AVDC Programme. As such, there were now 16 risks on the Corporate Register, with the residual risk rating being 3 low risk, 6 moderate risk, 4 high risk and 2 extreme risk.

Information on the risk matrix and risk ratings (impact and likelihood) was explained further in the Committee report.

To facilitate discussion about the detail of the Corporate Risk Register, the Committee resolved to exclude the public from the meeting under Section 100 (A) (4) of the Local Government Act, 1972, on the grounds that the item involved the likely disclosure of commercially sensitive information as defined in Paragraph 3 of Schedule 12A of the Act. The disclosure of such information might prejudice negotiations for contracts and land disposals or transactions. Members challenged robustly some of the assumptions made in the Risk Register, both in specific and general terms.

An explanation was provided of the difference between assurance ratings given as the result of assurance reviews and Inherent / Residual risk ratings detailed in the Corporate Risk Register. It was further explained that the Overall Residual Risk ratings took account of Overall Inherent Risk rating, the Council's capacity to manage that risk and controls that were in place to manage/mitigate the risk. The Corporate Risk Register would be regularly reviewed by Transition Board and reported to the Audit Committee.

RESOLVED –

- (1) That the current position of the Corporate Risk Register be noted.
- (2) That the Corporate Risk Register continue to be reported to each meeting in the format reported to this meeting, and include an additional column (+/- numeric) highlighting what change (i.e. direction of travel) there had been to the Overall Residual Risk rating over the period.

## **8. ANNUAL FRAUD PROGRESS 2015/2016**

The Committee received a report updating Members on the anti fraud and corruption work that had taken place over the last 12 months. This included an update on the actions identified in the fraud risk benchmarking assessment which were reported in January 2016 and a full year report on the activity of the Compliance Team for 2015-16.

An assessment of the Council's governance structures and processes against the CIPFA "Code of practice on managing the risk of fraud and corruption" had been reported to the Audit Committee in January 2016 which had shown that the Council was performing at 40% of the CIPFA standard. Members had commented at the time that the Council might want to consider setting a target of performing to 60-65% of the CIPFA code.

The Action Plan presented in January 2016 had been reviewed and updated by the Transition Board, and was attached as Appendix 1 to the Fraud report. Overall, the Council needed to do more to ensure it's resilience against fraud and to support good governance. All of the Action Plan actions were achievable with current resource and would improve the Council's governance structures and ability to demonstrate effective financial stewardship and strong public financial management.

Once in place and embedded, the actions identified would improve the overall assessment score and help provide assurance that the Council had adopted a response that was appropriate for its fraud and corruption risks and was committed to maintaining its vigilance to tackle fraud.

An Anti-Fraud and Corruption Statement had been included on the first page of the attached Fraud Report which the Committee was asked to endorse and promote to other members.

In March 2015 the Fraud Investigation Team had transferred to the DWP Single Fraud Investigation Service as part of the governments aims to try to tackle welfare benefit fraud. Since then the Council had not had a resource dedicated to fraud investigation. The Compliance Team which was part of the Revenues and Benefits Service had been established to undertake interventions and reviews of customer's council tax liability, housing benefit and council tax reduction entitlement, and to ensure account/claim records are correct, identifying errors and recovering overpayments as well as applying penalties where appropriate.

Appendix 3 of the Fraud Report summarises the outcomes of the Compliance Team work for 2015-16. The total overpaid benefits identified through the work of the Compliance Team during the year 2015/2016 had been £1.7million.

RESOLVED –

- (1) That the updated Fraud Action Plan and the work undertaken by the Compliance Team during its first full year be noted.
- (2) That the Council's Fraud Statement be endorsed and be promoted to all Members of the Council.

## **9. 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 £209,662, as against a budgeted nil contribution. The actual contribution would have been greater but during 2015/16 the Council had agreed to a special use of balances to fund the continuing costs associated with HS2 (£67,000) and the Web and E-Commerce projects (£441,000).

The early generation of savings in advance of 2016/17 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. The generation of savings had meant that the cost of a number of redundancies that had arisen during the year as part of section restructures were met from the savings rather than through balances.

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 Waterside properties rent and service charges, Refuse and Recycling reduced vehicle fuel costs, and car parking charges and service charge costs. Factors that had negatively impacted included consultancy / agency / pension costs, costs associated with Commercial AVDC / loss of contract income within IT and backfilling senior management posts within Contract Services.

The latest Quarterly Finance Digest had also detailed the top 5 underspends and overspends by service areas for 2015/16, and showed that the General Fund Statement of Balances position at the year end was £3.974m after taking into account the outturn position.

During 2015/2016, transfers to and from reserves had been as follows:-

- That £3.3m had been transferred out of reserves and £7.8m transferred into reserves, making a net increase of £4.5m.
- The largest use of reserves had been £1.454m from the new homes bonus reserve to fund the Swan Pool improvements and for Parish initiatives. The other sizeable move had been a contribution of £0.5m from the Property Sinking Fund, transferred from revenue to capital to also fund the Swan Pool improvements.
- Other movements out had been £277,000 from the Superannuation reserve to fund pension costs, £97,000 from the Repair and Renewals fund to meet the costs of planned operational building repairs and £727,000 from the Benefit Subsidy reserve, which was a contribution to the overpaid benefit doubtful debts provision.

- There been two sizeable contribution to reserves, one of which had been £5.074m of New Homes Bonus into the New Homes Bonus reserve. This gave a year end balance of £10.6m, of which £1.,278m was earmarked for parish initiatives.
- The other sizeable contribution had been £1.156m to the Planning reserves, where additional planning fee income was paid into the reserve rather than being held in revenue.
- Whilst the reserves were showing a net increase for the year, this was solely due to the contribution to the New Homes Bonus. However, this reserve had committed £5m to the Council's East / West rail contribution (Council 17 July 2013). The commitment was spread over a number of years. Other commitments include £1.5m to High Speed Broadband project and £0.986m for the Pembroke Road depot. Without this contribution in the total amount held in reserves would have fallen slightly to £27.1m.
- The full list of reserves and provisions was detailed in Appendix B to the Committee report. They would be reviewed again in advance of the 2017/18 budget setting process.

The Council had an approved capital programme for 2015/16 of £14.1m, of which £6.4m was earmarked for the UCAV (University Campus Aylesbury Vale) facility, £2.2m for the Swan Pool improvements and £3.8m for Pembroke Road depot upgrade.

The actual spend was £8.9m, of which £6.0m was for the completion of the UCAV facility. The other area of significant spend was on the completion of the Swan Pool improvements, which totalled £2.3m.

The spend was £5.2m less than expected due to delays relating to the purchase of the depot, which had finally completed in July 2016, and had in turn delayed the second phase of the Depot alterations. Less housing enabling grants had been paid out due to no schemes coming forward and no refuse vehicle replacements had been made in the year.

The Council still could not generate vast sums of capital receipts as it had disposed of the majority of its assets. During 2015/16, £2.4m was received, £2.3 million came from house sales and £0.1m from the sale of the some land off Buckingham Road, Aylesbury.

During 2015/16 no new long term borrowing was taken out, although one of the shorter term loans was repaid in December. This took the total borrowing at the end of the year to £23.5 million. During the year the level of investments remained fairly constant due to the slow down in the capital programme, which meant that the amount out on loan at 31 March 2016 had been £39m.

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 2015/16 accounts. However, some of the main information points were:-

- Fixed Assets – The only assets valued at the end of the year were the UCAV educational facility and the revamped Swan Pool at Buckingham.
- Companies – the accounts include the Council's new companies, Novae, AV Broadband and Vale Commerce.
- That the year end position was that Aylesbury Vale Estates (AVE) still owed the Council £32.7m, made up of £7.8m deferred receipts, £2.9m Hale Leys loan and a debtor of £1.4m.

During the course of the year the deferred receipts balance had reduced by £383,305 with AVE making repayments against one remaining loan.

The provisional year end position of the AVE group was a £0.467m profit, which was made up of an AVE LLP small loss of £628,000 and a Hale Leys LLP profit of £489,000. The group profit was after realising a profit of £505,000 on the sale of investment properties. However, these figures were reflected differently in the AVDC and AVE accounts as they were prepared using different accounting regulations.

Members commented on the Officers' remuneration information and that the number of other Council employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) had reduced during the least year.

RESOLVED –

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

## **10. WORK PROGRAMME**

The Committee considered the future Work Programme for 2016-17 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. A Risk Management report would also come to the meeting on 14 November 2016, and a timetable of training events would be scheduled for future meetings.

RESOLVED –

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