

AUDIT COMMITTEE

22 JANUARY 2018

PRESENT: Councillor K Hewson (Chairman); Councillors P Irwin (Vice-Chairman), M Collins, P Cooper (in place of C Adams), B Everitt (in place of A Waite), A Harrison, R Newcombe, D Town and H Mordue (ex-Officio). Councillor L Monger attended also.

APOLOGIES: Councillors C Adams, M Bateman, R Stuchbury and A Waite.

GENERAL DATA PROTECTION REGULATION

Prior to the commencement of the formal business of the meeting, Members received a presentation from Data Governance Officer on General Data Protection Regulation (GDPR) and the work/actions being undertaken by Council Officers and Members in response.

1. MINUTES

RESOLVED –

That the minutes of the meeting held on 27 November, 2017, be approved as a correct record.

2. EXTERNAL AUDIT AGR FOR GRANT CLAIMS

The Committee received a report from the External Auditors on their work associated with the certification of grant claims for 2016/17 submitted by AVDC.

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work had been delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

For 2016-17, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this the external auditors had followed a methodology determined by the Department for Work and Pensions and had not undertaken an audit of the claim. Instead, the work involved executing prescribed tests which were designed to give reasonable assurance that claims and returns were fairly stated and in accordance with specified terms and conditions. Where initial testing errors in the calculation of benefit or compilation of the claim were found, the certification guidance required the auditors to complete more extensive '40+' or extended testing.

The external auditors reported that they had checked and certified the housing benefits subsidy claim with a total value of £44,887,809. This had allowed them to meet the submission deadline. A qualification letter had been issued, details of which were included in section 1 of the report.

The certification work had found errors which the Council had corrected. These amendments had increased the claim by £20,585 to £44,908,394, that was a marginal effect on the grant due. With the history of the clawback in 2015-16, it had been noted that the Council had implemented most of the recommendations from last year and had improved arrangements significantly.

Fees for certification and other returns work were summarised in section 3. The housing benefits subsidy claim fees for 2016-17 were published by the PSAA in March 2016 and were available on the PSAA's website (www.psa.co.uk).

The main issues reported had related to Cell 11 Non-HRA. Testing of the initial sample had identified some incorrect classification of accommodation which had been classified as an error for subsidy purposes.

The results from the testing were as follows:-

- Cell 11 – all cases had been reviewed in full in order to correct the claim. Due to amendments then made by the Council it had concluded that the Non-HRA cells were fairly stated.
- Cell 94 Rent Allowance: in line with DWP guidance, where errors had been identified in the prior year then, unless the authority could prove that the error type would not be replicated in the current year, work proceeded immediately to 40+ testing irrespective of the outcome of initial testing. This was completed in respect of prior year errors identified on both Rent Allowance earnings and child care costs cases. The following errors were identified:
 - Earnings – no errors had been in initial sampling of cases and 2 failures in the extended 40+ testing on a sub-population of 40 Rent Allowance cases with earnings. Both of these errors had resulted in an overpayment of benefits as a result of the incorrect determination of earnings. This error had been extrapolated and reported in the qualification letter.
 - Child Care Costs – no errors had been identified in initial sampling of cases and 3 failures in the extended 40+ testing on a sub-population of Rent Allowance cases with Child Care Costs. 2 of these failures resulted in an overpayment of benefits as a result of the incorrect determination of Child Care Costs. This error type had been extrapolated and reported in the qualification letter.
 - Rent (service charges) – initial testing of Rent Allowances had identified an error in respect of rental service charges. Further investigation had identified that this error type was isolated to one particular area of housing. A review of claims in the relevant housing area was performed and it was found that 10 out of 14 cases had the same error. The errors had been adjusted in the claim.
 - Cell 225 Modified Schemes – testing of modified schemes had identified 4 errors out of a small population of 14 cases in total. The claim had been adjusted for these errors.

The Committee was informed that the indicative certification fee for 2017/18 would be £17,411, which was set by the PSAA. From 2018/19, the Council would be responsible for appointing their own reporting accountant to undertake the certification of the housing benefit subsidy claim in accordance with the Housing Benefit Assurance Process (HBAP) requirements that had been established by the DWP.

Members discussed the claim and noted that the Council had implemented most of the recommendations from last year and had improved arrangements significantly. As such, a reimbursement to DWP would not be required this year.

RESOLVED –

That the external auditors report on the certification of claims and returns by AVDC for 2016/17 be noted.

3. REVIEW OF AYLESBURY VALE BROADBAND (TERMS OF REFERENCE)

A Notice of Motion in relation to the governance arrangements and operation of Aylesbury Vale Broadband Ltd had been submitted to full Council on 6 December, 2017, at which it had been resolved:-

- (1) That this Council will honour the commitment given by the Leader of the Council at the General Purposes Committee to review the position culminating in the decision to sell AVB and introduce a suitable mechanism for keeping all Members of the Council informed of the Council's commercial activities.
- (2) That the Audit Committee be tasked with a detailed audit of the operation of AVB, as far as practicable within the timescales set out within the original Motion and to keep as much information as is possible in the public domain.
- (3) That the audit of AVB be undertaken by the Council's externalised internal audit team (BDO) as they have experience of the governance of company structures.
- (4) That a brief for carrying out the review of AVB be agreed by Group Leaders, the Council's Head of Internal Audit, a representative from BDO and the Chairman of the Audit Committee, with Group Leaders receiving a draft of the report prior to its submission to the Audit Committee, any such meetings involving Group Leaders to be chaired by the Deputy Leader of the Council.
- (5) That any meeting of the Audit Committee convened to consider the report findings be open to all members of the Council to attend and at the discretion of the Audit Committee Chairman, to participate in the discussions (although they would not be able to vote).
- (6) That insofar as the other commercial undertakings of the Council are concerned, reports on their activities be brought forward at regular intervals to the relevant Scrutiny Committee.

With regards to recommendation (2), the timescales set out in the original motion had asked for a review to commence no later than 1 calendar month from the sale of AVB or by 31 January 2018, whichever was sooner, and for it to report no more than 3 months after commencement, i.e. by 30 April 2018.

The Committee was informed that a timeline of events relating to this matter included:-

- December 2014 – Council had agreed to commit £1.536 million of New Homes Bonus funding to support the roll-out of superfast broadband across the District.
- March 2015 – Cabinet agreed the original AVB Business Case.
- April 2015 – Council approved the establishment of AVB as a limited liability company that was 95% owned by the Council and 5% owned by Ironic Thought, together with allocating £200K for a pilot project in Hogshaw, North Marston and Granborough parishes.
- September 2015 – AVB scrutinised by the Economy and Business Development Scrutiny Committee.
- October 2015 – Council approved further expenditure of £550K.
- March 2016 – AVB scrutinised by the Economy and Business Development Scrutiny Committee.
- April 2016 – Cabinet had agreed a document, "Guidance to creation and working with companies in which AVDC has a financial interest".
- April 2016 – Council approved further expenditure by AVB of £500K.
- July 2016 – Finance and Services Scrutiny Committee reviewed the appointment and remuneration terms for AVB's Managing Director.

- September 2016 – Cabinet had approved a revised AVB Business Plan.
- September 2016 – AVB scrutinised by the Economy and Business Development Scrutiny Committee.
- March 2017 – Audit Committee considered internal audit review of the Council's governance arrangements over the investment in AVB.
- May 2017 – internal audit review findings communicated to the Directors of AVB, along with a proposed set of actions for consideration.
- September 2017 – Revised AVB Business Plan due to be reported to Cabinet, deferred as the plan was being revised due to changes in the competitive landscape.
- November 2017 – General Purposes Committee agreed to move forward with an offer for the sale of AVDC's interests in AVB.
- December 2017 – Notice of Motion submitted to full Council, as detailed above.
- January 2018 – Group Leaders met and agreed draft Terms of Reference to be considered by the Audit Committee on 22 January, 2018.

As detailed at recommendation (4) of the motion to the December 2017 Council meeting, a meeting of Group Leaders had been held on 8 January, 2018, which received a draft report including draft terms of reference for the review of AVB as well as a summary on the legal position in relation to the provision and sharing of information that had been prepared by the Council's Lead Legal and Monitoring Officer.

Group Leaders had been concerned that in the spirit of the decisions reached by Council in relation to the review, as much information as possible should be kept in the public domain. They appreciated however that the terms of the sale precluded the release of certain information which the purchaser of AVB considered was commercially sensitive to its future investment plans and which formed part of the sale conditions. It was indicated that if, during the course of discussions between officers, Members and the auditor undertaking the review there was a reluctance to release particular information on the basis that this was commercially sensitive, this reasoning would be tested rigorously.

Group Leaders reviewed the draft scope of work for the review prepared by BDO, the Council's Head of Internal Audit and the Chairman of the Audit Committee and, after a general discussion, Group Leaders approved it for final endorsement by the Audit Committee at its meeting on 22 January.

Prior to Members' discussions on the terms of reference, Councillor Monger made a statement and asked Members to consider the review being undertaken in public and in a format similar to that of a Commons Select Committee.

Members discussed the objectives for the review that had been broken down into the following steps:-

- Inception – the Council took appropriate steps to ensure AVB was a sound investment in the run-up to establishing the company.
- Governance – As the majority shareholder, the Council had an appropriate level of oversight over the scope and scale of AVB's activities in a way which gave the Council assurance over its investment in AVB but avoided conflicts of interest in the operations of AVB.
- Reporting – the Council received sufficient and regular reporting from AVB to allow it to take a clear view on whether AVB (and therefore the Council's investment) was being well managed, delivering on performance objectives and financial targets according to the business plan, and to ensure transparency to members and the public.
- Investment – the Council's financial and non-financial input to support AVB were clearly understood and costed.

- Approach – including information on the approach to be taken to complete the review, which covered issues such as people and representatives that might be interviewed and documentation that might be reviewed. These were not exhaustive lists.
- Timescales and budget.
- Reporting – the output of the review would be reported to the Audit Committee and be published in full and in public on the Council's website.
- Exclusions – the review would be limited to the Council's relationship with AVB however, it would identify lessons learnt that could be applied to other companies.

Members commented that they believed that the proposed approach for the review to be undertaken by BDO LLP was the right one, and that this would provide an independent opinion of the Council's governance arrangements over AVB.

The Committee also discussed that the terms of reference had been put together before the sale of AVB assets to Gigaclear had been concluded. As such, it was agreed that an additional paragraph be added to the background, as follows:-

“On 30 December 2017, AVB's physical assets were sold to Gigaclear, a private ISP. The terms of asset sale are covered by a confidentiality agreement designed to protect the ongoing commercial interests of Gigaclear. AVB remains in the ownership of AVDC. Details of AVB's trading history may no longer be commercially sensitive and all information that has previously been in the possession of AVDC Members and/or Officer Directors will, unless still covered by commercial sensitivity or confidentiality, be freely available to the Audit Committee and Council and will form part of this review.”

RESOLVED –

- (1) That the draft scope of work and terms of reference for the review of AVB, as updated by the additional background paragraph (above), be agreed.
- (2) That any Members who wished to submit information/questions to BDO as part of the review of AVB should provide the information to the Corporate Governance Manager.
- (3) That the draft internal audit report would be submitted to a future special meeting of the Audit Committee, that would be open to all Members.

4. 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 Council Tax and Business Rates review had been completed and contained 1 high risk and 4 low risk recommendations. Overall, the report had been classified as Medium Risk with key findings summarised as follows:-

- Council tax reconciliations between the Northgate revenue system and the Tech One finance system had not been performed since May 2017 and business rates reconciliations had not been performed since July 2017. There was also no

regular reconciliation performed between the debt recovery system (Ash) and Tech One. (High)

- There was an estimated £1.5m in irrecoverable council tax debt which was fully provided, but had not been written off, despite previous audit recommendations to review and action. (Low)
- No monthly collection monitoring reports were produced and circulated to senior management between April and October 2017. Reports were now being produced but further work was required to embed the reporting and review processes. (Low)
- the sample had identified one council tax account where a customer had been placed on a closed period council tax reduction scheme in error, when she should have been on an open ended one, resulting in incorrect billing. There were no checks in the Northgate system to prevent other similar errors occurring. (Low)
- The Council was not monitoring temporarily banded properties and properties yet to be valued so that they could inform the VOA when the expected 90 day period expired. (Low)

The audit had recognised that the restructure over the past year had left the teams with many new staff inexperienced in the Northgate and Finance systems. However, there were fundamental processes and procedures that were not currently being adhered which the Council needed to address.

2017/18 Internal Audit Plan work in progress

Members were informed that reviews of Building Control and Taxi Licensing were being scoped with a view to audit commencing in February 2018. The field work for the Housing Benefits review had been completed and the report was being prepared.

Implementation of agreed audit actions

Internal Audit monitored the implementation of actions and recommendations raised by reviews to ensure that the control weaknesses identified had been satisfactorily addressed. Actions arising from low risk audit findings were followed up by management and reviewed, but not validated by internal audit.

The overall progress and detail of those actions which were considered to be due were set out in Appendix 3 to the report. At the end of December 2017, a total of 116 discrete audit actions had been identified from reviews occurring during 2015, 2016 and 2017, of which 42 have been completed to date. Of the 74 remaining audit actions, 18 have arisen from "High" risk audit issues, 22 from "Medium" and 34 related to "Low" risk audit findings. A summary of all of these actions was included at Appendix 4 to the Committee report.

The Finance Steering Group will maintain ongoing review of completion of actions but only the status and progress against audit actions which have passed their due date will be reported in detail to Audit Committee.

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.

Members sought further information and were informed:-

- Council Tax and Business Rates – informed that the main reason for monthly collection monitoring reports not being produced and circulated to senior management between April and October 2017 had been due to staffing re-structures taking place at the time. An assurance was given that processes and procedures were being put in place so that this would not occur in the future.
- Implementation of Agreed Audit Actions – it was agreed that a detailed listing of all internal audit actions (in progress and complete) together with a status update should be reported six monthly to the Committee, with a summary of the discrete (High / Medium / Low risk) audit actions reported to each meeting.
- In Progress Actions for Accounts Receivable – an explanation was provided that the draft Debt Policy (covering debt management and recovery, and write off), had been circulated for review and would be hopefully be agreed soon. Once the policy was approved then a significant amount of work would need to be done across the organisation to document all work streams and embed the procedures. This had resulted in new completion dates being agreed for the work, taking account of when it could realistically be completed.

Action point: Council Tax and Business Rates – an undertaking was given to provide Members with information on the rules regarding Council Tax and business rates payable when retrospective planning permission was granted.

RESOLVED –

That the progress report and action points made at the meeting be noted.

5. 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 Annual Governance Statement would likely be reported to the 26 June 2018 meeting.

Action Point: The Committee requested that a report in relation to Delegation of financial approval authority be submitted to the next meeting.

It was agreed that the Action Point Tracker be included with the Work Programme on future agendas, with each Action Point given a unique identification number. With regard to current action points:-

- Planning and Planning Enforcement Review – a further report be provided in six months time.
- Commercial Property Service Charges Review – a further report be provided to the next meeting. Members were informed that this matter would be reviewed by the Finance Steering Group at its next meeting.
- Risk Register (Risk 14: Failure to manage a major partnership) had been updated to include Enterprise Zones.

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.

Since the previous Audit Committee meeting in November 2017 the following risks had changed:

Risk Reference	Change	Comment
20) Failure to respond to new legislation on Homelessness Duty, enforceable from 1 April 2018. Inability to recruit and train staff in complex new legislation.	New (Moderate)	New legislation which increased the duty of Local Authorities to act to prevent homelessness came into force from 1 April 2018. Key challenges are around recruiting staff in a competitive environment and providing adequate training on complex legislation.
Failure to identify and respond to current and potential changes in the legislative/regulatory environment. Inadequate horizon scanning.	Closed	No longer considered to be a corporate level risk. Risks in response to specific legislation changes have been captured elsewhere e.g. #20 - Homelessness and #12 - GDPR)
2) Organisational culture does not enable the strategy (Connected Vision, Connected Knowledge & commercial targets). Behaviour framework and Values are not embedded.	Reduced High → Moderate	New staff and ways of working are becoming BAU post restructure. Work still needed to define P&C strategy and embed behaviour framework but not now considered a "high" risk to achievement of strategy.
5) Council owned or partly owned companies (VC, AVE & AVB) fail to achieve the Council's objectives. Inadequate governance arrangements over Companies.	Reduced High → Moderate	Sale of AVB assets and wind up of VC reduce the overall risks associated with whole/partly owned companies. AVB review will identify lessons learned for future consideration with existing commercial interests (AVE) and any future ventures.

The Council's management continued to considered the risks arising following the Brexit decision. At this stage there was too much uncertainty about the specific implications on the strategic objectives and day to day operations of the Council to put anything meaningful on the CRR.

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) Vale Lottery – that in addition to an internal audit, Vale Lottery had also passed an audit inspection by the Gambling Commission in October 2017.
- (ii) Carillion – that while the Council had no direct exposure to Carillion, it was possible that some of the contractors that the Council worked with would have some exposure. AVDC would continue to monitor this situation.
- (iii) With regard to the layout of the Corporate Risk Register, it was agreed that:-
 - Risk Owner – would include an individual contact person, as well as a Board name, if this was applicable.
 - Completion Date – that all Risks would have a milestone completion date.

Action Point: Advice to be sought on the need for Corporate Risk Register items to be included in Part 2 of the agenda.

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.