

AUDIT COMMITTEE

25 SEPTEMBER 2017

PRESENT: Councillors C Adams, C Branston, A Harrison, P Irwin, R Newcombe, C Poll (in place of K Hewson), R Stuchbury, D Town, A Waite (in place of B Chapple OBE) and H Mordue (ex-Officio).

APOLOGIES: Councillors B Chapple OBE and Hewson.

1. ELECTION OF CHAIRMAN

RESOLVED –

That Councillor Branston be elected Chairman for this meeting only.

2. MINUTES

Minute 3 (Internal Audit Progress Report) – at (iii) – Members asked for the last sentence before the recommendation to be updated as follows to clarify their concerns:

“Members commented that in these circumstances it should be for the line manager to approve requests, rather than delegating approval authority to another person who was at the same level”.

An undertaking was given by the Director with responsibility for finance to review this matter.

RESOLVED –

That, subject to the above clarification, the minutes of the meeting held on 24 July 2017 be approved as a correct record.

3. EXTERNAL AUDIT - AUDIT RESULTS (ISA 260) AND LETTER OF REPRESENTATION

The Committee had received a report on the current position with the draft Statement of Accounts for 2016-17 to the July meeting, prior to the accounts being submitted to the external auditors.

The Audit Commission’s Code of Audit Practice required the external auditors to report to ‘those charges with governance’ on the work carried out to discharge the external auditors statutory and audit responsibilities, together with any governance issues identified.

The Committee received a report summarising the auditors findings from the 2016-17 audit which had been substantially completed. Subject to the satisfactory completion of the outstanding matters listed in the auditors’ report, it was expected to issue an unqualified audit opinion on the financial statements before the 30 September 2017 deadline. The auditors had not identified any matters on the arrangements to secure economy, efficiency and effectiveness in the use of resources that needed to be reported to the Committee. The report highlighted the following key findings:-

- (i) Financial Statements – it was expected to issue an unqualified opinion, subject to the satisfactory clearance of any outstanding work. The audit results demonstrated that the Council had adequately prepared the financial statements.

One difference had been identified in the draft financial statements which management had chosen not to adjust. The auditors requested that it be corrected or a rationale be given as to why it had not been corrected and included in the Letter of Representation. The aggravated impact of the unadjusted audit differences was £650,000, although it had been assessed that the impact was not material.

- (ii) Value for Money – it was expected to conclude that the Council had put in place appropriate arrangements to secure economy, efficiency and effectiveness in the use of resources.
- (iii) Whole of Government accounts – it was expected to issue an unqualified confirmation to the National Audit Office regarding the Whole of Government accounts submission. It had been found that AVDC was under the threshold for detailed testing.
- (iv) Control Observations – no significant deficiencies had been identified in the design or operation of an internal control that might result in a material misstatement in the financial statements. A fully substantive approach had been taken to make these observations, which had not involved detailed testing on the operation of controls.

Members were informed that an issue had been identified where the advertisement in respect of the public inspection period had covered 30 working days but had not fully included the mandatory period of 3-14 as per National Audit Office guidelines.

The areas that had been focussed on during the audit work included:-

- Revenue and Expenditure Recognition – testing had not identified any material misstatements, issues or unusual transactions that might indicate any misreporting of the Authority's financial position.
- Management Override – audit work had not identified any material weaknesses in controls or evidence of material management override. No other transactions had been identified which might appear to be unusual or outside the Authority's normal course of business.
- Reliance on Experts (Pensions Valuation and Property Valuation) – the auditors had relied on the advice of experts in these two major areas in their Audit Plan. No issues had been identified in either area that needed to be reported to the Audit Committee.

Audit Differences – as part of their work the auditors identified misstatements between amounts that they believed should be recorded in the financial statements and disclosures and amounts actually recorded. These differences were classified as 'known' or 'judgemental' and generally involved estimation and related to facts or circumstances there were uncertain or open to interpretation. All known amounts greater than £1.433m relating to AVDC had been included in the summary of misstatement table, which included:-

- the revised revaluation figures had been incorrectly input into the Fixed Asset Register. The values should have been input split in line with their asset category, i.e. land or building. Instead they had been input as either land or building. All revaluations, total value of approximately £37.5m, had been removed and corrected re-input.

- a number of assets which should have been revalued were identified. These had subsequently revalued after the balance sheet date and revalued at an increased value. The total value of assets revalued had been £9.729 m. The asset classification of these assets had also changed from Surplus Assets to Other Land and Buildings.
- an overstatement of car parking assets post valuation because of an incorrect entry on revaluations. The value of the error (£650,000) had involved the land element of a number of car parks being overstated post revaluation. In line with statutory requirements, the Council's management and the Audit Committee had been asked to specify the reason(s) for non-adjustment in the Letter of Representation.

The audit findings also included a number of appendices which Members considered as part of their deliberations:-

- Appendix B – Required communications with the Audit Committee.
- Appendix C – Outstanding matters.
- Appendix D – Accounting and regulatory update.
- Appendix E – Management representation letter.

Members sought and were provided with additional information as follows:-

- (a) that the unadjusted audit difference of £650,000 mentioned in the Executive Summary (agenda page 19) was the same matter as the Audit Differences (overstatement of car parking assets post revaluation) that was explained at agenda page 33.
- (b) it was explained that there were two measures of the Council's pension liabilities. One was an actuarial valuation that took a long term view and was used to calculate the Council's contributions to the pension fund. This measure showed that the Council's position had improved in the last year. The second measure was a current valuation (£105.9m as at 31 March 2017), and based on international accounting standards, which showed that the Council's pension deficit administered by Bucks County Council had increased from £82.9m, as at 31 March 2016. However, this second measure was influenced by market factors and could vary in value from day-to-day.
- (c) that following the re-structuring in the Finance team, Officers were confident that the accuracy of PPE / asset valuations and in reclassifying existing financial instruments assets would be improved in the future. A thorough review of assets and the treatment of PPE would be done when the accounts closed for the current year.

RESOLVED –

- (1) That the matters raised in the external auditors' report and raised by the auditors at the meeting be noted.
- (2) That the Letter of Representation be agreed, and the Chairman of the Audit Committee be approved to sign it off on the Committee's behalf.

4. EXTERNAL AUDIT ANNUAL AUDIT LETTER

The external auditors were required to issue an Annual Audit Letter (AAL) to AVDC following completion of their audit procedures for the year ending 31 March 2017.

The Committee received, for information, the external auditors' AAL which provided an overall summary of the external auditors' assessment of the Council. The letter drew on the findings of audit work carried out on the Council's financial statements for 2016/17. These key findings on the Financial Statements audit, the Value for Money conclusion, Whole of Government Accounts, Annual Governance Statement, and control themes and observations had already been reported to the Audit Committee, so were very briefly summarised in the AAL.

The external auditors were anticipating issuing the Annual Certification Report of grant claims and returns for 2016/17 in January 2018. Members attention was also drawn to the following issues that the auditors had concluded were of sufficient importance to merit being reported:-

- 5 Year Valuation Policy: a 5 year valuation plan should be prepared and reviewed to ensure that all assets were scheduled to be revalued within a 5 year cycle. The auditors had noted this year that a number of assets that had been outside this cycle had needed to be reviewed on an ad hoc basis during the summer.
- Valuation Postings: valuation adjustments should be checked by an appropriately qualified member of staff to ensure that postings had been completed and could be agreed back to the valuer's report. This would be particularly important as the Council moved towards the Faster Close Arrangements for the 2017/18 audit.
- Economic Lives: an issue had been raised in relation to how useful lives were being used to calculate depreciation. Depreciation had been incorrectly treated regarding updating asset lives which had resulted in extra work having to be done to re-assess them.

The auditor's report also included summary information on new accounting standards and interpretations that had been issued since the date of the last report, and which had the potential to have the most significant impact.

RESOLVED –

That the contents of the External Auditor's Annual Audit Letter for 2016/17 be noted.

5. INTERNAL AUDIT PROGRESS REPORT

The Committee received a progress report on assurance work activity undertaken against the 2017/18 Assurance Plan that had been approved by the Audit Committee in July 2017. The following matters were highlighted:-

Final Reports issued since the previous Committee Meeting

The Commercial AVDC – Financial Commitments tracking had been completed. This had been a non assurance review to support the Council in ensuring that financial commitments made as part of the Commercial AVDC transformation programme can be readily tracked and reported. The review had found that the Council had a clear and coherent process for tracking delivery of Commercial AVDC commitments. However, the review had highlighted several changes which the Council should make so that the process worked better. As the Council was switching to implementation of Commercial AVDC, with a new Programme Management Office (PMO) Lead recently in place, and ahead of the budget cycle for the 2018/19 financial year, it was an ideal time to implement these recommendations.

The recommendations raised had been agreed with management and would be implemented as part of the ongoing programme management and budget setting processes.

2017/18 Internal Audit Plan work in progress

The terms of reference for the Planning and Planning Enforcement review had been agreed and the review was progressing. The Committee was informed that Members had been involved in putting together the review's terms of reference.

Overdue Recommendations and Follow Up Work

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

No internal audit follow up work had been completed since the last Audit Committee.

2017/18 Internal Audit Resource

The Committee was informed that the tender for the internal audit contract had been evaluated and awarded to BDO UK for the next 3.5 years. Working arrangements for the contract were currently being finalised.

Internal Audit Plan and progress tracker

Progress and changes against the approved 2017/18 Annual Internal Audit Plan were detailed at Appendix 2 to the Committee report.

RESOLVED –

That the progress report be noted.

6. REVIEWS OF COMPANY GOVERNANCE - AYLESBURY VALE BROADBAND UPDATE ON IMPLEMENTATION OF RECOMMENDATIONS

In March 2017 an internal audit review had been undertaken to assess the adequacy of the Council's governance arrangements relating to Aylesbury Vale Broadband Ltd (AVB). AVDC had a 95% shareholding in AVB; a company set up to deliver super-fast broadband to rural areas of Aylesbury Vale. Using the "Guide to creation and working with companies" as a reference, the review evaluated the adequacy and effectiveness of key governance arrangements, including:

- Start up.
- Roles of Members and staff.
- Role of Scrutiny Committee.
- Appointment of Directors.
- Adequacy of effectiveness of reporting and performance monitoring including:
 - Quarterly financials and performance compared to business plan.
 - Annual report and business plan.
- Loans.

The findings highlighted in the March 2017 report had required urgent attention to strengthen the governance arrangements over the Council's investment in AVB. The findings had also been communicated to the Directors of AVB in a letter dated 11 May

2017, along with a proposed set of actions for the consideration of AVB Directors that would support the achievement of the recommendations.

It had been agreed that a further review be undertaken in six months time to assess the implementation of recommendations and the progress made was set out for each of the agreed recommendations identified in the Internal Audit Report that formed part of the agenda for the meeting.

Members requested additional information and were informed:-

- (i) that the recommendation follow-up review had identified that there were still some weaknesses in AVB's governance arrangements, as set out in the report.
- (ii) that, as explained to Members at the full Council meeting on 13 September, there had been a delay in AVB reporting on its Business Plan to scrutiny and Cabinet. Members had also been informed that the Council had received expressions of interest in purchasing AVB and these were currently being assessed.

RESOLVED –

That the update report and progress made by Aylesbury Vale Broadband in implementing the agreed recommendations be noted.

7. POST AUDIT STATEMENT OF ACCOUNTS

The Accounts and Audit Regulations state that Members should only approve the accounts when they have been made aware of the findings of the audit and hence were able to make a better informed decision.

Following on from the report on the draft accounts to the July meeting, Members received a report updating them on the audit process and the changes made to the accounts in accordance with the external auditor's recommendations. The auditors' comments and findings from their work on the 2016/17 accounts had already been reported to Members earlier in the meeting.

Subject to being satisfied with the revised accounts and that the auditor's comments had been correctly responded to, the Committee was required to authorise the Chairman to sign them on the Audit Committee's behalf, together with the Director with responsibility for Finance, in order to comply with the 30 September statutory deadline. However, it was requested that the Committee delegate to the Head of Finance, in consultation with the Chairman or Vice Chairman, the ability to make such changes to the accounts that are considered necessary in order to achieve the statutory deadline.

A number of adjustments had been made to the core statements presented in the draft accounts and these had been amended in the Statement of Accounts submitted to the meeting. These adjustments were reported as follows:-

- Housing Benefit and associated grant – the closing position on the level of short term debtors in the draft accounts had been overstated, requiring correction to properly reflect the true position.
- LEAP funding – the level of balances carried forward into 2016/17 had been overstated, requiring correction to accurately reflect the true position.
- Council Assets – the value of a number of assets had been reported incorrectly, requiring subsequent revaluation and restatement in the final accounts.

- Expenditure and Funding Analysis Statement – this had been moved from the Core Financial Statements to the notes section (page 23), based on the auditor's recommendation.
- Narrative Statement (page 3) – casting errors in the General Fund Revenue 2016/17 Budget in the draft 2016/17 accounts had been corrected.
- Comprehensive Income and Expenditure statement (page 7) – cross-referencing of note numbers had been adjusted to correctly align with the final document.
- Note 1.14 (page 17) – had been amended to remove reference to SeRCOP.
- Note 1.16.2 (page 18) – had been redrafted to add a bullet-point confirming the valuation method for Heritage Assets.
- Notes in 1.16.2 and 13.1 (pages 18 and 32) – had been redrafted to confirm consistency of the asset measurement basis applied.
- Note 2 (page 20) – had been redrafted to remove reference to changes in accounting standards that had already been disclosed in the 2015/16 accounts.
- Notes 11 and 12 (page 32) – cross-referencing of note numbers had been adjusted to correctly align with the 2016/17 final accounts.
- Note 32 (page 48) – grant figures had been misstated, requiring correction in the 2016/17 final accounts document.
- Note 35.2 (page 50) – the number of officers reported in each pay banding for 2016/17 has been adjusted to reflect the correct position.
- Note 38 (page 53) – the second table had removed reference to 'increase' in the total rows, as both years reflected a decrease.
- Note 39.7 (page 57) – the difference between the expected and actual return on assets had been adjusted to 14.24% for 2016/17 to reflect the accurate position.
- Note C3 (page 64) – in the final paragraph, the value of total non-domestic rateable value at 31/03/2017 had been marginally understated in the draft accounts. This had been corrected, with additional alignment of dates in the final note.

Members were also informed that there had been two changes to the accounts to correct typographical errors:-

- Note 40.1 (page 59) – the amount on the top line had been corrected from £4,824,000 to £4,841,000.
- Note C4 to the supplementary financial statements (page 65) – the first dot point at the top of the page had been corrected to 'Aylesbury Vale District Council and Group Movement in Reserves Statement'.

There was a requirement to report significant events that had occurred after the balance sheet date and before the sign off date. However, since the committee in July, there had been no significant events that required reporting in the accounts.

The Committee was also informed that Inconsistencies had been identified in the valuation and presentation of AVDC's car parks as part of the Property, Plant and Equipment (PPE) asset register review of the draft 2016/17 accounts. In consultation with AVDC, the external auditor had agreed that this did not need to be adjusted in the 2016/17 accounts as it does not represent a material issue. However, it was agreed that the 2017/18 accounts would be adjusted for this issue, based on consistent valuation of land and buildings of the Council's car parks.

Members sought additional information and were informed:-

- (i) that the Council's management had decided not to adjust one audit difference (misstatement) identified by the external auditors which related to the overstatement of car park assets post revaluation. It had been agreed with the external auditors that the impact of doing this was not material. As such, an adjustment would not be made to the accounts in 2016/17.

- (ii) Note 40.1 (page 59) – an explanation was provided on the monies owed to the Council and group and that it covered a full range of issues. It was acknowledged that this amount had increased slightly since last year. Some of this debt related to housing benefit overpayments which were always difficult to recover. Members were informed that the Council had a current project looking at how this position could be improved.
- (iii) that information on debt provision for short term debtors was included at Note 20 to the core financial statements (page 42).
- (iv) Top 5 Under Budget / Top 5 Over Budget (page 3) – a discussion was held on the causal links between Housing Benefits underspend and Housing Benefits Administration being overspent. The overspend related to high employee costs following redundancies, agency staff and salesforce costs. Now that the Council's staff structure were settling it was not anticipated that these same costs would be incurred next year.
- (v) Portfolio spending forecasts (page 4) – it was explained that the main reason for forecasting inaccuracies for the last year was due to no provision having been made for redundancy costs. An assurance was given to Members that portfolio spending forecasts would improve for the next year.
- (vi) Note 6 – Brief note explaining significance of any pension liability or asset (page 4) – an explanation on the two measures of the Council's pension liabilities had been discussed earlier in the meeting, including that the two valuations were carried out on different bases and were likely to differ.

Having considered the final Statement of Accounts for 2016/17, it was –

RESOLVED –

- (1) That the final outturn position of the Council's Statement of Accounts 2016/17 be noted.
- (2) That approval be given to the Chairman of the Audit Committee to sign off the Statement of Accounts for 2016/17 on the Committee's behalf.
- (3) That approval be given to the Director with responsibility for Finance, in consultation with the Chairman or Vice Chairman, to make such changes as considered necessary to achieve sign off by the statutory 30 September deadline.

8. WORK PROGRAMME

The Committee considered the future Work Programme 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 informed that the newly approved Corporate Health and Safety policy/strategy would be given time to embed before being considered as part of future annual Internal Audit Plan of work.

RESOLVED –

That the future Work Programme as submitted to the meeting be approved.

9. 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 Cabinet on 28 June 2017 and then updated by Commercial Board on 11 September 2017. Since the previous Audit Committee meeting in June 2017 the following risks had changed, as detailed in the table below

Risk Reference	Change	Comment
5) Depot & workshop development project fails to address H&S and Environmental concerns and achieve commercial objectives.	High Risk – removed	The depot redevelopment plan is now in place and the Corporate H&S Manager is working alongside the depot. The risk has been incorporated into 6) Major Projects and 8) Health and Safety
18) Modernising Local Government agenda: i) fails to achieve an outcome that addresses community needs ii) disruption to service delivery due to resource detraction from day-job and ongoing uncertainty	Extreme → High	There has been no further indication on likely timing of decision.
7) Fail to Deliver the new Vale of Aylesbury Local Plan	High → Moderate	Plan is drafted and due for Scrutiny in September.
9) Fail to plan for a major or large scale incident. Risk to safety of public & staff. Business interruption affecting the Council's resources and its ability to deliver critical services.	Moderate → High	Business Continuity plans need to be revised following restructure. Emergency plan is now part of Community Safety, work is ongoing to reengage with local partners and ensure robust plans are in place and fully resourced. Risk will reduce when internal procedures have been embedded.
11) Safeguarding arrangements, internal policies and processes are not adequate to address concerns about /protect vulnerable adults & children.	Low → Moderate	Risk increased to reflect findings from May2017 internal audit report. Work is ongoing to fully address actions, the risk will then reduce.
20) Failure to identify and respond to current and potential changes in	High → Moderate	Assistant Directors are now in post for each sector and vacant manager positions

legislative/regulatory environment.		being filled. As new structures embed, this becomes part of business as usual.
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Members were informed that management was continuing to consider the Brexit related risks with there still too much uncertainty about the specific implications on the strategic objectives and day-to-day operations of the council to put anything meaningful into the Risk Register.

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.

Members requested further information and were informed:-

- (i) Risk 9 – that a Community Safety Manager had been appointed in April 2017, who had responsibility for emergency planning and community resilience. The Council’s Emergency Plan and business continuity arrangements across all areas were currently being updated.

Members commented that Parish Councils had been contacted about creating their own emergency plans but any impetus had lost momentum due to a lack of support from principal Councils. An undertaking was given to clarify what role the County and District Council had in supporting the Parishes to draw up these plans.

- (ii) Risk 9 – that a report on the Council’s response to the Grenfell Tower disaster in regard to fire safety management of buildings managed or owned, as well as the actions being taken to mitigate the risk of any similar disaster occurring in the Vale, had recently been reported to the Environment and Living Scrutiny Committee.
- (iii) Risk 11 – an undertaking was given to provide information on whether London overspill and people resultantly moving into the area was leading to any additional safeguarding issues.
- (iv) Risk 17 – that the Council had successfully recruited to a number of vacant senior posts over the last few months, including appointing a new senior accountant. However, it was still difficult to recruit planners due to a national shortage. The Council had recently appointed 3 graduate planners.

Members were informed that the Council still had 20-30 vacant posts to fill in the new structure. Some agency staff were being employed in these posts and their number would reduce as more staff were appointed.

As mentioned at the Audit Committee on 12 June 2017, Members again 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. Members were informed that this matter had been considered by Directors after the June audit meeting and it had been decided that these were external factors and largely beyond the control of the Council to mitigate. AVDCs role in these major infrastructure projects was as part of the strategic planning process. Risks associated with the VALP and HS2 had been captured and reviewed at CRR numbers 7 and 16 respectively, as part of the risk management process.

RESOLVED –

- (1) That the current position of the Corporate Risk Register be noted.
- (2) That Commercial Board and Cabinet be recommended to split Corporate Risk number 2 (Commercialisation and Income Generation) into two separate risks – one in relation to the Commercial Property Investment Strategy and another relating to other commercial activities.

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.