

AUDIT COMMITTEE

27 MARCH 2017

PRESENT: Councillor K Hewson (Chairman); Councillors B Chapple OBE (Vice-Chairman), C Adams, C Branston, M Collins, P Irwin, M Smith, Sir Beville Stanier Bt (In place of D Town), R Stuchbury and H Mordue (ex-Officio)

APOLOGY: Councillor D Town

Corporate Governance Manager

The Committee congratulated Kate Mulhearn on her recent appointment as the Council's Corporate Governance Manager.

1. MINUTES

RESOLVED –

That the minutes of the meeting held on 23 January, 2017, be approved as a correct record.

2. DECLARATION OF INTEREST

Councillor Mordue declared a prejudicial interest in Minute 6 (Company Governance Review – AVB) as a Director of Aylesbury Vale Broadband and left the meeting whilst the matter was discussed.

3. HOUSING BENEFIT SUBSIDY AUDIT - UPDATE

The Committee had received a report from the External Auditors at the last meeting on the certification of claims and returns annual report for 2015-16. Audit work had found that the Local Authority error amount was £377,333, which was over the £234,776 threshold which guaranteed reimbursement of the full subsidy from the DWP.

Following the Housing Benefit Subsidy Audit, the Council had received confirmation from DWP that AVDC had been qualified for the period 2015/16 and that £377,000 was due to be repaid from the Subsidy grant.

Upon receipt of the DWP's initial letter in January, the Council had carried out a review to see if any mitigating circumstances could be put forward but unfortunately none had been found. However, Members were informed by the auditors that the claim had been re-opened for one element with the DWP and any change resulting from this would be reported back to the Committee in due course.

When the Housing Benefit audit had been finalised in November 2016, AVDC had adopted the following processes to prevent further loss of HB subsidy:

- The introduction of a robust checking regime which had included training needs analysis. This had already been tested and provided good results.
- Enhanced performance management.
- 100% of Self Employed assessments had been carried out since April 2016 (this had been the main error identified in the Audit).
- An ongoing process was now in place for each Self Employed assessment to be checked by a Team Leader before putting into payment.

- a review had been undertaken of the procedure manuals, updated them where required. This review process would be on-going.
- Additional training had commenced and workshops organised on the main complex subjects.
- An external Subsidy Expert was now working on our 2016/17 claim to ensure that the claim and workbooks were completed correctly.
- Resources were being reviewed weekly in Team Leader meetings.
- 8 Customer Relationship staff had been trained in Housing Benefits assessments by an external trainer, to provide resilience when there was an influx of work.
- Management responsibility has now been resolved, and 2 Team Leaders along with an experienced member of staff and the current Group Manager were working together to keep the controls in place and set up weekly meeting to review practises.

Officers were confident that the significant subsidy loss that occurred for 2015/16 would not be repeated in 2016/17. The current LA error position was:-

Lower Threshold £206,809

Upper Threshold £232,660

Total LA Error Overpayments to date £132,772

There had been significant turnover within the team during the Commercial AVDC restructure. The lessons learned from the review of internal control processes had been captured as part of the consultation process and considered as part of the new structure for the Customer Relationship team. This would include ensuring there were effective handover and training for any new staff who moved into the area.

Members' discussed, and were supportive, of the arrangements, processes and controls being put in place to prevent the further loss of HB subsidy. The Committee requested additional information and were informed:-

- (i) that the repayment to DWP would be made from the Benefit Subsidy Reserve. It was believed that sufficient funds would remain in the Reserve such that it would not need to be topped up in the next financial year.
- (ii) that the Council believed that it had sufficient Officer resource working on HB grant claims to assist with preventing further loss of HB subsidy in the future.
- (iii) that a comparison of HB subsidy grant claims for 14 other similar local authorities had revealed that 4 other Councils had similarly had to repay some HB subsidy to the DWP.
- (iv) that AVDC was proactive in learning from the best practice of others, through Officers attending a benchmarking group and by speaking with other Councils about their HB subsidy grant claim experiences and processes.

RESOLVED –

That the current position regarding Housing Benefit Subsidy work that would impact on the claim for 2016/17 be noted.

4. EXTERNAL AUDIT PROGRESS REPORT

The Committee received a report and overview of the progress made by the external auditors with the work that needed to be completed during the 2016/17 audit. The auditors were continuing to have regular meetings with key officers as part of their ongoing audit process. These had proved beneficial and helped to develop the understanding of the financial processes across a number of areas.

The auditors had already selected the samples for substantive testing of income and expenditure transactions for the first nine months of the financial year and shared these with the Council's finance team. As at the date of the Audit Committee the auditors had been on site for planning and interim testing for three weeks.

To ensure that the requirements of the Faster Close arrangements were met from 2017/18, the auditors had committed to undertaking as much early work as possible in 2016/17. The early work that they had been able to complete as part of their interim visit included:

- walkthrough of all key financial systems.
- opening balances agreement.
- month 9 testing of income and expenditure.
- month 9 payroll substantive analytical review including starters and leavers.
- exit packages testing.
- precept testing.
- contracts testing.
- existence testing of property, plant and equipment.

Where month nine testing of key balances such as income and expenditure and payroll had been completed there would also be top up testing of the balances undertaken at the end of the year. This would greatly reduce the time required to complete work at the year end.

Officers had also been informed of the year-end working paper requirements of the external auditors which would help to ensure a smooth delivery of the year end.

The Committees were informed that the interim reviews had not identified any issues that needed to be brought to Members' attention. An update on the Housing Benefit subsidy claim had been reported earlier in the meeting.

In response to a question, Members were informed that there had been a move from testing controls to substantive testing over the last few years. However, walk through testing looked at controls and where any problems were identified they would be reported to the Audit Committee.

Members were also provided with an update on New Home Bonus monies the Council was likely to receive for the next 3 years.

RESOLVED –

That the progress report 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:-

Final Reports issued since the previous Committee Meeting

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

- **Housing Benefits** – the review had been classified as High Risk and issued 3 high and 3 medium risk findings. The Council had to repay £377,333 for 2015/16 DWP Subsidy grant claim due to errors identified in the annual external audit of the submission.

The review had focussed on the control environment arounds benefits administration during 2016/17 and identified a number of weaknesses which were set out in the report. The weaknesses identified, if not addressed promptly, could have significant impact on the 2016-17 subsidy claim, and place the Council at risk of further repayments. The review findings and measures being taken to prevent further loss of HB subsidy had been discussed earlier in the meeting.

- **General Ledger** – the review had been classified as Medium Risk and issued 3 medium and 3 low risk findings. It had found that the overall design of the Tech1 system was sufficient to allow general ledger transactions to be accurately recorded however, the effectiveness of the system functionality was undermined due to inadequate central oversight by the Finance Team of the data held on Tech1. The previous year's internal audit report raised a finding around reconciliations and since then the Council had improved by mapping the interfaces however, further work was needed to ensure the Finance Team had oversight over who was charged with completing reconciliations for every interface to Tech1, the frequency of these reconciliations or how large/unusual unreconciled items were escalated.
- **Budget Management** – the review had been classified as Low Risk and issued one medium and 3 low risk findings. The 3 low risk findings could be rectified quickly with little resource input and related to oversight of budget management meetings, variance thresholds and assessment of budget manager's training needs.

The medium term risk highlighted a more significant piece of work around improving the Quarterly Digest to incorporate more non-financial information and better inform decision making.

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 it in an advisory capacity.
- **Safeguarding and Contract Management Reviews** – the initial scoping meetings had been conducted and the audit reviews had started in March 2017.

- Accounts Receivable, Accounts Payable, Council Tax and Business Rates – 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

- Update on Financial Systems – Actions identified in the 2015/16 General Ledger and Budgetary Control internal audit report had been followed up as part of the current year reviews. The actions identified would supersede those from last year. Implementation of actions would be followed up and reported appropriately. The Audit Committee would receive the results of the Accounts Payable & Receivable audits at the next meeting.
- Overdue recommendations – no recommendations had passed 3 months of their implementation date. The January 2017 Audit Committee had received reports on Payroll, Fixed Assets and Treasury Management. The recommendations were due in the next quarter any that passed their implementation dates would be reported to the next Committee meeting.

2017/18 Internal Audit Plan

The Committee report detailed the internal audit plan for the first quarter of 2017/18 which included reviews of Company Governance, Commercial AVDC Programme / Project Assurance and follow up on the implementation of actions identified in internal audit reports. The plan would be fully developed once the organisational structure had been agreed and would be submitted to the July Audit Committee meeting for approval.

Members sought further information and were informed:-

- (i) that the housing benefits audit findings would be monitored and any issues then reported to Members.
- (ii) on the actions that the Council should be taking to further improve General Ledger reconciliation processes.
- (iii) that it was important for the Quarterly Finance Digest to include non-financial information that aided Members' understanding of issues.
- (iv) that management was being proactive to manage and mitigate the staffing issues and risk identified in the Housing Benefits audit Action Plan (pages 51-52 of the Committee report).
- (v) that the review of HR – recruitment had been deferred and would be considered as part of the 2017/18 plan as it had been deemed that it was important for HR to concentrate on supporting staff through the Commercial AVDC business reviews being undertaken.
- (vi) that the review of governance arrangements over the Council's owned or part owned companies would include looking at Aylesbury Vale Estates and Vale Commerce.

RESOLVED –

- (1) That the progress reported be noted.
- (2) That the 2017/18 Internal Audit Plan for quarter one be approved.

6. COMPANY GOVERNANCE REVIEW - AVB

The Committee received a report following an internal audit review that had been undertaken in relation to the Council's governance arrangements over Aylesbury Vale Broadband (AVB). The governance of any company owned or invested in by AVDC was important and these reasons were set out in the review. Good corporate governance was aimed at ensuring continued maintenance of the reputation of both the company and AVDC, and overall to ensure that the company was delivering against its objectives and its Business Plan.

Guidance on the principles to be applied in the governance arrangements of the Council's owned (part or whole) companies was set out in the document "Guidance to creation and working with companies in which AVDC has a financial interest" that had been approved by Council in March 2016.

AVDC Directors and Members recognised the importance of effective governance arrangements over the Council's whole or partly owned companies. Accordingly an Internal Audit review had been planned as part of the 2017/18 programme of work to provide insight to the current governance status of all the Council's wholly or part owned companies, and inform further areas of focus. However, some Members had raised questions at the Council meeting on 22 February 2017 on AVB's governance arrangements and, as such, the review had been brought forward. The guidance document had been used as a reference to evaluate the effectiveness of key governance arrangements.

The review had found that the company was set up in accordance with the principles of the "Guide". However, there were a number of areas where governance arrangements should be improved:-

- To date, there had been a lack of information shared with the AVDC Shareholder Representative on progress against agreed targets and financial performance compared to forecast. This had impeded the Council's ability to perform its own assessment of risk of the investment and provide transparent reporting to Members. The Shareholder Representative and AVB Directors needed to agree the specific AVDC quarterly reporting requirements and format as a priority.
- AVB intended to prepare a revised Business Plan for subsequent approval by Cabinet. This should reflect actual results to 31 March 2017, detailing forecast for the year to 31 March 2018 and projections for at least two further years. Thereafter, the targets set out in the Business Plan should form the basis of quarterly reporting to AVDC.
- The roles that Scrutiny committees had in the ongoing monitoring of AVB performance needed to be reconsidered and the Terms of Reference revised to reflect the role scrutiny had to play in monitoring the Council's whole or partly owned companies.
- AVB's concern around the treatment of confidential information had contributed to the lack of quality performance information that had been with shared AVDC

and Members. In order for the spirit of transparency between AVDC and its companies to be maintained, it was imperative there was absolute confidence that information marked confidential remained so.

- A review needed to be undertaken to identify any AVDC staff currently working on behalf of AVB and to formalise arrangements regarding appropriate recharging of costs.
- Further consideration needed to be given as to whether there was any potential for conflict of interest for the Councillor Directors on AVB.
- AVDC needed to formalise its arrangements for the approval of the drawdown of funds against the loan facility.

The review had also found evidence in a number of areas that good governance procedures were being undertaken in accordance with the "Guide":-

- The original business case and establishment of AVB Ltd had been approved by Full Council resolution in April 2015, following Cabinet recommendation. The business case included clear objectives, funding requirements and a high level 3 year financial model.
- In accordance with the "Guide", a second Business Plan had been agreed by Cabinet in September 2016, with appropriate review by scrutiny.
- The Articles of Association and Memorandum of Association had been appropriately drawn up and lodged with Companies House. Aylesbury Vale Broadband Limited had been incorporated on 29 June 2015.
- Director appointments on start up had been done in accordance with the provisions in the Articles of Association; i.e. 3 Directors from AVDC being at least one "Councillor Director" and one "Officer Director" and; Andrew Mills of Ironic Thought.
- All changes to directors had been appropriately approved, documented and filed.
- Following the Council approval of the "Guide to creation and working with Companies in which AVDC has a financial interest", further changes had been made to the Company structure to ensure AVB was compliant with the "Guide". To avoid potential conflicts of interest, the Leader of the Council had resigned as a Director and an alternate Councillor had been appointed.
- The Leader of the Council now fulfilled the role of Shareholder Representative.

In summary of the findings, Members were informed that urgent attention was required to strengthen the governance arrangements over the Council's investment in AVB. A further review would be performed in 6 months time to assess the implementation of recommendations. The findings had been received and accepted by the Council's senior management who had committed considerable additional effort to address the points identified in the shortest possible time.

In addition to the findings, the review detailed a total of 10 recommendations covering a range of issues including AVB Directorships and potential conflicts of interest, accounting year periods, scrutiny and commercial sensitivity of information, AVDC staff working on behalf of AVB and on the arrangements for the drawdown of funds against the loan facility. Members discussed these recommendations while considering the internal audit report.

Members sought additional information and were informed:

- (i) that AVDC had responded to an EU complaint and that the Council's position was that the provision of a loan to AVB was not state aid because, in providing the loan, it was acting in the same way that a Market Economy Operator would. Further information had been provided in clarification of the Council's position but AVDC was still waiting to hear back from the EU as to whether they would be formally investigating the matter.
- (ii) that other AVDC commercial companies including Vale Commerce would be reviewed as part of the Internal Audit Plan 2017/18 that had been approved at the meeting.
- (iii) that if the EU found that the Council's loan arrangements amounted to state aid then swift action would be taken to change the terms and ensure that AVDC complied with the law.

Members also commented:-

- that they were supportive of the terms of reference of the scrutiny committees being reviewed and updated to reflect the important role of scrutiny in the oversight of the Council's whole or partly owned companies.
- that it was important for the Council to be as transparent as possible in scrutinising the performance of companies and, as such, the reasons for any information being marked as confidential should be clearly explained.
- that they would like to see the reporting requirements and format for quarterly reporting to include information on the number of people (customers) and areas of coverage.
- that the Economy and Business Development Scrutiny Committee had rigorously scrutinised and questioned Mr Mills on AVB and its activities when he had attended that Committee.
- that Members might want to consider scrutiny committees working together to scrutinise commercial companies.
- that they believed that, like the Leader of the Council, there was a similar potential conflict of interest such that the Chairman of the Audit Committee and the Cabinet Member with responsibility for finance should not be appointed as Directors of AVB. However, at the same time, it was also felt that it would be acceptable for the Cabinet Member for Finance, Resources and Compliance to continue in the role until an alternative appropriate appointment could be made.

RESOLVED –

- (1) That the Corporate Governance Manager be thanked for prioritising and completing the review in relation to the Council's governance arrangements over Aylesbury Vale Broadband.
- (2) That the Committee was fully supportive of all the recommendations contained in the internal audit report.

NOTE: Councillor Mordue declared a prejudicial interest as a Director of Aylesbury Vale Broadband and left the meeting whilst this matter was discussed.

7. REVIEW OF GENERAL FUND BALANCES 2017-18

The Committee received a report on the risk assessment methodology applied in determining the minimum safe level of General Fund Working Balance used in budget planning. Members were invited to consider this and comment upon the completeness and adequacy of the provision.

There was a statutory requirement on all Councils to set a balanced budget each year which could legitimately include the use of general uncommitted balances, where the Council agreed that it was appropriate to do so. It was prudent practice for Councils to maintain a General Fund uncommitted working balance against unexpected cost pressures or loss of income in order to ensure that the Council's finances remain balanced at all times.

The level of balance maintained by Aylesbury Vale District Council was reassessed annually and the minimum recommended safe level was then applied in budget setting and planning. The report presented the risk assessment methodology and the risks identified in determining the minimum recommended safe level of £2.5 million used in budget planning for 2017/18.

Members of the Committee considered the methodology, the risks and the mitigations identified and their appropriateness in the context of the budgetary pressures facing the Council. The assessment was attached as an appendix to the Committee report.

RESOLVED –

That the risk assessment methodology applied in determining the minimum safe level of General Fund Working Balance used in budget planning be noted.

8. 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 commented that the agenda for the next meeting was particularly heavy and that, if deemed necessary, the Chairman should consider the value in timetabling an additional meeting.

RESOLVED –

- (1) That the future Work Programme as discussed at the meeting be approved.

- (2) That the date of the next Audit Committee meeting be changed from Wednesday 26 July 2017 to Monday 24 July 2017.

9. RISK MANAGEMENT REPORT

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 15 March 2017. Since January 2017, one new risk had been added and the following changes made to the residual risk ratings:-

- Loss of key staff/failure to recruit has negative impact on service delivery – rating changed from High to Extreme.
- Partnership with AVE fails to deliver or hinders the achievement of the Council's objectives – rating changed from Extreme to High.
- Failure to identify and respond to current and potential changes to legislative/regulatory environment – New risk with a High rating.

As previously reported, the risks arising from the Brexit decision had been considered but at this stage there was still 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 20 risks on the CRR (3 low risk, 4 moderate risk, 11 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 loss of key staff and were informed that now that Assistant Directors were in place they would be putting together Service Area Risk Registers. Additionally, Transition Board would be regularly reviewing all ratings and had asked for the 'Direction of Travel' column to be added to the CRR.

RESOLVED –

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

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 item of business on the grounds that it involves the likely disclosure of exempt information as defined in the Paragraph indicated in Part 1 of Schedule 12A of the Act.

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. RISK MANAGEMENT REPORT

As part of the discussions at Minute 9, consideration was given to the Council's Corporate Risk Register.