

AUDIT COMMITTEE

23 JANUARY 2017

PRESENT: Councillor K Hewson (Chairman); Councillors C Adams, C Branston, M Collins, P Irwin, M Smith, R Stuchbury and H Mordue (ex-Officio)

IN ATTENDANCE: David Guest and Adrian Balmer from Ernst and Young LLP, and Gurpreet Dulay (BDO)

APOLOGIES: Councillors B Chapple OBE and D Town

1. MINUTES

Members considered the Minutes of the last meeting and commented on:-

Minute 7 (Annual Fraud Report 2015/16 – Action Plan Update) – that the third paragraph be deleted and replaced with the following:-

“Members were informed that issues identified in last year’s fraud review were being embedded into business reviews. Benchmarking information would also be updated in due course.”

RESOLVED –

That, subject to the above change, the Minutes of the meeting held on 14 November, 2016, be approved as a correct record.

2. EXTERNAL AUDIT - CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2015-16

The Committee received a report from the External Auditors on their work associated with the certification of grant claims for 2015/16 submitted by AVDC. This year there had only been one claim requiring certification, which was the Housing Benefits Subsidy Claim, which had a total value of £45.1m.

Certification work was not an audit. It involved executing prescribed tests which were designed to give reasonable assurance that claims and returns were fairly stated and in accordance with specified terms and conditions. Under section 28 of the Audit Commission Act 1998, as transitionally saved, the Audit Commission made arrangements for certifying claims and returns in respect of the 2015/16 financial year. In certifying this the external auditors followed a methodology determined by the Department for Works and Pensions.

The certification guidance required the auditors to complete more extensive ‘40+’ or extended testing if initial testing errors in the calculation of benefit or compilation of the claim. Errors had been found which had required additional testing to be carried out in several areas. The identified errors had been amended by the Council and had a small net impact on the claim.

The identified errors had related to Backdated Expenditure, Non HRA – Weekly Rent Liability, Self Employed Earnings, Weekly Rent Liability, Childcare Costs and Earned Income, details of which were included in the Committee report. The total value of extrapolated overpayments across all of these areas was £225,639. If the Council was to amend based on these extrapolations, it would increase the Local Authority error

amount to £377,333, which was over the £234,776 threshold which guaranteed reimbursement of the full subsidy from the DWP.

These extrapolations had been reported within the qualification letter to the DWP, who would decide whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid.

The work had also led to two recommendations being made to minimise errors made when processing future claims, namely:

- That the Council ensure that supporting information was obtained from claimants for all self-employed cases.
- That Council staff should receive continuous training on documentation requirements, particularly for staff who were new to the role.

The indicative fees payable for the grant claim work for 2015/16 was £11,286. However, an additional fee of £6,125 would be required to cover the work needed to complete the additional testing of this year's claim. This additional fee was under review and subject to agreement by PSAA so was not yet confirmed.

Members requested additional information and were informed that incorrect calculations for self employed earnings were partly due to a discrepancy whereby the methodology that the Council was required to use in calculating self employed earnings differed from the guidance given to external auditors on how they audited such claims. AVDC had previously raised this issue with the DWP. The Director with responsibility for Finance informed Members of measures that had been undertaken to reduce and mitigate these LA overpayment errors. These included:-

- meeting with Revenues and Benefits staff to get an understanding of how self employed earnings cases were assessed.
- examining management checks and the sign off process for self employed earnings claims.
- a self employment module being available in the Revenues and Benefits software system.
- diarising more frequent reviews of self employed earnings data.
- more staff training would be arranged.

The Committee was also informed that an internal audit review of Housing Benefits subsidy claim processes was being conducted which would pick up on last year's internal audit review and the findings of the external audit report. This review would include looking at the mitigation measures being put in place, standard of quality checking and management responses. More information would be reported to the Audit Committee in March 2017, including any responses received from DWP to the qualification letter.

Members were also informed:-

- (i) that HB claimants who moved to a different area did not carry forward their grant claim and would need to be re-assessed. The same situation would apply to Aylesbury Vale residents who moved to another part of the country.
- (ii) that AVDC would stop any instances of HB overpayment as soon as the Council became aware of it.
- (iii) that the external auditors would provide information to the March meeting, comparing AVDC's HB subsidy claim performance to similar Councils.

- (iv) that it was possible that the DWP would require more in-depth testing to be done on HB subsidy claims for 2015-16. The Council kept a small reserve to cover the payment of additional audit fees.
- (v) that the internal audit review of Housing Benefits had commenced. The review would include looking at whether AVDC had captured all the lessons learnt, including from the subsidy audit, to improve processes for the future. The internal audit report would be submitted to the March 2017 meeting.

RESOLVED –

- (1) That the external auditors report on the certification of claims and returns by AVDC for 2015/16 be noted.
- (2) That further information on the HB subsidy claims and processes would be reported to the next meeting.

3. EXTERNAL AUDIT - AUDIT PLAN

The Committee received a report and External Audit Plan which summarised the proposed approach and scope of work to be undertaken by the external auditors for 2017 in accordance with statutory requirements and to ensure it was aligned with the Committee's expectations.

The Audit Plan had been prepared having regard to several key inputs including:-

- Strategic, operational and financial risks relevant to the financial statements.
- Developments in financial reporting and auditing standards.
- The quality of systems and processes.
- Changes in the business and regulatory environment.
- Management's views on all the above mentioned issues.

As well as the financial statement risks and value for money risks, the auditors had to perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations.

The auditors had assessed the key risks which would drive the development of an effective audit and the planned audit strategy in response to those risks and had identified four significant risks to the opinion of the financial statements. These were the risk of fraud in revenue and expenditure recognition, the risk of management override, the pension liability valuation and the complexities regarding property valuations.

The Audit Plan restated, as in previous years, that management had the primary responsibility to prevent and detect fraud. Section 2.1 of the Plan detailed how the auditors would planned to obtain reasonable assurance about whether the financial statements as a whole were free of material misstatements whether caused by error or fraud. Work would also be undertaken to consider whether the Council had in place 'proper arrangements' for securing financial resilience at the Council, and to secure economy, efficiency and effectiveness on its use of resources, which would include an assessment against the requirements of the CIPFA/SOLACE framework for local government. In due course this would be reported to the Committee through documents such as the Annual Governance Statement.

An update on the results of the audit work in these areas would be reported back to the Committee in September 2017.

As in previous years, the Internal Audit plans and resulting work would be reviewed. The findings of audit reports, together with any other work completed in the year, would help to inform detailed external audit work, including on issues raised that had an impact on the year-end financial statements.

The indicative fee scale for the audit work was £56,785, although it was possible that this fee could increase in due course if additional testing or work was required in addition to that already identified within the Audit Plan.

For the purposes of determining whether the financial statements were free from material error (i.e. the magnitude of an omission or mis-statement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements), the external auditors had determined that overall materiality for the financial statements was £1.962m based on 2% of gross expenditure. As such, any uncorrected audit mis-statements greater than £98,100 would be reported to the Audit Committee.

RESOLVED –

That the contents of the external auditors' Audit Plan for 2017 be noted.

4. 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:-

Final Reports issued since the previous Committee Meeting

The following reviews had been completed since the last Committee meeting:-

- **Fixed Assets** – the review had raised concerns over the annual fixed asset register process, regarding the accuracy and completeness of assets held departmental registers as compared to assets listed on the fixed asset register. A similar issue existed relating to the depreciation of assets. However, the findings had not identified any material errors.

If acted upon promptly the findings for the Fixed Asset Register as at 31 March 2017 could be rectified before the audit of the financial statements for 2016/17 was carried out.

The review had identified two medium risk findings and four low risk findings, details of which were included within the progress report.

- **Treasury Management** – the review had found that the Council's performance compared to best practice drawn from knowledge of processes in other local authorities. A number of areas of good practice had been noted, with no significant risks being identified.

The review had identified two medium risk and two low risk findings, details of which were included within the progress report. It was confirmed that the Treasury Management Strategy would be reported to full Council in February and October and to scrutiny in April.

- **Payroll** – an assessment against the key objectives of payroll had found that payments are being made in line with Council establishment lists and are accurate and complete through to payslips. A number of areas of good practice had been noted.

Following the prior year audit recommendation, a reconciliation was now performed between the general ledger and iTrent.

The review had identified one medium risk and three low risk findings, details of which were included within the progress report.

The full review reports were attached as Appendix 3 to the Committee report.

Internal Audit Plan Work in Progress

The following work was being progressed:-

- 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 – the review had started but now been put on hold pending staffing re-structures. The revised scope would be agreed in January 2017.
- General Ledger, Accounts Receivable and Accounts Payable – work on these areas had been completed and reports were being prepared.
- Service Charges – this review was in progress.

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.

- Taxi Licensing (October 2015) – the recommendations from this review had finally been completed. A document retention policy had been drafted along with the data retention schedule, which had been incorporated into the system specification and data migration processes for the new Salesforce system.

Appendix 2 to the Committee report detailed the updated 2016/17 Annual Internal Audit Plan, which had originally been approved by the Audit Committee in March 2016. Members were asked to consider and comment upon the updated / proposed changes.

Members sought further information that data retention issues would also be dealt with as part of the new Information Management Strategy.

RESOLVED –

That the progress made against the 2016/17 Assurance Plan, including the completed internal audit reports, be noted.

5. WORK PROGRAMME

The Committee considered the future Work Programme for 2017 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 were informed that the current work programme, which included up to the March 2017 meeting, would be updated and submitted to the next meeting. This would fit together with the Annual Internal Audit Strategy and Plan which would also be reported to the next meeting.

It was noted that the presentation on the management of risks associated with commercial ventures had been deferred pending the appointment of Assistant Directors.

RESOLVED –

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

6. 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 been reviewed by Transition Board on 23 November 2016, with individual risks and actions then being further reviewed with risk owners in January 2017. Two new risks had been added in November 2016 relating to the agenda for Modernising Local Government and relating to failure to effectively engage with Members and community around the Council's vision and strategy.

As previously reported, 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 19 risks on the CRR (3 low risk, 4 moderate risk, 10 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 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 particular, Members challenged the risk regarding the partnership with AVE failing to deliver or hinder the achievement of the Council's objectives. Members were informed that the AVE Business Plan 2017/18 had recently been thoroughly scrutinised by the Economy and Business Development Scrutiny Committee and AVE representatives had also attended and been questioned by Cabinet.

It was also commented that the lessons learnt from this commercial approach could help to inform the work of some of the Commercial AVDC companies.

RESOLVED –

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

7. 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.

8. CORPORATE RISK REGISTER

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