

Audit Committee

26 SEPTEMBER 2016

PRESENT: Councillor K Hewson (Chairman); Councillors B Chapple OBE (Vice-Chairman), C Adams, M Collins, T Mills, M Smith, R Stuchbury and H Mordue (ex-Officio)

APOLOGIES: Councillors C Branston and P Irwin

TEMPORARY CHANGES OF MEMBERSHIP: Councillor T Mills substituted for Councillor C Branston

1. MINUTES

RESOLVED –

That the minutes of the meeting held on 25 July, 2016, be approved as a correct record.

2. EXTERNAL AUDIT - AUDIT RESULTS (ISA 260)

The Committee had received a report on the current position with the draft Statement of Accounts for 2015-16 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 2015-16 audit which was substantially complete, subject to the satisfactory completion of the outstanding items included in Appendix B. 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 put in place appropriate arrangements to secure economy, efficiency and effectiveness in the use of resources.

One significant risk had been identified for this criteria which was 'Balanced budget and long term financial planning'. The Council's finances continued to be under significant pressure in the medium term, and in the 2016/17 MTFP had identified a budget gap of £5.6m by 2018/19. However, the assumptions within the MTFP had been assessed and there were not matters to be reported.

- (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 issues 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 three 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)

- Property, Plant and Equipment (PPE) (Valuations) – Due to the complexity in accounting for PPE, the cyclical approach to valuations, and the material values involved, there was a higher risk that asset valuations contained material misstatements. An error identified in the previous year had required amendment. However, testing this year had not identified any issues relating to the valuation of PPE. The Council had used an appropriate valuer and the results of the valuations were in line with the Code and the Council’s accounting policies.
- 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. No evidence had been identified of management override or fraudulent activity.
- Revenue and expenditure recognition – under ISA 240 there was a presumed risk that revenue might be misstated due to improper recognition of revenue. The auditors had reviewed the risk for the Council’s income and expenditure streams and identified the capitalisation of revenue expenditure on PPE as an area for review given the extent of the Council’s capital programme. Testing had confirmed that there had been no inappropriate revenue and expenditure recognition or biased management decisions.

Other Audit Risks

- New General Ledger System – the Council had changed their general ledger system during the year (from 1 June 2015), mainly to improve the control environment. There was a risk around the transfer of data between systems, in particular that the opening balances were correct. Testing of the opening balances had not identified any issues. The auditors had familiarised themselves with the new system and its design of controls, and been aware of the work performed by internal audit around the effectiveness of these controls. As such, a fully substantive approach had been taken to the audit.
- Group Accounting – there had been a significant change to the group structure in year which posed a risk that the group financial statement did not meet the requirements as defined by the Code. The Council had been preparing group accounts for a few years now in respect of Aylesbury Vale Estates and had set up three new companies (AVB Broadband, Novae Consulting and Vale Commerce Ltd, in 2015. All of the group entities had been confirmed. Testing of the consolidations and disclosures within the accounts had not identified any issues.

- Pension Liability – the pension liability (£90.3m in 2014/15) was considered a significant estimate in relation to its size. The IAS 19 report from Barnett Waddingham had been reviewed by the auditors' pension's specialist to confirm the accounting entries for the pension liability and had not identified any issues.
- Provision for Business Rate Appeal – in 2013/14 the Council had been required to calculate a provision for business rate appeals for the first time. The methodology that had been developed had been reassessed to ensure that the assumptions remained appropriate to prepare a reliable estimate. The work had not identified any issues.

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.

There was only one issue to report relating to these which was that in line with the Accounts and Audit Regulations 2015, the Council was required to have a period for the exercise of public rights (i.e. allow for inspection and objections to the accounts) for a period of 30 days and must include the first 10 working days of July. The Council had not met this requirement as they had not started this period until 5 August, 2016.

One corrected audit difference was brought to the Committee's attention as it was greater than £1.46m. The Council had incorrectly classified a number of pensions expenditure items (£2.007m) within Non Distributed costs. This expenditure had been reclassified across the other service cost headings in line with guidance. These items had been corrected by management in the revised financial statements.

The external auditors also confirmed that there had been no changes in their assessment of independence since confirmation had been given in the Audit Plan dated 21 March, 2016. They also 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) AVE audited accounts. It was confirmed that the overall performance of AVE would be a matter for Scrutiny, however, the external auditors were satisfied with AVE's accounts.
- (ii) The missing deadline for the period for the exercise of public rights; could this have been extended? Although the 10 working days from the 1st July deadline had not been met, the accounts had been available for the required 30 day period.

The external auditors confirmed that their work had now been completed as of 26 September and they were pleased to report that AVDC had been given a clean bill of health throughout. The letter of representation could now be signed off by the Chairman of the Audit Committee.

The Council's finance team were thanked for achieving an unqualified audit report.

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. INTERNAL AUDIT PROGRESS REPORT

The Committee received a progress report of activity undertaken since July 2016. Internal audit work was being undertaken in line with the annual internal audit plan that had been approved by the Audit Committee in March 2016 and was summarised at Appendix 1. The report highlighted the following matters:-

- (i) Final reports – only one review had been concluded since the July meeting, relating to Housing Benefits, with the full internal audit report attached at Appendix 3. Overall, it had been found that the controls and processes over housing benefits were operating effectively to provide a 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.
- (ii) Internal Audit work in progress – the Internal Audit Plan 2016/17 and progress tracker was included at Appendix 2 to the Committee report. The following reviews were in progress:-
 - Debt Recovery – work had commenced to identify the level of debt for each revenue stream, the ageing profile and to establish the existing recovery processes. This included housing benefits, Council tax, business rates and all other income streams.
 - Safeguarding – the review was in progress. Section 11 arrangements were due to be agreed in October 2016.
 - Information Governance Effectiveness – this review was on hold pending the outcome of a separate piece of work performed by IT security experts "intel". The review would pick up on any identified areas of risk or recommendations identified.
- (iii) Overdue Recommendations and Follow Up Work –
 - Update on financial systems (Accounts Payable and Accounts Receivable, General Ledger and Budgetary Control) – the Commercial AVDC Financial Systems and Processes Review Board was continuing to monitor the implementation of actions identified in the 2015/16 reports on these areas. While progress had been made in all areas there had been some delays in implementing actions relating to monitoring and reporting

commitments. Completion dates had been revised to allow the required work to be undertaken. Financial systems would again be subject to internal in Q3 and Q4 which would further help to provide assurance over the implementation and operation of financial controls.

- Housing Allocations (January 2016) (Medium priority recommendation to be completed by 31 March 2016) – the Bucks Home Choice Allocation policy was still undergoing the review process and was currently with the Chiltern / South Bucks District Council’s Housing Manager for comment. The aim was to complete the review in the autumn 2016.
 - Taxi Licensing (October 2015) (Medium priority recommendation to be completed by 31 March 2016) – a policy had been drafted and would be finalised along with the new document management storage system for Environmental Health and Licensing. Implementation was expected by the end of December 2016.
- (iv) Commercial AVDC and Internal Audit – The Council was progressing through a fundamental restructure and business transformation programme. The Business Assurance team which included Internal Audit was involved in a number of the “Business Reviews” and the Internal Audit Annual Plan had been focussed to assist these across the Council. The Business Assurance team was involved in its own Business Review as part of the Business Governance team’s review. Further information on this would be reported in due course.

From October 2016, Kate Mulhearn who had been engaged as Business Assurance Manager on a secondment basis from PwC, would take up a permanent position at the Council that would include the Head of Internal Audit responsibilities.

The remaining Internal Audit Officer had moved to a new role within the Council so an external supplier of public sector internal audit services would be engaged to support the delivery of the remainder of the 2016/17 Internal Audit Plan.

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

- (a) Safeguarding and Licensing appeared to be low down on the list. However, it was confirmed that the S11 audit was in progress and the taxi licensing review had been started and there was only one outstanding recommendation relating to data sharing. It was hoped to complete the taxi licensing review by the end of 2016.
- (b) Reference was made to the recovery of overpayment of housing benefit. As mentioned in the report to committee, the overpayment had risen significantly in the previous two years. However, this was consistent with the national trend and reflected social and economic trends. There was a reliance on claimants to update the Council regarding their individual circumstances. As reported, the Council’s strategy for managing this type of debt needed reviewing.
- (c) Vale Lottery. Concern raised regarding the operation of the lottery. It was confirmed that the operators met the legal requirements and this was outside this committees remit. If, however, the uptake of the lottery was to increase significantly, then the operation could be reviewed. This could also be brought back to the next meeting.

RESOLVED –

That the progress report be noted, including the progress made by Business Assurance Services against work identified in the Assurance Plan for 2016/17.

4. CORPORATE RISK REGISTER

The Audit Committee had a role to monitor the effectiveness of risk management and internal control across the Council. As part of discharging this role the committee was asked to review the Corporate Risk Register. The Corporate Risk Register provided evidence of a risk aware and risk managed organisation and reflected the risks that were on the current radar for Transition Board. Some of the risks were not dissimilar to those faced across other local authorities.

The risk register was reviewed on a two monthly basis by Transition Board and reported to the Audit Committee. It had been reviewed and the risks and ratings updated by Transition Board on the 31 August 2016. At the same time, further consideration had given to how effectively the risks were being managed and where further action was required.

The covering report and the Corporate Risk Register Update (Appendix 1) were in the open part of the agenda. However, the Corporate Risk Register (Appendix 2) contains information on some risks relating to commercially sensitive decisions and, as such, was in Part 2 section of the agenda.

Since the previous review in July 2016 one new high risk (Unmanaged loss of key staff) had been added to the register and the residual risk assessment for two of the risks (Approach to commercialisation does not generate desired levels of income, and Health and Safety) had been increased from moderate to high.

The risks arising following the Brexit decision had also been considered. However, at this stage there was too much uncertainty about the specific implications on the strategic objectives and day-to-day operations of the Council to put anything onto the Corporate Risk Register. Management would continue to review this situation as information became available and update the Register accordingly.

Overall, there were 17 risks on the Corporate Risk Register (3 low risk, 5 moderate risk, 7 high risk and 2 extreme risks) and these were considered by Members. 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.

Members requested further information on the Register and were informed:-

- (i) That as the partnership with AVE was shown as extreme risk, staff would be working to ensure that the partnership did deliver and achieved the Council's objectives.

The members of the committee acknowledged the commitment shown by the transition board.

RESOLVED –

That the current position of the Corporate Risk Register be noted.

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 2015/16 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, during the course of the audit it had been identified that the current service pension costs had been charged to Non Distributed Costs rather than the individual service areas. The Statement of Accounts attached to the latest Committee report had been amended to reflect the correct position.

Other minor changes had been made to Note 34.1 where there had been a casting error and the prior year did not agree to the audited accounts from last year. Note 34.2 had also been updated to reflect three exit packages that had been agreed during 2015/16 but were not due to be paid until 2016/17. These had originally been omitted from the disclosure note.

The pensions note 37 had also had a couple of amendments to correctly reflect the actuary's report.

In the Related Party Transactions note of the draft statement of accounts submitted to the Committee in July there had been a number of Members listed as not having returned their disclosure return. Since that meeting all but two of the current members had completed their disclosures. Completion of these disclosures was an audit requirement.

There was a requirement to report significant event that occurred after the balance sheet date and before the sign off date. Since the Committee in July, there had been no significant event that required reporting in the accounts.

Having considered the final Statement of Accounts for 2015/16, it was –

RESOLVED –

- (1) That the final outturn position of the Council's Statement of Accounts 2015/16 be noted.

- (2) That approval be given to the Chairman of the Audit Committee to sign off the Statement of Accounts for 2015/16 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 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. Members were also provided with a timetable of training events for future meetings.

RESOLVED –

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

7. DATE OF FUTURE MEETINGS

The next meeting of the Audit Committee would be held at 6.30 pm on 14 November, 2016, in the Olympic Room at The Gateway, Gatehouse Road, Aylesbury.

8. EXCLUSION OF THE PUBLIC

RESOLVED –

That under Section 100(A)(4) of the Local Government Act, 1972, the public be excluded from the meeting for the following items of business on the grounds that they involved the likely disclosure of exempt information as defined in the Paragraph indicated in Part 1 of Schedule 12A of the Act:-

Corporate Risk Register (Part 3)

The public interest in maintaining the exemptions outweighed the public interest in disclosing the information because the documents contained information relating to the financial or business affairs of organisations (including the authority holding that information), and disclosure of commercially sensitive information would prejudice negotiations for contracts and land disposals/transactions.

9. CORPORATE RISK REGISTER

As part of the above discussions, consideration was given to the Council's Corporate Risk Register.