

# AUDIT COMMITTEE

12 JUNE 2017

**PRESENT:** Councillor K Hewson (Chairman); Councillors C Adams, P Irwin, S Lambert (in place of A Harrison), R Newcombe and R Stuchbury. Councillor Mrs A Macpherson attended also.

**APOLOGIES:** Councillors B Chapple OBE, C Branston, Mrs A Harrison, D Town and H Mordue.

## 1. MINUTES

RESOLVED –

That the minutes of the meetings held on 27 March, 2017 and 17 May, 2017 be approved as correct records.

## 2. EXTERNAL AUDIT PROGRESS REPORT

The Committee received a report and overview of the stage that had been reached in the 2016/17 audit. The auditors were continuing to have regular meetings with key officers as part of the 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. The auditors were expecting to be on site from early July for approximately four weeks for the year end audit visit.

Members were informed that the additional work and further testing on one particular element of the closed 2015/16 Housing Benefit Subsidy claim, at the request of the DWP, had been completed and submitted. DWP had resultantly decided to refund AVDC £46,000 although this still meant that the Council would have to pay an error amount of £330,000.

In response to a question, Members were informed that the external auditors met regularly with key officers to discuss issues raised in interim reviews, although it more usual to only report matters that exceeded the materiality threshold to the Audit Committee.

RESOLVED –

That the progress report be noted.

### 3. INTERNAL AUDIT PROGRESS REPORT

The Committee received a progress report on assurance work activity undertaken against the 2016/17 Assurance Plan that had been approved by the Audit Committee in March 2016. The following matters were highlighted:-

#### **Final Reports issued since the previous Committee Meeting**

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

- **Accounts Payable** – the review identified that much work had been done to improve accounts payable processes and controls since the previous year’s “high risk” internal audit report. Overall the controls in place were operating well, in particular the work-flow to enable “three-way matching” on the ledger system, which had been set up and was being utilised effectively. There had also been more robust monitoring of monthly performance information which had led to a significant improvement in the speed of invoice payments and ensuring invoices received were connected to an approved Purchase Order.

The review had identified 3 low risk findings relating to receipting corporate credit card expenditure, reviewing current Purchase Orders and commitments on a regular basis, and expanding monthly KPI indicators and reporting them to the Strategic Finance Manager

- **Council Tax and Business Rates** – the report had been classified as low risk. One medium risk had been raised relating to control weaknesses around validating evidence provided when applying Council Tax discounts and ensuring proper follow up to assess whether the discount was still applicable.

Two low risk findings had been found relating to lack of reporting collection rates of prior year arrears and no write off procedures, and a lack of monitoring Valuation Office properties in temporary or no valuation.

After completion of audit review but before finalising the report, the Council had sent out the annual Council Tax letters. The letters contained a numerical error in the precept calculation and whilst the error did not affect the final tax bill calculation for householders, the letters had to be resent to homes across the Vale at a cost of £24,000. This issue had been reviewed and was considered to be a “one-off” oversight and not reflective of systematic failures in the annual council tax billing process. However, the Council needed to learn lessons from this and ensure that the review process for letters was robust and could identify any errors in the future.

- **Contract Management** – The review had focused on the monitoring procedures for two of the Council's contracts that were of significant importance both to the Council's reputation and finances; Everyone Active (who managed two leisure centres) and Ambassador Theatre Group (ATG) (who managed the theatre). Arrangements were in place to ensure regular contract management took place via monthly/quarterly meetings which held the contractors to account against conditions set out in agreed contracts.

Three medium risk areas of weakness had been identified which needed to be addressed to strengthen the contract management control environment.

- **Safeguarding** – the report had been classified as medium risk.

The compliance rate for completion of the mandatory level 1 e-learning module during the past five years had been 13% which compared poorly to other councils that had compliance rates above 90%. It was mentioned that the Council's system had not been correctly recording when a staff member completed their e-learning module so the actual completion rate was likely to be higher.

The Council's safeguarding team had previously discussed safeguarding matters in regular internal meetings but these meetings had not taken place for over a year, partly due to the Council wide restructure and staff changes. It had also been noted that many of the safeguarding related policies such as Whistle-blowing, Safeguarding Guidance, and Disciplinary policies had not been reviewed for more than three years.

Inconsistencies had been identified on whether background checks were undertaken during the recruitment process for identical roles. The central log to record and follow-up background checks did not record important data such as when the background check had been undertaken.

The Section 11 document that had been submitted to the Buckinghamshire County Council in April 2017 was not now reflective of the Council's position post this review and should be updated and re-submitted in the spirit of openness and transparency.

There had been changes to the Safeguarding Lead and Officer in the past few months and therefore the requirements of these roles were new. Now that these staff were in place and along with the report, new impetus should ensure that the control environment was strengthened by the end of year.

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 management. Work was ongoing and the Project Board was monitoring progress via monthly meetings.  
An update would be provided along with the Accounts Receivable internal audit report to the Audit Committee's July 2017 meeting
- **Accounts Receivable and Service Charges** – the work on these reviews had been completed and reports were being prepared.

### **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 Receivable audits at the next meeting.
- Overdue recommendations – no recommendations had passed 3 months of their implementation date. The Committee was informed that a recommendation tracking tool needed to be developed to easily capture and report internal audit actions. This would be done as part of the Business Intelligence Project.

### **Internal Audit Resource**

The Committee was informed that as part of the Commercial AVDC restructure, the model for the provision of internal audit had been reviewed. To achieve the Council's objectives the preferred model for delivery was a co-source arrangement with a retained Head of Internal Audit position, fulfilled by the Corporate Governance Manager, and buying-in resource to deliver the annual internal audit work programme. This model allowed for the flexibility, insight and innovation achieved through using external suppliers who work with a range of other public and private sector organisations, and also retained the desired level of proximity to the issues and knowledge of AVDC.

Since the last Audit Committee meeting, the proposal had been approved and work had started to develop the scope of work and tender to procure the internal audit service. This was likely to be for a three year term, with options to extend. Up until such stage as the contract had been procured, the Council would continue to engage the services of BDO Internal Audit.

### **2017/18 Internal Audit Plan**

The Committee report detailed the internal audit plan for the second 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:-

#### **Safeguarding**

- (i) by the Cabinet Member for Communities that she welcomed this timely review and was committed to ensuring that the review's recommendations were implemented.
- (ii) that action would be taken to ensure there was a higher compliance rate for completion of the mandatory level 1 safeguarding e-learning module and that training records were then correctly updated and recorded.
- (iii) that now that the Safeguarding Lead Officer plus other staff were in place following the Council's restructure and staff changes, then regular internal meeting on safeguarding would be held and safeguarding related policies would be reviewed.
- (iv) that the Section 11 self-assessment document, reflecting AVDC's current position, would be reviewed and re-submitted to the County Council.

## Review of Contract Management

- (i) that as well as the contract monitoring meetings, the Cabinet Member also held regular meetings with Everyone Active (EA).
- (ii) that clarification would be sought as to whether EA recorded feedback from unsatisfied customers as complaints as part of their complaints handling procedure.
- (iii) that EA would be asked to also provide information showing trends and whether they were meeting agreed targets as part of performance pack reporting.

It was also commented that it would be appropriate for internal Risk Registers to be maintained to assist in managing major contracts.

## Accounts Payable

- (i) that more was being done to develop KPIs for major contracts through the performance information project, in response to the Business Intelligence risk (CRR number 12).
- (ii) that the vast majority of invoices were paid far earlier than within 30 days of receipt.
- (iii) that Council staff were able to have a corporate credit card if they had an operational business need to use one.
- (iv) that Risk Rating colour codings for reviews in the Internal Audit Plan and Progress Tracker (Appendix 2) were only assigned to reviews that had been completed. Reviews that had not yet started or were deferred had been included on the Plan as they had been prioritised when putting together the Plan.

## Council Tax and Business Rates

- (i) that in response to recommendation 2, the Council would be strengthening processes and procedures to ensure that appropriate evidence was always obtained before applying discounts.
- (ii) that there were approximately 100 properties that for various reasons had a temporary or no valuation status. The Valuation Office (VOA) had 90 days in which to resolve these cases and bring them into a proper valuation. In response to the audit finding the Council would be putting in place a process to monitor these properties and formally notify the VOA if they did not meet this timescale.
- (iii) that better processes and procedures would be put in place to ensure that prior years arrears were reviewed and reported. Where recovery of debts was deemed irrecoverable then the policy and procedures for debt write off would be applied to ensure they did not escalate to the current large levels.

## RESOLVED –

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

#### 4. CIPFA DELIVERING GOOD GOVERNANCE IN LOCAL GOVERNMENT FRAMEWORK AND THE ANNUAL GOVERNANCE STATEMENT

The Committee received an update on changes to 'proper practice' with regard to corporate governance, which included an introduction to the CIPFA Delivering Good Governance in Local Government Framework (2016).

The "Delivering Good Governance in Local Government: Framework", published by CIPFA in association with Solace in 2007, set the standard for local authority governance in the UK. CIPFA and Solace reviewed the Framework in 2015 to ensure it remained 'fit for purpose' and had published a revised edition in spring 2016. The new Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016) applied to Annual Governance Statements prepared for the financial year 2016/17 onwards.

The concept underpinning the Framework was to help local government in taking responsibility for developing and shaping an informed approach to governance, aimed at achieving the highest standards in a measured and proportionate way. The overall aim is to ensure that:

- resources were directed in accordance with agreed policy and according to priorities.
- there was sound and inclusive decision making.
- there was clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

It was up to each local authority to:

- set out its commitment to the principles of good governance included in the Framework
- determine its own governance structure, or local code, underpinned by these principles
- ensure that it operated effectively in practice.

The new Framework set out seven governance principles, summarised below, and detailed the approach that should be taken to preparing the Annual Governance Statement (AGS). A copy of the Framework was attached as Appendix 1 to the Committee report. The principles of good governance in the public sector were:

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- B. Ensuring openness and comprehensive stakeholder engagement.
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes.
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- F. Managing risks and performance through robust internal control and strong public financial management.
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

Members were informed that the draft Annual Governance Statement would be reported to the next meeting in July 2017.

RESOLVED –

- (1) That the attached report and Appendix, “Delivering Good Governance in Local Government Framework (2016)” be noted.
- (2) That the purpose of the Annual Governance Statement and the responsibility of the Audit Committee for its review and approval 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.

RESOLVED –

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

## **6. RISK MANAGEMENT**

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 Commercial Board. Some of the risks were not dissimilar to those faced across other local authorities.

The risk register had been reviewed by Commercial Board on 15 March 2017 and subsequently updated for changes in May. Since the previous Audit Committee meeting in March 2017 no changes had been made to residual risk ratings and one new risk had been added which had a High residual risk rating:

‘Failure to deliver the Connected Knowledge Strategy and achieve the Council's Digital objectives. Speed of implementation does not allow for adequate due diligence e.g. supplier/contract procedures, information risk assessments.’

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 21 risks on the CRR (3 low risk, 4 moderate risk, 12 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 Sector Risk Registers.

Members requested further information and were informed:-

- (i) Risk 4 (Commercial Companies) – that future Business Plans and performance would be scrutinised by the Economy and Business Development Scrutiny Committee.
- (ii) Risk 17 (Loss of Key Staff) – that Assistant Directors were developing transition plans to ensure business continuity for key services in their areas.
- (iii) Risk 21 (Connected Knowledge) – that this programme had its own governance arrangements and internal Risk Register.
- (iv) Risk 18 (Modernising Local Government agenda) – that the Extreme Risk of this risk would be challenged at the next review meeting before it was reported to Cabinet at the end of June 2017.

Members also commented that the CRR should include mention of major external factors/risks – e.g. HS2, East West rail, Oxford-MK-Cambridge expressway, future of RAF Halton – and consider possible future impacts on the Council.

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 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.

## **8. RISK MANAGEMENT REPORT**

As part of the discussions at Minute 7, consideration was given to the Council's Corporate Risk Register.