AUDIT COMMITTEE

24 JULY 2017

PRESENT: Councillor K Hewson (Chairman); Councillors C Branston, R Newcombe and R Stuchbury

APOLOGIES: Councillors B Chapple OBE, C Adams, A Harrison, P Irwin, D Town and H Mordue.

1. MINUTES

RESOLVED –

That the minutes of the meeting held on 12 June 2017 be approved as a correct record.

2. EXTERNAL AUDIT PROGRESS REPORT

The Committee received a verbal update from the external auditors and were informed that audit work on the draft 2016/17 Statement of Accounts was progressing satisfactorily. There were no significant issues to report to Members.

The external auditors had asked the Council's Officers to provide some additional information regarding valuations. It was anticipated that the audit work on the accounts would be concluded in the next few weeks, subject to any issues that might arise in that time.

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 Accounts Receivable review had been completed and been classified as high risk. The full report was attached as Appendix 4 to the agenda and had found that there was a lack of corporate and local oversight of the debt held in each service area and irregular monitoring of the age profile of debt. There were no corporate performance indicators to identify areas which were performing less well in their debt management to allow more effective corrective action to be taken. There was also a lack of clarity over the roles and responsibilities of the central Income Team and service areas regarding which team is responsible for debt management. The Council recognised these challenges and in November 2016 had set up a Corporate Debt Project to address the issues and improve debt management processes.

Through the work of the Debt Project, issues have been identified between the system interfaces and manual processes that ensured information on housing benefit overpayment debt was consistent and reconciled between the finance system (Tech One) and the Benefits system (Northgate). During June-July 2017 the project team had been working to reconcile the two systems and clear any discrepancies. At the time of concluding the report all electronic matching and sorting had been completed on the data from both systems. The task in process was to work through manually each unmatched item and investigate both systems to correct the difference. At this stage it was not believed that this would result in a material adjustment to the reported debt figures.

Work was also progressing with the software providers to address the underlying issue around the interface between Tech One and Northgate. In the mean time, dedicated resource had been identified to ensure manual processes operated effectively to maintain ongoing updates and accuracy.

Further findings had also been made regarding:
- Invoices for trade waste collection had not been issued promptly.
- Invoices not being subject to the correct approval in line with delegated limits when re-directed from the original approver.
- Back up documentation to evidence credit notes was not held on Tech One.

The following work was being progressed:-

- Debt Recovery – the Corporate Debt project work was ongoing, with the progress being monitored by internal audit.

- Service Charges – management approval was being awaited on the draft report.

Overdue Recommendations and Follow Up Work

The Committee was informed that the implementation of actions and recommendations raised by internal audit reviews were monitored to ensure that the control weaknesses identified had been satisfactorily addressed.

The overall progress and detail of those actions/recommendations that were considered overdue was set out in Appendix 3. To the end of June 2017, there were 14 “high” and “medium” agreed audit actions due of which 7 were still outstanding and had been given a revised date for implementation.

Actions arising from low risk audit findings were followed up by management and reviewed, but not validated by internal audit.

Internal Audit Resource

Members were informed that the situation regarding the resources available to undertake internal audit work had not changed since the report made to the June 2017 meeting.

Internal Audit Plan and progress tracker

Progress and changes against the approved 2016/17 Annual Internal Audit Plan was detailed at Appendix 2 to the Committee report. The Committee was informed that the Annual Internal Audit Strategy and Plan for 2017/18 was the subject of a separate agenda and report to the meeting.

Members sought further information and were informed:-

(i) on the work that was being done to reconcile housing benefit overpayment debt between Tech One and Northgate, which had been a significant piece of work. Two people were now responsible for ensuring this happened although it was expected that the process would be automated in time. Tech One and Northgate were also looking at how their systems could work better together.

(ii) that some of the issues raised in the Accounts Receivable review were as a direct result of the new finance system (Tech One) that had been introduced last year. Processes had not been documented and this had led to some of the issues raised occurring when there had been a number of staff/team changes due to the Commercial AVDC Programme. It was explained that it was internal audit's job to highlight these issues and then ensure that proper controls were put in place.

(iii) that the control design for approving invoices when an approver was not available through Annual Leave or due to sickness had been identified as a weakness in last year's audit. Significant work had been done since then to update the Scheme of Delegations and match these through to Cost Centres so that Officers would only receive requests to approve invoices for which they had the necessary authorisation.

Members commented that in these circumstances it would be preferable to delegate approval authority upwards to a person's Line Manager.

RESOLVED –

That the progress reported be noted.

4. INTERNAL AUDIT ANNUAL REPORT 2017-18

The Head of Internal Audit (Corporate Governance Manager) was required to provide a written annual report to those charged with governance timed to support the Annual Governance Statement (AGS), and which should be presented to Members and considered separately from the AGS and the formal accounts.

The Committee received a report detailing the Corporate Governance Manager's opinion on risk management, control and governance and their effectiveness in achieving the Council's agreed objectives for 2016-17. The report also incorporated a summary of the work undertaken to support the opinion and a statement on conformance with the Public Sector Internal Audit Standards. Based on this work, the Corporate Governance Manager had provided the following opinion:-

"Generally satisfactory with some improvements required to specific systems and processes.

Governance, risk management and control in relation to business critical areas was generally satisfactory. However, there were some weaknesses in the framework of governance, risk management and control which potentially put the achievement of the Council's objectives at risk.

Improvements were required in those areas to enhance the adequacy and effectiveness of governance, risk management and control."

In forming this opinion the Corporate Governance Manager had confirmed that internal audit activity throughout 2016-17 had been independent from the rest of the organisation and had not been subject to interference in the level or scope of the audit work completed.

The key factors that contributed to the opinion were summarised as follows:-

- Overall the weaknesses in control design and operating effectiveness identified were medium or low risk. Improvements had been made during the year in some key financial systems (Accounts Payable, General Ledger, Budget Management) to strengthen the overall control environment.
- Improvements were still required in a number of areas. High risk reports had been issued for Accounts Receivable and Housing Benefits.

- A number of internal audit reports had highlighted inadequacies in the level of management information, both at a corporate and service level to enable effective monitoring and oversight of both financial and non-financial performance.

A total of 13 assurance reviews had been completed in 2016/17 of which 2 had been classified as having a “high” risk, 6 a “medium” risk and 5 a “low” risk classification. This had resulted in the identification of 6 high, 21 medium and 25 low risk findings relating to weaknesses in the design and operating effectiveness of controls. This compared to 9 assurance reviews (6 high, 22 medium and 9 low priority recommendations) in 2015/16, although a direct comparison could not be made.

A summary of the reviews undertaken and the opinion given was detailed at Section 3 of the Corporate Governance Manager’s report.

A number of weaknesses had been identified that needed to be reported in the Annual Governance Statement, and which related to the “high risk” reports issued for Accounts Receivable and Housing Benefits and a general theme about lack of management information. A summary of these high risks was also detailed in Section 3 of the Corporate Governance Manager’s report.

Other internal audit work undertaken during the year had included regularly reviewing and reporting of the corporate risk register to the Commercial Board, Audit Committee and to Cabinet.

All agreed actions arising from audit reports were kept under review by Internal Audit and regular reports on overdue actions were provided to the Audit Committee. There were no significant issues to report regarding the follow up of any audit recommendations.

The Council’s internal audit function has been restructured during 2016/17 as part of the Commercial AVDC transformation programme. Since September 2016, the Head of Internal Audit role has been fulfilled by the Corporate Governance Manager and work has been performed by an external service provider under a co-source arrangement.

A self-assessment against the requirements of the Public Sector Internal Auditing Standards (PSIAS) had been conducted in 2013 and the gap analysis and action plan had been last updated in July 2015. During 2016, the requirements of PSIAS had been considered and there are no areas of concern to indicate that the current arrangements were not fully compliant with the Standards. During 2017/18 a new co-source contract would be procured and compliance with PSIAS would be considered as part of the service specification.

Members requested further information and were informed that the Report risk rating at the Summary of Internal Audit Activity for 2016/17 was based on the risk rating findings relating to the individual reviews. A definition of the risk classifications (critical, high, medium and low) was detailed at Appendix 2 to the Committee report.

Members expressed their thanks to Officers for the good quality of the audit work undertaken during 2016/17.

RESOLVED –

That the content of the Corporate Governance Manager’s annual report for 2016-17 be noted.

5. ANNUAL INTERNAL AUDIT STRATEGY AND PLAN 2017-18

The Committee received a report which detailed a risk assessment of Internal Audit and plans for audit work for 2017/18. Following the Commercial AVDC re-structure a full assessment had been undertaken of the "Audit Universe" which was the identifiable auditable units within the Council and included consideration of processes that ran across a number of different areas of the Council. Each auditable unit had been risk assessed at a high level to determine the priority for internal audit, represented by the frequency of audit review.

Corporate level objectives and risks had been considered when preparing the internal audit plan, and input had also been obtained from Directors, Assistant Directors and Senior Managers to take into account any areas they specifically identified for review.

The core financial systems, housing benefits and collection fund remained on the list each year but the scope of the reviews would be tailored to look at different areas of risk each year as well as the key controls. Additional areas of focus for 2017-18 were the key services delivered by Customer Fulfilment. This will provide assurance over the end-to-end processes following team restructures and system changes.

The Internal Audit Plan would be reviewed on a quarterly basis to allow for flexibility to pick up new areas of risk or organisational change. It would be reported to the Audit Committee as part of the progress reports.

Members sought further information on the Plan for 2017/18 and were informed:-

(i) on the Corporate level objectives and risks that had been considered when preparing the internal audit plan.

(ii) on the methodology that had been used for assessing auditable units for inherent risk and the strength of their control environment (The methodology was detailed in more depth at Appendices 1 and 2 to the Committee report).

(iii) that a standard set of terms of reference had been developed and was used as the starting point for each piece of audit work. Auditors then worked with management to identify specific issues to include in the review. This could also include talking with Members and allowing them to feed into the scope. All of this was to ensure that there was a robust audit process.

Members expressed some concerns about the Planning and Planning Enforcement audit (planned for quarter one, 2017/18) and that it should include looking at staffing (high turnover, high number of vacancies) and the planning complaints recording process. Members who had particular concerns were asked to provide this information to the Corporate Governance Manager.

RESOLVED –

That the Internal Audit Strategy and Plan for 2017-18 be approved.

6. DRAFT ANNUAL GOVERNANCE STATEMENT

The Annual Governance Statement (AGS) for Aylesbury Vale District Council, that would be signed by the Leader of the Council and the Chief Executive when approved by the Audit Committee, formed part of the Council's formal accounts for the financial year 2016-17.

The AGS had been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting 2015/16 following the principles set out in the CIPFA Delivering Good Governance in Local Government Framework (2016).

The statement explained how AVDC had complied with the principles of corporate governance and also met the requirements of regulations 4(2) and 4(3) of the Accounts and Audit Regulations 2011, which required all relevant bodies to "conduct a review at least once in a year of the effectiveness of its system of internal control" and to prepare a statement on internal control "in accordance with proper practices".

Members were advised that the assurance gathering process for preparing the Statement was based on the management and internal control framework of the Council and, in particular, on the independent report of the Council's Corporate Governance Manager presented to this meeting. The assurance framework included reference to the sources of assurance obtained from management. This included the new service risk assurance process which had been reported in more detail to the Committee.

Internal audit work in 2016/17 had highlighted a number of weaknesses relating to the design of financial controls and processes and the way they were operating within the new financial system. Improvements had been made during the year in some key financial systems (Accounts Payable, General Ledger and Budget Management) to strengthen the overall control environment. Improvements were still required in a number of areas, most notably Accounts Receivable and Housing Benefits.

Members were informed that a number of internal audit reports had highlighted the inadequacies in the level of management information, both at a corporate and service level to enable effective monitoring and oversight of both financial and non-financial performance, and to inform decision. This has also been highlighted in the Corporate Risk Register. The re-structure had created two new posts to support enhancing business intelligence across the Council and investment had been made in software to enable data extraction and reporting across all the systems. This would be an area of focus during 2017/18.

Having critically reviewed the Annual Governance Statement 2016-17 and the robustness of the Council's governance arrangements, it was

RESOLVED –

(1) That the content of the Annual Governance Statement 2016-17, be noted.

(2) That the Annual Governance Statement 2016-17 be approved for inclusion in the Council's Statement of Accounts for 2016-17.

7. 2016/17 DRAFT STATEMENT OF ACCOUNTS AND YEAR END POSITION

The Committee received a report on the current position in terms of accounts preparation, and which also identified significant changes to accounting policies applied in the preparation of the accounts. The budget outturn position was also reported in a management style for the information of Members.

Members were informed that whilst the Quarterly Finance Digest (QFD) did not form part of the statutory accounts, it did provide a more understandable guide to the financial events that had taken place in the last year by comparing them with the expected or budgeted equivalent figures.

The Statutory Accounts presented actual expenditure and income, without reference to budgeted levels. Therefore, whilst the accounts presented the definitive position on the

Authority by way of its financial resources, they did not inform the reader as to whether this was the planned or expected position.

The main financial events of 2016/17 were explained in the Digest but the key issues were:

The outturn position for the year shown in the Digest was a reduction in balances of £0.726m. This was mainly attributable to the use of balances approved by the Council for the AVDC Commercial Programme (£0.145 million) and the Web and E-Commerce projects (£0.424 million).

The December 2016 Quarterly Digest forecast an underspend at the end of 2016/17 of £0.596 million, compared to the final outturn position being a slight overspend of £21,857, representing a variance between the two reports of £0.618 million. This variation was made up of a number of ups and downs against individual services, some of which were reported in earlier issues of the Quarterly Digest and some of which relate to year end adjustments. The main variance between the December 2016 Quarterly Digest and The March 2017 document related to £0.618 million of redundancy and pension strain costs which were charged to service budgets in 2016/17 resulting from the on-going organisation restructuring.

Budget variances reported throughout the year contributing to the final outturn position had been savings/extra income from Increased Planning Fee income, Refuse and Recycling reduced vehicle fuel and maintenance costs, renegotiated contract with Waterside Theatre and Car Parking service charge income, reductions in utility & running expense costs. Factors that had gone the other way included consultancy / agency / redundancy costs associated with Information Technology & Facilities Management, reduced rental income from UCAV & lower service charges from Waterside properties.

The table below detailed the balances position at the year end after taking into account the outturn position. The balance position was higher than the agreed prudent level that should be held, therefore, a report on its use would be submitted to Finance and Services Scrutiny Committee.

GENERAL FUND STATEMENT OF BALANCES	ORIGINAL 2016/17 £'000	ACTUAL 2016/17 £'000	VARIANCE 2016/17 £'000
Brought Forward 1st April	(4,191)	(3,975)	216
Planned Contribution to Balances	91	91	0
Less General Underspend Assumption	0	(69)	(69)
Contribution to the HS2 Fund	0	10	10
Web & E-Commerce Project	0	424	424
Commercial AVDC Change Programme	600	745	145
Net Draw on Balances	691	1,201	510
Working Balance Carried Forward	**(3,500)**	**(2,774)**	**726**

The latest Quarterly Finance Digest had also detailed the top 5 underspends and overspends by service areas for 2016/17, and showed that the General Fund Statement of Balances position at the year end was £2.774m after taking into account the outturn position.

During 2016/2017, transfers to and from reserves had been as follows:-

- That £7.7m had been transferred out of reserves and £8.5m transferred into reserves, making a net increase of £0.8m.
- The largest use of reserves had been from the New Homes Bonus reserve, where £5m had been used to fund a reduction in Superannuation Scheme Deficit. This was an internal borrowing arrangement and the NHB Reserve would be repaid over a number of years.
- The other sizeable movement had been spending of £0.95m from the NNDR Appeals provision, due to successful appeals submitted from local businesses.
- Other significant movements had been £0.277m from the Superannuation reserve to fund pension costs, £0.248m from the Repair and Renewals fund to meet the costs of planned operational building repairs and £0.396m from the Planning Reserve to fund Planning Appeals & VALP.
- There had been two sizeable contributions to reserves and one was £7.05m of NHB into the NHB reserve. This gave a year end balance of £11.5m, of which £1.8m was earmarked for parish initiatives.
- Whilst the reserves were showing a net increase for the year, this was solely due to NHB contributions. However, this reserve had committed £5m to the Council's East / West rail contribution (Council 17 July 2013), with the commitment spread over a number of years. Other commitments included £3m towards the Waterside North project, £2m for the Silverstone Heritage Centre, £0.986m for the Pembroke Road depot, £0.69m ring-fenced for housing and £0.582m for Parish initiatives. Without this contribution then the total amount held in reserves would have fallen to £25.9m.

The full list of reserves and provisions was detailed at Appendix B to the Committee report. A review of them would be carried out in advance of the 2018/19 budget setting process.

The Council had an approved capital programme for 2016/17 of £14.2m, of which £4.1m was for the Waterside North Phase 1 project and £9.2m for the purchase and upgrade of the Pembroke Road depot.

The actual spend had been £4.7m, of which the key area of significant spend had been £3.6m for the purchase and upgrade of the Pembroke Road depot. This was £9.5m less expenditure than expected and had been due to delays relating to the refurbishment of the depot, timing on the Waterside North Phase 1 project and no refuse vehicle replacements had been purchased in the year.

The Council was still in the position that it could not generate significant sums of capital receipts as the majority of assets had been sold. During 2016/17, the Council received non-asset backed capital receipts of £3.177 million from house sales as part of the stock transfer agreement. It had also received £405,000 from the sale of Elmhurst Community Centre.

During 2016/17 no new long term borrowing had been taken out. This took the total borrowing at the end of the year to £23.5m. During the year the level of investments remained fairly constant due to the slow down in the capital programme, which meant that the amount out on loan at the 31 March 2017 had been £41.5 million.

The statutory code for the production and authorisation of the accounts, that all Councils had to follow, was set out within the Accounts and Audit Regulations. These required Members to only approve the accounts in September when they could be informed of any audit findings and, therefore, make an informed decision on their accuracy.

The Council's Chief Financial Officer had certified the draft accounts by 30 June and had published them on the Council's website. Guidance from the Accounts and Audit

Regulations suggested that, while there was not a requirement to do so, it was best practice to give Members an early notification of the financial outcome of the previous financial year. As such, Members had been provided with the previous year's full statements and were asked to consider these alongside the year-end financial information contained in the Quarterly Finance Digest (QFD).

Members' attention was drawn to the two main statements, namely the Comprehensive Income and Expenditure Statement (CIES) and the Balance Sheet. The CIES contained the same spend and income information as detailed in the QFD, but it was presented in a different way to comply with the Statement of Recommended Practice (SORP).

There had not been any accounting changes that had been incorporated in the accounts this year.

There had not been any significant issues that had been required to be reflected in the 2016/17 accounts. However, some of the main information points were:-

- Fixed Assets – The only assets revalued at the end of the year were the public toilets, leisure buildings, pavilions and surface car parks.
- Companies – the accounts include the Council's new companies, AV Broadband and Vale Commerce and reflected the material interests in Aylesbury Vale Estates LLP.
- That the year end position was that Aylesbury Vale Estates (AVE) owed the Council £37.1m, made up of £27.8m deferred receipts, £7.9m Hale Leys loan and a debtor of £1.4m.

During the course of the year the deferred receipts balance had reduced by £408,000 with AVE making repayments against one remaining loan.
The provisional year end position of the AVE group was a £0.467m profit, which was made up of a AVE LLP small profit of £94,000 and a Hale Leys LLP profit of £669,000. The group profit was after realising a profit of £1.075m on the sale of investment properties. However, these figures were reflected differently in the AVDC and AVE accounts as they were prepared using different accounting regulations.

Members sought further information and were informed:-

(i) that full Council had agreed when setting the budget in February 2017 that a lump sum contribution should be made from the New Homes Bonus reserves towards the Pensions Fund deficit prior to March 2017. An appropriate proportion of the resultant reductions in Employers Pension contributions would then be repaid back to the NHB reserves.

(ii) that financial information on Aylesbury Vale Estates and Aylesbury Vale Broadband had been consolidated into the group accounts and information that was required to be reported had been included in the statutory accounts. The business cases for both of these for the next year would be reported to scrutiny and Cabinet in September 2017. The 6 month review against the internal audit review of AVB and resulting recommendations would also be reported to the Audit Committee in September 2017.

(iii) that the difference between the December 2016 Quarterly Finance Digest forecast of an overall underspend of £0.596m for the year and the final outturn position at March 2017 of £21,857 represented a variance of £0.618m. This was made up of a number of ups and downs although the main variance was due to redundancy and pension strain costs which were charged to service budgets resulting from the on-going organisation re-structuring.

Members were informed that the cost of the Commercial AVDC Programme and behaviour assessments had been budgeted for, although a provision had not been made for redundancies costs / exit payments. As the Council had undertaken the vast majority of behaviour assessments from January 2017 onwards, information on the number of people that might leave AVDC in the future had not been available when the December Digest had been put together.

Given the extreme residual risk rating in the Corporate Risk Register for staff related issues associated with the Commercial AVDC Programme, Officers acknowledged that it would have been helpful to provide a forecast for redundancy costs, although this forecast may not have been accurate.

The Committee was of the view that it would be prudent to forecast for some redundancies and that it was not good practice to not have a budget for staff recruitment / redundancies (relating to the Commercial AVDC Programme). It was suggested that this arrangement should be reviewed for the future so that the position could then be monitored.

(iv) that, overall, the provisional year end position of Aylesbury Vale Estates had been a profit of £94,000, which comprised a loss of £575,000 for AVE LLP and a £669,000 profit for Hale Leys LLP. For the first time, AVE had also paid AVDC a dividend this year.

RESOLVED –

(1) That the current position in relation to the statutory accounts preparation and the outturn be noted.

(2) That Officers be thanked for the work done in preparing the statutory accounts.

8. WORK PROGRAMME

The Committee considered the Work Programme for 2017-18 which took account of comments and requests made at previous Committee meetings, particular views expressed at the meeting, and the Annual Internal Audit Strategy and Plan 2017-18 that had been considered at the meeting.

RESOLVED –

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