AUDIT COMMITTEE

26 MARCH 2018

PRESENT: Councillor P Irwin (Chairman); Councillors C Adams, M Collins, A Harrison, R Newcombe, P Strachan, R Stuchbury, D Town, A Waite and H Mordue (ex-Officio)

COUNCILLOR HEWSON

Prior to the commencement of the formal business of the meeting all those present stood in silent tribute to Councillor Kevin Hewson, Chairman of the Audit Committee, who had sadly passed away suddenly on 22 February 2018.

1. ELECTION OF CHAIRMAN

RESOLVED –

That Councillor Irwin be elected Chairman of the Audit Committee for the remainder of the municipal year.

2. MINUTES

RESOLVED –

That the minutes of the meeting held on 22 January, 2018, be approved as a correct record.

3. WORK PROGRAMME

The Committee considered the future Work Programme (Appendix 1) 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.

The Audit Committee Tracker (Appendix 2) was also attached to the Committee report which highlighted ongoing and completed actions identified by Members at previous meetings.

The following matters were discussed:-

(i) Review of Aylesbury Vale Broadband (AVB) – Members were informed that BDO was still finalising the report, which would hopefully be received by the Council in the next few weeks. As agreed at the Audit Committee meeting on 22 January 2018, Group Leaders would receive a draft of the report (for information only) prior to its submission to the Audit Committee. The special meeting to consider the report would be convened as soon as possible.

The Chairman informed Members that it was intended for a short Press Release, on behalf of the Audit Committee, to be issued when the agenda for the special Audit Committee meeting was published, inviting the public and all Members to attend the meeting.

(ii) Action Tracker **AT2/17** (Commercial Property Service Charges Review) – information on this action had been provided to Members on 22 March. The overall impact on AVDC had been a potential cost recovery of £200,000 per annum. There had been no tenants lost. Service charge budgets were being sent out for next year and reconciliations were being started for next year.

(iii) Action Tracker **AT1/18** (Council Tax and Business Rates) – it was agreed that this action would be re-opened. It was clarified that there was not a limit on how far back in time the Council could go in seeking to reclaim Council tax monies owed. However, business rates monies owed could only be backdated to the start of the rating list (assuming it went back that far) so any current cases could only go back as far as 1 April 2017. Further information to clarify this position would be provided.

(iv) Action Tracker **AT2/18** – (Delegation of financial approval authority) – a briefing note on the delegation of financial approval authority had been provided to Members in January 2018 and re-circulated on 22 March. However, it was explained that this matter related to Accounts Receivable internal audit report submitted to the Audit Committee on 24 July 2017 which had identified a control weakness that invoice requests might be approved by an officer who did not have an appropriate understanding of the service to ensure accuracy and validity of bills raised. Two low risk actions had been included in the Action Plan which included to remind all TechOne users to utilise the delegation function when they were out of office, and to consider whether the current setting for delegation were appropriate and to provide guidelines to all TechOne users on how to choose the most appropriate person to delegate to.

The Director with responsibility for finance gave an undertaking to meet with one Member who had particular concerns about this process. An update would then be provided to a future meeting.

(v) Action Tracker **AT 3/18** (Corporate Risk Register) – it was confirmed that all of the Risk Register information would be included in the open part of the agenda, wherever this was possible.

RESOLVED –

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

4. EXTERNAL AUDIT - AUDIT PLAN AND FEE LETTER

The Committee received a report and External Audit Plan which summarised the proposed approach and scope of work to be undertaken by the external auditors for the 2017/18 audit in accordance with statutory requirements and to ensure it was aligned with the Committee’s service expectations.

The Audit Plan had been prepared having regard to several key inputs including:-

- Strategic, operational and financial risks relevant to the financial statements.
- Developments in financial reporting and auditing standards.
- The quality of systems and processes.
- Changes in the business and regulatory environment.
- Management’s views on all the above mentioned issues.

As well as the financial statement risks and value for money risks, the auditors had to perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations.

The auditors had assessed the key risks which would drive the development of an effective audit and the planned audit strategy in response to those risks and had identified four significant risks to the opinion of the financial statements. These were the risk of fraud in revenue and expenditure recognition, misstatements due to fraud or error – management override and property, plant and equipment – administration and valuation.

The external auditors had also identified Pension Liability Valuation as an important issue when considering the risk of material misstatements to the financial statements and disclosures, although it had not been classified as a significant risk.

The Audit Plan restated, as in previous years, that management had the primary responsibility to prevent and detect fraud. The Plan detailed how the auditors planned to obtain reasonable assurance about whether the financial statements as a whole were free of material misstatements whether caused by error or fraud. Work would also be undertaken to consider whether the Council had in place 'proper arrangements' for securing financial resilience at the Council, and to secure economy, efficiency and effectiveness on its use of resources, which would include an assessment against the requirements of the CIPFA/SOLACE framework for local government. In due course this would be reported to the Committee through documents such as the Annual Governance Statement.

An update on the results of the audit work in these areas would be reported back to the Committee in September 2018.

As in previous years, the Internal Audit plans and resulting work would be reviewed. The findings of audit reports, together with any other work completed in the year, would help to inform detailed external audit work, including on issues raised that had an impact on the year-end financial statements.

The indicative fee scale for the audit work was £56,785, although it was possible that this fee could increase in due course if additional testing or work was required in addition to that already identified within the Audit Plan. The external auditors would be making use of third party specialists for work on the valuation of land and buildings and for Pensions disclosure and IAS 19 Liability work.

The fee for other non-audit services not covered by the audit work was £17,411 and related to the certification of Housing Benefits claims and returns annual report for 2016-17.

For the purposes of determining whether the financial statements were free from material error (i.e. the magnitude of an omission or mis-statement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements), the external auditors had determined that overall materiality for the financial statements was £1.96m based on 2% of gross expenditure. As such, any uncorrected audit mis-statements greater than £98,000 would be reported to the Audit Committee.

Members requested further information and were informed:-

(i) on the assurance work that would be done relating to the Pension Liability Valuation.

(ii) that the scope of work for the 2017/18 audit would provide an assessment on whether the financial statements of AVDC were a true and fair view position as at 31 March 2018 and of the income and expenditure for that year, as well as on the Council's arrangements to secure economy, efficiency and effectiveness. All of the conclusions would assist in any transitional arrangements to a unitary Council(s).

RESOLVED –

That the contents of the external auditors' Audit Plan for 2018 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:-

Four reports had been finalised since the previous Committee meeting:

Name of review	***Risk rating***	***Date of final report***	***No of recommendations made***			
			Critical	**High**	**Medium**	**Low**
General Ledger	High	15.3.18	-	1	3	3
Housing Benefits	High	15.3.18	-	2	-	2
Taxi Licensing	Medium	14.3.18	-	-	4	1
Building Control	**Medium**	**14.3.18**	**-**	**-**	**3**	**4**

General Ledger – a number of audit reports in recent years had highlighted issues with the Tech1 finance system including the initial implementation of the system, the design of processes and controls, and poor engagement and speed of response to requests for support. System improvements had also been hindered by internal factors, primarily the level of work required following restructure to remodel the finance structures in line with organisational change and an under resourced team with appropriate expertise. The issues had not significantly impacted on the integrity of the financial accounts, but had resulted in inefficiency, inconsistencies, manual work-arounds and a general lack of reporting to support good financial control.

The report provided a summary of the issues and actions being taken to address them and concluded that whilst progress was being made, a number of concerns remained, mainly around Tech1 consultant capacity and resource to meet the operational and development needs of AVDC. Until significant progress had been made in addressing some long outstanding issues with existing processes and controls, there remained a high risk around the operational performance and functionality of the finance system.

Overall, the report had been classified as High Risk and had identified the following issues with recommended actions:-

- Balances within suspense accounts were not being cleared in a timely manner and there was a lack of clarity around responsibility and documented procedure for completing the process (**Medium**)
- Some interfaces were not reconciled to Tech1 including the Bartec system and some Uniform activity. Issues relating the Northgate/Tech1 interface had been reported in the Housing Benefits internal audit report. A number of the system maps for the interfaces between the Tech1 system and the Council's other sub-systems remain incomplete, with regular reconciliation were not being consistently performed (**Medium**)
- There was insufficient monitoring over Tech1 user accounts and supplier access to the Tech1 system. Staff leaving the Council were not consistently having their user accounts deactivated in a timely manner (**Medium**)
- There was a lack of knowledge and restrictions on who was able to access and make amendments to the chart of accounts (**Low**)
- Insufficient journal narrative and back-up documentation was being recorded for journals on the Tech1 system and there were cases where the same member of staff was preparing and approving the journal for posting (**Low**)
- There was a lack of documented procedure for managing any updates or changes required for the Tech1 system (**Low**).

The restructure over the past year, staff capacity and insufficient consultancy support had impacted on progress in implementing the controls recommended during the 2016/17 audit, and this was reflected in the increase in risk rating compared to the previous year. There remained some fundamental processes and procedures that needed to be addressed.

Housing Benefits – since the prior year high risk report significant improvements had been made to processes and controls. These improvements had led to the Council being paid back subsidy from the DWP as part of their 2016/17 subsidy return, instead of a significant subsidy loss in 2015/16. The key areas of improvement were around increasing the quality checks performed each month and monitoring of monthly subsidy forecasts to quickly identify any financial concerns and take prompt action to rectifying benefit cases. This was supported by full team training.

However, there were still challenges, with the biggest concern being around housing benefit overpayments. Consistent with the national picture, the total estimate of overpayment debt remained high, at £5.9m in February 2018 (2016/17: £6.5m). Of this, £4.12m relates to invoiced overpayment debt and £1.78m was being collected through on-going benefits. Two high risk issues were raised relating to housing benefit overpayments:

- As reported last year, there was a mismatch between housing benefit overpayment data held on Northgate (benefits system) and on Tech1 (finance system). During the year significant resources had been invested to reconcile these two systems and redesign the automated interface processes. Progress had been made to the point where the residual unreconciled balance had been reduced to 0.6% of the debt outstanding, but further work was still needed to automate the matching process and establish ongoing reconciliation procedures. (**High**)
- There were insufficient procedures and resources in place to support effective monitoring and recovery of housing benefit overpayment debt. A business case had recently been approved for additional resource to focus specifically on recovery of housing benefit overpayment. (**High**)

Two low risk issues have been raised around training and more robust performance monitoring.

Taxi Licensing – the taxi licensing service had seen a significant increase in demand for both vehicle and driver licences following the introduction of the Deregulation Act 2015 with driver licence applications increasing five fold and vehicle applications three fold. The organisational restructure had resulted in 50% of the staff within the taxi licensing service moving into roles in other departments within the organisation and a related period of recruitment and staff training.

The auditors had tested a sample of 20 applications and 15 service requests/regulatory actions and sanctions for the period April 2017 to January 2018 and identified the following issues:

- A lack of supporting evidence and records of action was retained to demonstrate whether drivers and vehicles were fit and proper and safeguarding checks were sound for both applicant and service requests (**Medium**)
- Enforcement activities were not documented centrally or monitored and new joint working protocols were not yet working effectively (**Medium**)
- Insufficient management information was collated and/or provided for scrutiny of the performance of Taxi Licensing (**Medium**)
- The sampling had identified 2 instances of errors over penalty points and 2 instances of untimeliness over regulatory actions and sanctions. There had also been an issue identified with licences associated with expired visas however, Management have accepted they could not fully mitigate this risk in the short term (**Medium**)
- Not all Members of the Licensing Committee had been trained and the training provided did not include all of the key elements of safeguarding (**Low**)

Building Control – there was a national shortage of Building Control Inspectors and although the Council's shortfall was being covered by 1.5 FTE consultants, the team was still under resourced. The restructure over the past year had left the staff with changed responsibilities and the new team structures were currently being embedded. Testing had identified the following areas of weakness:-

- There is a lack of documented policies and procedures and inconsistent processes are followed (**Medium**)
- Key Performance Indicators have not been reviewed to establish whether they are still relevant (**Medium**)
- There is no evidence of fees being reviewed at the end of the financial year as per CIPFA Guidance and no evidence that the service is breaking even (**Medium**)
- Building Control Financial Statements, as set out in the CIPFA Local Authority Building Control Accounting Guidance for England and Wales, are not prepared and approved by the Section 151 Officer (**Low**)
- CPD and training maintenance and updates are not evidenced by Managers (**Low**)
- The manual process for matching invoices and payment is inadequate and should be automated. Our testing identified one certificate that was issued without payment of invoice, and one instance where duplicate payments were made (**Low**)

- A Marketing and Income Generation Strategy has not been documented, approved and disseminated (**Low**).

2017/18 Internal Audit Plan work in progress

Members were informed that reviews of Accounts Payable and Payroll had been complete and would be reported to the Audit Committee in June 2018.

An advisory piece of work on Governance and Risk Management would be undertaken in June to review the draft 2017/18 Annual Governance Statement compared to the CIPFA Framework.

Changes to the 2017/18 Internal Audit Plan

The Annual Internal Audit Plan was kept under review to ensure it remained relevant and was flexible in responding to emerging or changing risks. With budget constraints, there was also a need to ensure work was prioritised so that it achieved the greatest value to the organisation. Since the plan had approved in July 2017, changes had been made to the reviews in relation to Accounts Receivable, Tech 1, Budget Management and Aylesbury Vale Estates. Details of this were set out in the Committee report. In addition, the Audit Committee had commissioned an independent review of the Council's governance arrangements for Aylesbury Vale Broadband. This had commenced in January 2018 and was due to report in April/May 2018.

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.

Progress on implementing the prior year actions for General Ledger and Housing Benefits was set out in the reports attached to the agenda. A full report on outstanding actions would be submitted at the June 2018 Audit Committee meeting.

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:-

General Ledger

- Under resourced team with appropriate expertise (p.71) – a new person would be starting on 9 April who would assist with financial systems work including General Ledger development and the Tech1 system.
- Suspense account not reported monthly (p.76) – Officers acknowledged the importance of implementing monthly reporting on the position of the suspense account to the Strategic Finance Manager to enable better oversight of the clearing of balances.

Housing Benefits

- Changes to the Benefits System – it was explained that the Council operated a discretionary housing benefits fund (£200,000) that could assist people, in certain circumstances, with HB payments. The fund had been fully allocated for this financial year. The Real Time Information (RTI) for PAYE employees that

had been introduced a few years ago had reduced the likelihood that people would be overpaid housing benefits.
Members were informed that the Council had not seen a significant reduction in the housing benefit claims caseload recently which indicated that there were a relatively large number of low paid households in the Vale. However, it was possible that the number of claimants would change when Universal Credit was fully rolled out.

- Backlog of overpayments (manual reconciliation) (p.95) – that the overpayments information related to how overpayments / unpaid balances were recovered by the Council, rather than how the overpayments occurred in the first place. Landlord invoices (e.g. VAHT) could often be more complicated which explained the lower reconciliation rate when compared claimant invoices for individuals.
- Invoiced overpayment debt (p.91) – an explanation was provided on the ongoing reconciliation procedures in relation to collecting overpayments, and in matching HB overpayments data held on Northgate (benefits system) and Tech1 (finance system).
- Loss of HB subsidy (p.92) – it was acknowledged that there had been a loss in the level of subsidy of approximately £91,000, which had been partly due to a software change made by the supplier. This had highlighted a number of issues which had since been addressed.
- Performance Monitoring meetings (p.99) – information was provided on the regular meetings that were held involving the Group Manager and the Assistant Director (Customer Fulfilment) to monitor housing benefit performance. These meetings were held as part of a wider Sector plan, with information/actions then cascaded upwards and reported monthly to the Assistant Director. The Sector was also working to put in place key performance indicators and reporting by exception.

Taxi Licensing

- Retention of evidence and action records (p.112) – that the target date of 30 June 2018 to train Officers and to ensure processes were put in place to make sure sample testing were conducted on at least a quarterly basis were realistic.
- Members expressed some concerns in relation to public safety / safeguarding issues associated with licensing taxi drivers, including the licensing of people who did not live in the Vale, or had a drivers licence issued in another country. The Committee was informed that applicants for a taxi licence had to hold a UK drivers licence or have held an EU drivers licence for a minimum of 18 months to be eligible. The Government had liberalised taxi licensing schemes over the last few years so licensing was not restricted to people who lived in the Vale. However, the Council could introduce a local test for drivers which might discourage some people. This issue was being discussed with local companies. Taxi drivers were also responsible for obtaining a DBS check and providing the Council with a copy of it.
- that the Council was properly resourced (Officer wise) and able to undertake its taxi licensing responsibilities.
- Residual Gaps following the migration process from Uniform to Salesforce (p.111) – that where there were some residual gaps following the migration to Salesforce, manual processes would be put in place to support enhanced data control and to address any resultant risks.

Building Control

- that the Council's Building Control service had operated for a number of years with an experienced small core of Building Control Officers. A number of these people had recently retired or left the Council and efforts were being made to properly document policies and procedures to assist new staff and some temporary contractors who were working in this service area. Throughout this transition period, staff had worked exceptionally hard to maintain a level of service, and general quality of building control work, that customers expected. Member were also informed that private companies also provided building control services so people could choose to use these organisations rather than the Council service.

- Building Regulations Financial Statements (p.13, Supplementary agenda) – it was confirmed that the financial statement relating to the Building Regulations Chargeable and Non-chargeable account would need to be approved by the Section 151 Officer before the Council's financial statements for the year were prepared.

General queries

- Staffing – that the Commercial AVDC programme had led to a major re-organisation of staffing across the organisation. While there were still vacancies in a number of areas, active recruitment was ongoing with a range of strategies to fill them.
- Aylesbury Vale Estates (AVE) – that an internal audit review of the governance arrangements over the investment in AVE would be undertaken in 2018/19, drawing upon the lessons learned from the review of Aylesbury Vale Broadband.
- General Ledger / Housing Benefit comparison – some concerns were expressed that there was a radical difference in implementing actions from last year's reviews in these areas. i.e. very few actions had been implemented following the GL review whilst most actions had been implemented following the HB review.
- Members commented that it would be helpful to get a better understanding of the reasons behind a number of Strategic Development Management Committee meetings being cancelled over the last 6 months.

RESOLVED –

That the progress report be noted.

6. CORPORATE RISK REGISTER

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 January 2018 the following risks had changed:

Risk Reference	Change	Comment
4) Portfolio of commercial (profit generating/cost recovery) activities and opportunities fails to produce the return on investment needed to support a sustainable Council.	**New** (Moderate)	Risk reflects need for continuing focus on income generation to achieve a sustainable Council.
22) Failure to adequately plan for next round of growth following adoption	**New** (Moderate)	Need for continued coordination and communication around

of VALP; including consideration of CaMKOx Corridor and need to meet updated OAN housing targets.		the growth agenda. Consideration of impact of final unitary decision.
19) Modernising Local Government: 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 impacting all areas. Potential impact on retention and recruitment.	**Increased** High → Extreme	"Minded to" decision announced 12 March in support of a single unitary for Bucks; against the 2 unitary proposal preferred by the Districts. Period of uncertainty will have impact across all areas of council; staff morale, recruitment & retention, strategic decision making and deflection of resource to the reorganisation process.
2) Organisational culture does not enable the strategy (Connected Vision, Connected Knowledge & commercial targets). Behaviour framework and Values are not embedded.	**Increased** Moderate → High	Recognised that staff morale (existing and new) may have deteriorated in recent months and the need for increased communication from Directors on vision and direction of the new organisation. Post behavioural assessments, work is needed to embed desired behaviours into cultural norm.
15) Failure to manage a major partnership or a significant council contractor.	**Increased** Moderate to High	Significant performance issues with Street Cleaning contractor. Contractor is working on improvement plan and being closely monitored.
1) Fail to achieve the Medium Term Financial Plan. Annual sector budgets are not delivered.	**Reduced** High to Moderate	Balanced MTFP to 2021/22 approved.
7) Waste Transformation Project fails to deliver commercial, customer, H&S, Environmental objectives.	**Reduced** High to Moderate	Actions are being implemented in line with programme targets.

The Council's management continued to consider 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 were also informed that a full assessment and rating of Risk 5 (Fail to deliver the Commercial Property Investment Strategy and achieve planned return on investment) had not yet been completed.

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) by the Corporate Governance Manager that she was endeavouring to obtain Risk Register information from the other Bucks authorities so that a comparison could be made.

(ii) Risk 9 (Failure to recruit Technical Professional Specialists) – that while the Council was still looking to fill some technical specialist vacancies, the number of vacancies had reduced in the last few months. As such, the overall risk rating had been assessed and reduced to Moderate.

(iii) Risk 12 (Fail to plan for a major or large scale incident) – it was agreed that this risk should be divided into separate Emergency Planning and Business Continuity risks.

(iv) Risk 14 (Safeguarding) – **Action Tracker** item to be included relating to training sessions to be provided to elected Members.

(v) Risk 19 (Modernising Local Government) – recent events had contributed to this risk increasing from high to extreme. It was acknowledged that continued communications with staff were essential and that this risk had the potential to impact on all other risks.

(vi) Risk 22 (Failure to adequately plan for next round of growth following adoption of VALP) – it was acknowledged by Officers that information needed to be provided on the controls that had been put in place to reduce/mitigate this risk.

RESOLVED –

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

7. REVIEW OF GENERAL FUND BALANCES 2018-19

The Committee received a report on the risk assessment methodology applied in determining the minimum safe level of General Fund Working Balance used in budget planning. Members were invited to consider this and comment upon the completeness and adequacy of the provision as it would be used in budget planning for 2019/20.

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

The level of balance maintained by Aylesbury Vale District Council was reassessed annually and the minimum recommended safe level was then applied in budget setting and planning. The report presented the risk assessment methodology and the risks identified in determining the minimum recommended safe level of £2.0 million used in budget planning for 2019/20.

Members of the Committee considered the methodology, the risks and the mitigations identified and their appropriateness in the context of the budgetary pressures facing the Council. The potential risks arising following the Brexit and potential Unitary decision would continue to be assessed. 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 make any financial provision. The assessment was attached as an appendix to the Committee report.

RESOLVED –

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