

# AUDIT COMMITTEE

14 NOVEMBER 2016

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

**APOLOGIES:** Councillors Branston and P Irwin, and David Guest (Ernst and Young, external auditors)

## 1. MINUTES

RESOLVED –

That the Minutes of the meeting held on 26 September 2016 be approved as a correct record.

## 2. COMMERCIAL AVDC PROGRAMME

The Committee received a report and presentation on the Commercial AVDC programme which included information on its progress and plans, governance and the management of the risks.

AVDC continued to build on the success of the changes delivered in recent years by developing an organisation with a sustainable funding model and commercial operating model driven by continuous improvement. Underpinning all of the programme's work was the pursuit of the economic, social and environmental wellbeing of the area.

AVDC had lost 60% of the government grant over the last six years but had managed to save around £14 million through a wide range of initiatives. The Commercial AVDC Programme had continued to focus on three primary strands of activity, (a) focussing on driving returns from commercial activity from existing operations, (b) reviewing Council Services to improve effectiveness and efficiency and (c) improving the overall capability of AVDC's staff. By 2020/2021, these commercial activities would need to provide a contribution of £5m to the council's revenues, through a combination of increased income and reduced expenditure.

The programme operated alongside work led by Vale Commerce to drive long term returns from commercial activity in new areas. While the two initiatives were managed separately, they needed to work to ensure they were aligned and the Programme Board provides oversight over Vale Commerce also.

The Programme Board was accountable for delivering the programme's targets while maintaining operational stability. The Board comprised the Cabinet Member for Business Transformation, the Chief Executive and Directors, the Programme Sponsor, one of the Commercial Sector Leads, Programme Manager and external challenge from the Chief Executive of IESE (Improvement and Efficiency South East).

Although the achievement of Vale Commerce's income generation goals were not within the scope of the programme, the programme board had some oversight on the delivery of Vale Commerce objectives, and engaged with Vale Commerce staff outside board meetings to gain assurance of progress. Reports and recommendations were shared with Cabinet, Council, Council and Staff Consultative Committee, Scrutiny and Audit as appropriate and/or when requested.

Responsibility for delivery of the programme was with the programme delivery group, made up of the programme manager and workstream leads. There was a workstream designed to improve each sector led by the sector leads, and some supporting workstreams covering programme management, finance, communications and organisational development (which covered people and culture).

Each workstream contained a range of projects (for example Transactional Services improvement and Customer Contact), and each project had a project manager responsible for delivery, reporting into the workstream lead. In a minority of projects, where more in depth oversight and input was required, there was a project board with some delegated authority from the programme board (for example finance and business intelligence/customer insight), but the programme board remained ultimately accountable.

The programme also worked with a Staff Engagement Group, Transition Board, Managers Group and with staff via forums such as "Let's Get Talking" to engage and involve everyone.

In January 2016 the programme had successfully delivered an organisation wide restructure (called "Lift and Shift") to create a new sector based structure as a launch pad for ongoing business improvements. These new sectors were led by interim leads whose role included not only running the operation but driving the implementation of business reviews and improved capability in their sectors.

In order to change the culture and skill level of the organisation to become more commercial, efficient and effective, a new behavioural and job family framework had been developed. The framework would underpin all assessments and selection of staff into the new roles arising from business reviews that would affect all areas, as well as ongoing performance management and development. It had been developed in collaboration with staff and trade unions and there had been extensive engagement and familiarisation work to increase awareness and understanding. This had involved the sharing of behavioural resources on Connect and the running of staff development sessions in August 2016.

Part 1 consultation with trade unions and staff representatives which covered the overall restructuring approach had commenced in August and had very recently been closed. Staff engagement surveys conducted at the beginning of the programme compared to those covered in September showed that engagement had remained level despite the level of change directly affecting staff across the organisation.

The report provided a summary of the different Business reviews undertaken in Community Fulfilment, Customer Fulfilment, Commercial IP, Commercial Property, Business Strategy and Governance and Business Support and Enablement (which had included a joint review of finance).

The Business Reviews were aimed to assess each sector and service to understand its customers, their needs and how the service can best be structured to deliver those needs in the most efficient and cost effective way. Each review that led to a change in team structures and roles would go through a process called Part 2 consultation with trade union and staff representatives prior to being finalised.

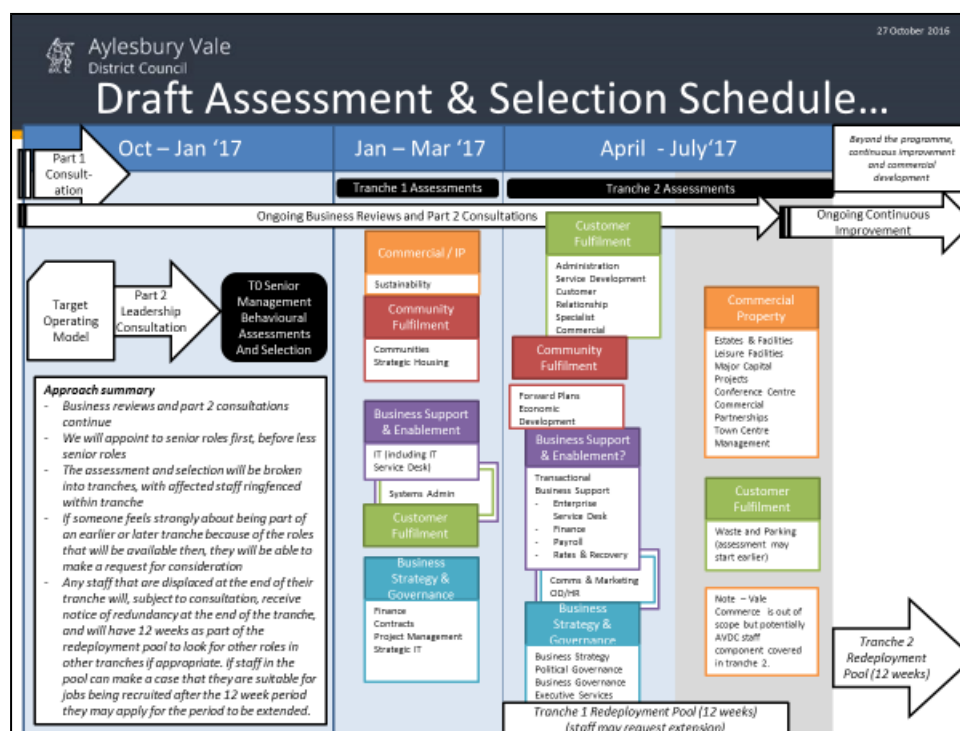
A target operating model and senior structure for the organisation was currently being finalised with a view to sharing it with key stakeholders and consulting with trade unions and staff representatives starting in November 2016. The model was based on the current sector based structure, with some alterations based on what had been learned from the 8 months of operations since January's "Lift & Shift". It was expected that the leaders of these sectors would be appointed in January 2017, subject to them having

been successful in the new assessment and selection processes based on the behavioural framework.

The behavioural framework's implementation required assessment and selection process and tools to be in place. Their design would be completed in November, with external assessors assigned and trained, ready to start assessing people from January 2017. Across all of the reviews, role profiles would be developed and evaluated through Hay panels. All roles would change through individual profiles being refined or developed, and the behaviours incorporated.

Following the implementation of the behavioural assessments and role selection approach, the performance management framework would be completed so that performance could be managed to get the best from people and to ensure that they were working on the right things. A personal development strategy will focus on developing staff to meet their full potential, enable effective communication and challenge with succession planning. It would include the implementation of a personal development portal to support staff development. In addition, AVDC would focus on an improved recruitment strategy, ensuring that the best people joined AVDC and the Council was the employer of choice for ambitious and talented individuals.

The programme's activities were currently focussed on completing the reviews, consulting on then with a view to then implementing new structures in a series of 3 to 4 month tranches, as set out in the schedule below:



The first tranche would take place in January – March 2017. Having appointed to the leadership roles for the sectors, the first set of areas would go through assessment and selection. The second tranche would start in April 2017, with two areas, Commercial Property and Waste aiming to start as soon as possible, likely to be May.

As each area completed role selection they would need to plan for implementation of any structures, processes, systems and business continuity plans. At that point they were ready for an ongoing process of continuing improvement where they delivered further people development, commercial development and operational efficiency.

The programme requirement was to deliver £5.1m contribution to the bottom line, a combination of increased income and reduced cost to serve by financial year 2020/2021, where £2.7m was required in the first two years – 2017 to 2019.

Currently, the reviews were still being developed and consultation would need to be completed before any firm forecasts could be made. There was an initial indication of possible contribution of £3m in those first two years, and £4.2m for the whole period. This indicated that the short term requirement would be covered by the current programme's activities, and that continuous improvement in the period up to April 2019 would provide opportunities to identify and implement the rest of the contribution required by March 2021.

As with any major change management programme, there were a number of risks that were having to be managed. These included:-

- Corporate Risk Register #1 (Achieving Savings and Efficiency Gains) – on the programme targets, budget and management of suppliers.
- Commercial Risk Register #2 (Commercialisation and Income Generation) – concerning the activities and future plans for Vale Commerce.
- Corporate Risk Register #3 (Cultural Change) – regarding the Behaviour Framework and Employee Relations.
- Corporate Risk Register #17 (Service Delivery and Risk Management) – covering a range of issues including pace versus resilience and quality, operational standards and maturity, and role changes and business continuity.

The Committee sought further information and were informed:-

- (i) that approximately 80 staff would be involved in Tranche 1 assessments, and 300 staff in the Tranche 2 assessments.
- (ii) that following the behavioural assessment and selection, it was anticipated that people would have been appointed to positions in the new structure by July 2017.
- (iii) that all staff would be able to apply for positions in Tranche 0 (senior management / leadership positions).
- (iv) on the proposed structure for senior management / leadership that would make up Tranche 0.
- (v) that one union representative and one Employee Representative had been released to work full time over the next period to assist with employee relations.
- (vi) that a large percentage of the change programme budget was being spent on the behavioural assessment. Overall it was anticipated that the process would enable staff to work in a more commercial way in the future.
- (vii) that a new Technology Strategy for the Council would be considered in the coming months that would be the catalyst for technological innovation and

change for the Council into the future. It would help to support and provide staff with the necessary tool and policies to further enhance the commercial mind-set and company culture of the organisation.

Members also commented:-

- (a) on their concerns over future service delivery, which would place greater stress on fewer staff to keep delivering services to a larger population, particularly with the number of houses being proposed to be built in Aylesbury Vale over the next 20 years.
- (b) that Aylesbury Vale might be able to learn some lessons from Milton Keynes (30-40 years ago) on how to provide services to a rapidly growing number of houses and people.
- (c) that the scale, complexity and level of dynamic change that the Council was going through needed to be better communicated to local residents.
- (d) that the programme needed to ensure that Members continued to be kept informed on how the programme was progressing.
- (e) that they would like Vale Commerce to attend and brief Members at the next meeting, similar to what had happened with the Commercial AVDC programme at this meeting.
- (f) that they were concerned for the welfare of staff who would have to go through this process, with the likelihood of more change on the horizon regarding the unitary proposals for Buckinghamshire.

In conclusion, the Committee commented that they were satisfied that risk and governance were being managed satisfactorily as a part of the Commercial AVDC programme and, it was

RESOLVED –

- (1) That the Programme Sponsor be thanked for attending the meeting and updating Members on the Commercial AVDC Programme.
- (2) That the progress made to date in progressing the programme be noted.
- (3) That Vale Commerce be asked to provide a similar report and presentation to the next Audit Committee meeting.

### **3. ANNUAL AUDIT LETTER 2015-16**

The Committee received, for information, the external auditors' Annual Audit Letter which provided an overall summary of the external auditors' assessment of the Council. The letter drew on the findings of audit work carried out on the Council's financial statements for 2015/16. These key findings on the Financial Statements audit, the Value for Money conclusion, Whole of Government Accounts, Annual Governance Statement, and control themes and observations had already been reported to the Audit Committee, so were very briefly summarised in the AAL

The external auditors were anticipating issuing the Annual Certification Report of grant claims and returns for 2015/16 in January 2017. Members attention was also drawn to 'Focused on your future' section of the report that detailed information on the need to make arrangement for the appointment of external auditors for the 2018/19 financial year.

RESOLVED –

That the contents of the External Auditor's Annual Audit Letter for 2015/16 be noted

#### **4. EXTERNAL AUDIT PROGRESS REPORT**

The Committee received a report summarising the audit approach and scope for the 2016/17 audit in accordance with the requirements of the Audit Commission Act 1988, Code of Audit Practice, Standing Guidance, auditing standards and other professional guidance. It was usual practice to share this information with Members at this stage of the audit so that Members could confirm that it was aligned to their expectations.

The external auditors would be adopting a risk based approach to the audit and, as part of their ongoing continuous planning, would hold regular meetings with key officers ensure the 2016/17 audit ran as smoothly as possible and identified any risks at the earliest opportunity.

Members were informed that no matters had arisen from initial planning meetings that needed to be reported to the Committee. The Committee would be updated when the planning and early substantive testing had been reported. The detailed audit plan, setting out identified risks and the work to be taken in response would be submitted to the Committee in January 2017. During the audit work, the external auditors would also be required to consider whether the Council had put in place 'proper arrangements' to secure economy, efficiency and effectiveness in its use of resources.

Work was also ongoing in testing the Housing Benefits Grant Claim 2015/16, and the findings would be submitted to the January 2017 meeting.

RESOLVED –

That the contents of the External Auditor's progress report and the progress of work undertaken to date, and planned for 2017, be noted.

#### **5. INTERNAL AUDIT PROGRESS REPORT**

The Committee received a progress report on assurance work activity undertaken against the 2016/17 Assurance Plan since March 2016 and the following matters were highlighted:-

##### **Activity and Progress**

The following reviews were in progress:-

- Debt Recovery – in response to internal audit recommendations from 2015/16 reviews, a project was underway to review the Council's strategic approach to debt recovery. The scope was detailed in the report. This was a non-assurance review with internal audit supporting in an advisory capacity.
- Safeguarding – Section 11 arrangements were to be agreed in October 2016.
- General Ledger – work had been completed and the report was being prepared.

- Treasury Management – work had been completed and the report was being prepared.
- Payroll – work was in progress.
- Accounts Receivable – work was due to commence in the second week of November.
- Accounts Payable – work was due to commence in the third week of November.
- Fixed Assets – work was due to commence in the third week of November.

### **Overdue Recommendations and Follow Up Work**

- Financial Systems – the Commercial AVDC Financial Systems and Processes Review Board was continuing to monitor the implementation of actions identified in the 2015/16 Accounts Payable & Receivable and the General Ledger and Budgetary Control internal audit reports.

The financial systems would be audited again in quarters 3 and 4, and this would pick up on previous actions and provide assurance over the design and operation of financial controls.

- Housing Allocations (January 2016) – in line with the Bucks Home Choice Partnership Policy adopted in May 2014 and the requirement to review annually the outcomes of lettings, an assessment had been published on the Bucks Home Choice on 16 October stating that the scheme aims and objectives had been assessed and remained relevant and were being achieved. The action was now complete.
- Taxi Licensing (October 2015) – a document retention policy had been drafted and would be finalised very soon. Implementation of it was expected to be completed by the end of the year.

### **Commercial AVDC and Internal Audit Resources**

The Committee was informed that an external provider of public sector internal audit services (BDO) had been engaged to support the delivery of the remainder of the 2016/17 internal audit plan, reporting to the Business Assurance Manager. The outcome of the Governance Business Review would determine further resource requirements and the delivery model going forward. The first of the audit reports from BDO would be reported to Members in January 2017.

Appendix 1 to the Committee report detailed the updated 2016/17 Annual Internal Audit Plan, which had originally been approved by the Audit Committee in March 2017. Members were asked to consider and comment upon the updated / proposed changes.

Members sought further information and were informed:-

- (i) that the budget from vacant posts in Internal Audit were being used to pay for the audit work done by BDO.
- (ii) that the Housing Allocations (January 2016) medium priority recommendation had now been completed and been published on the Bucks Home Choice website.

RESOLVED –

- (1) That the progress made against the 2016/17 Assurance Plan be noted.
- (2) That the updated Annual Internal Audit Plan, as submitted to the meeting, be approved.

## **6. APPOINTMENT OF EXTERNAL AUDITOR**

The Committee received a report that had been submitted to Cabinet on 8 November, 2016, informing the Committee of the arrangements that were being put in place for the future appointment of the Council's external auditors. The Cabinet report was attached as appendix to the Committee report.

As part of closing the Audit Commission the Government had novated external audit contracts to Public Sector Audit Appointments (PSAA) on 1 April 2015. The audit appointments were due to expire following conclusion of the audits of the 2016/17 accounts, but could be extended for a period of up to three years by PSAA, subject to approval from the Department for Communities and Local Government.

In October 2015 the Secretary of State had confirmed that the transitional provisions would be amended to allow an extension of the contracts for a period of one year. This meant that for the audit of the 2018/19 accounts it would be necessary for authorities to either undertake their own procurements or to opt in to the Appointed Person regime.

There was a degree of uncertainty around the Appointed Person regime until July 2016 when PSAA were specified by the Secretary of State as an Appointing Person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The Appointing Person was sometimes referred to as the sector led body and PSAA had wide support across most of local Government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission and was a company owned by the Local Government Association's Improvement and Development Agency (IDeA).

The PSAA had invited AVDC to become an opted-in authority in line with the above Regulations. To do so, the Council would need to respond with a form of notice of acceptance to PSAA before 5pm on 9 March 2017.

Cabinet had considered this matter on 8 November, 2016, and made a recommendation to full Council that this Council opted into the Appointing Person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors. This would be submitted to full Council on 7 December 2016 and would allow AVDC to respond by the deadline.

The main advantages of using PSAA were set out in its prospectus (attached as Appendix 1 to the Cabinet report) and the key points were detailed below, although these might also be viewed as disadvantages should the Council decide to undertake its own procurement.

- Assure timely auditor appointments.
- Manage independence of auditors.
- Secure highly competitive prices.
- Save on procurement costs.
- Save time and effort needed on auditor panels.
- Focus on audit quality.



- Operate on a not for profit basis and distribute any surplus funds to scheme members.

The options considered and resource implications were also detailed in the Cabinet report.

RESOLVED –

That the Audit Committee was supportive of Cabinet's recommendation to Full Council that this Council opted into the Appointing Person arrangements made by Public Sector Audit Appointments (PSAA) for the appointment of external auditors.

## **7. ANNUAL FRAUD REPORT 2015/16 - ACTION PLAN UPDATE**

The Committee received an update on progress made on the actions identified in the 2015/16 fraud risk benchmarking assessment and which had been originally reported in January 2016. The Council was making progress and tracking towards the performance targets. As assessment of the Council's performance would be undertaken again in due course and reported to Members.

Appendix 1 to the report detailed information on the issues and proposed action, person(s) responsible for taking that action, target date, and other comments that would assist Members in evaluating the progress.

Members sought information on a number of the issues and were informed as follows:-

RESOLVED –

That the current position and progress made against the updated Fraud Action Plan be noted.

## **8. 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 the meeting, and the requirements of the internal and external audit processes. Members were also provided with a timetable of training events for future meetings.

Members commented that they would like to include a regular agenda item relating to 'Update on management of risk issues', with a report from Vale Commerce to be requested to the next meeting in January 2017.

RESOLVED –

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

## **9. 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 (CRR). The CRR 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 had not been reviewed as a whole by Transition Board since their meeting on 31 August 2016. However, risks and actions

had been reviewed with risk owners and updated accordingly. The following changes had been made:-

- Organisational culture fails to support strategy – the wording of “organisational resilience” had been updated to reflect the importance of cultural change to support the achievement of strategy and the work being done on the behavioural framework.
- Depot and workshop redevelopment project – the overall risk rating had been reduced from Extreme to High, as the redevelopment plans had been approved by full Council and, when implemented, would address Health and Safety and environmental risks.
- Vale of Aylesbury Local Plan – the overall risk rating had increased from medium to high, to reflect the risk associated with the changed timescales and the lack of ability to influence the required external input.

No new risks had been added since the Register was reported to the Audit Committee in September 2016. As reported at the last meeting, the risks arising from the Brexit decision had been considered but 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 meaningful on the CRR. Management would review the situation as information became available and update the CRR accordingly.

The covering report and the CRR Update (Appendix 1) were in the open part of the agenda. However, the CRR (Appendix 2) contains information on some risks relating to commercially sensitive decisions and, as such, was in Part 2 section of the agenda. Overall, there were 17 risks on the CRR (3 low risk, 4 moderate risk, 9 high risk and 1 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 CRR, 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 CRR, both in specific and general terms. In response to a question Members were informed that the risks associated with modernising local government / ‘unitary’ would be considered by Transition Board when the CRR was next reviewed.

RESOLVED –

- (1) That the current position of the Corporate Risk Register be noted.
- (2) That Cabinet be recommended to review the Corporate Risk Register, a minimum of twice yearly and, as a part of setting and monitoring the Council’s budget, and to report back to the Audit Committee on risks with an overall rating of high or extreme, in particular relating to the Council’s approach to commercialisation.

(it was commented that in support of recommendation 2, Cabinet might also wish to consider assigning responsibility for each corporate risk to an individual Cabinet Member).

## **10. 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.

## **11. CORPORATE RISK REGISTER**

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