

AUDIT COMMITTEE

23 JULY 2018

PRESENT: Councillor R Newcombe (Chairman); Councillors A Waite (Vice-Chairman), C Adams, N Glover, S Raven, D Town and H Mordue (ex-Officio)

APOLOGIES: Councillors M Collins, A Harrison and R Stuchbury

1. PERMANENT / TEMPORARY CHANGES TO MEMBERSHIP

Members was informed that there had been one permanent change to membership of the Committee, with Councillor Mrs Glover joining the Committee for Councillor Irwin, who had been appointed to the Cabinet by the new Leader.

2. ELECTION OF CHAIRMAN

RESOLVED –

That Councillor Newcombe be elected Chairman of the Committee for the ensuing year.

3. APPOINTMENT OF VICE CHAIRMAN

RESOLVED –

That Councillor Waite be elected Vice-Chairman of the Committee for the ensuing year.

4. MINUTES

RESOLVED –

That the minutes of the meeting held on 26 June, 2018, be approved as a correct record.

5. 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 2017-18 to the June meeting. 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 2017-18 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 31 July 2018 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) Scope Update – the audit had been carried out in accordance with the scope and approach that had been reported to the Audit Committee on 26 March 2018. The planned materiality assessment had been updated based on gross expenditure on provision of services and was £2.290m (Audit Planning report - £1.959). This resulted in updated performance materiality, at 75% of overall

materiality, of £1.718m, and an updated threshold for reporting misstatements of £0.115m.

- (ii) Control Observations – a fully substantive approach had been adopted, so the operation of controls had not been tested. A number of observations and improvement recommendations in relation to management’s financial processes and controls had been identified during the audit.
- (iii) Value for Money – while the Audit Planning Report had identified a significant risk in relation to the sale of and circumstances leading to the disposal of Aylesbury Vale Broadband, there were no matters to report about the arrangements to secure economy, efficiency and effectiveness in the Council’s use of resources.
- (iv) Independence – the auditors had reported that there were no relationships from 1 April 2017 which might be reasonably thought to bear on their independence and objectivity.
- (v) Whole of Government accounts – an unqualified return would be made 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.
- (vi) Status of the audit – 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.
- (vii) Areas of audit focus – the Audit Planning Report had identified key areas of focus for the audit of AVDC’s financial statements, that was summarised in the “Key Audit Issues” of the report.
- (viii) Audit Differences – a number of adjustments had been identified that had been under the reporting threshold and which had been corrected by management. None of these adjustments needed to be brought to the attention of Members. One unadjusted audit difference had been recently identified which related to a pensions estimate as at the end of March . This information had not been available when the financial statements had been submitted for audit.

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.
- Property, Plant and Equipment (PPE) – the audit work had focussed on the judgements applied by management /valuer which would impact asset valuations, asset classification and asset lives. No material mis-statements had been identified in this area. Specifically, it was noted that there had been a significant improvement in this area when compared to the previous year.
- Looking at the valuation methods applied to the IAS 19 Pensions Liability.

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

- Appendix A – Required communications with the Audit Committee.
- Appendix B – Outstanding matters.
- Appendix C – Management Representation letter.

Members sought additional information and were informed that the position had improved in relation to the accuracy of PPE / asset valuations and in reclassifying existing financial instruments assets. However, the position would still need to be monitored for future years.

(Action: add to Action Tracker).

RESOLVED –

- (1) That the matters raised in the external auditors' report and raised by the auditors at the meeting be noted.
- (2) That Finance staff and the external auditors be thanked for their work in preparing and auditing the financial statements for 2017-18, particularly as the timetable this year required all work to be completed and agreed by the earlier deadline of 31 July.
- (3) 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.

6. INTERNAL AUDIT PROGRESS REPORT

The Committee received a progress report and was informed that the 2018/19 Annual Internal Audit Plan had been approved at the Audit Committee meeting in June 2018. Work had commenced to scope the internal audit reviews included in the first half of the plan.

The Corporate Risk Register had been reviewed by Cabinet on 10 July, and the recent comments from the Audit Committee had been taken on board. As the CRR had not been updated and would be reviewed by the Strategic Board on 25 July, it had not been reported to the meeting.

Members were also provided with an update on the Aylesbury Vale Broadband review report. Following the extraordinary Council meeting on 28 June, the scope and objectives of this review would be further discussed and agreed with Group Leaders, who were due to meet on 24 July. When the scope of work was agreed, consideration would need to be given to the impact on the existing Internal Audit plan of work. It was unlikely that the cross party working group would commence their work before the beginning of September 2018.

The Committee was informed that the CIPFA Better Governance Forum was running a training event, "Introduction to the Knowledge and Skills of the Audit Committee" in London on 20 September, 2018. Members who wished to attend were asked to contact the Officers.

Members sought additional information and were informed that a copy of the AVB unaudited financial statements for the year ending 31 March 2018 (confidential yellow pages) would be shared with Group Leaders at their next meeting and would also be similarly made available to the cross party working group.

RESOLVED –

That the progress report be noted.

7. 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 2017-18. 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:-

- The majority of weaknesses in control design and operating effectiveness identified had been medium or low risk. Improvements had been made during the year on implementing actions identified during internal audit reviews to strengthen the overall control environment.
- Improvements were still required in a number of areas. High risk reports had been issued for General Ledger and Housing Benefits. Actions were still required to address some of the issues identified in the prior year Accounts Receivable internal audit report.
- 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 9 assurance reviews had been completed in 2017/18 of which 2 had been classified as having a "high" risk, 6 a "medium" risk and 1 a "low" risk classification. This had resulted in the identification of 6 high, 16 medium and 20 low risk findings relating to weaknesses in the design and operating effectiveness of controls. This compared to 12 assurance reviews (6 high, 19 medium and 24 low priority recommendations) in 2016/17, 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 General Ledger 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 Strategic 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 audit work had 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. The Corporate Governance Manager had further considered the requirements of PSIAS and there were no areas of concern that indicated that the current arrangements were not fully compliant with the Standards.

Members requested further information and were informed that progress had been made to improve the level of management information produced and reported.

The Report risk rating at the Summary of Internal Audit Activity for 2017/18 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 2017/18.

RESOLVED –

That the content of the Corporate Governance Manager's annual report for 2017-18 be noted.

8. ANNUAL GOVERNANCE STATEMENT 2017-18

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 2017-18.

The AGS had been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting and 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.

A major focus of focus during the year had been preparation for the new General Data Protection Regulations (GDPR) which came into force in May 2018. A programme of work had commenced in November 2017 to ensure any significant gaps in terms of compliance with the new regulations had been full addressed.

During the year, internal audit reports had highlighted a number of weaknesses that needed to be reported in the AGS, including on the “high risk” reports issued for General Ledger and Housing Benefits. As noted last year, there was also a general theme relating to a lack of consistently reported and monitored management information. Two new posts had been created during the restructure to support enhance Business Intelligence at a corporate level and progress had been made on capturing and reporting Corporate level performance indicators. Capacity in the finance team had been strengthened to enable better and more timely reporting of financial information. At a service level, improvements had also been made with better system reporting and monitoring by manager.

The AGS also included information on Company Governance in relation to Aylesbury Vale Broadband, which had led to an independent review being undertaken and reported to the Audit Committee in June 2018. The report had highlighted some good practice and made a series of 22 recommendations, drawing upon lessons that could be learnt. The recommendations would be taken forward to further strengthen the governance arrangements over current and future commercial interests.

Members were informed that, while AVDC had responsibility for conducting, at least annually, a review of effectiveness of its governance framework including the system of internal control, it had been decided to defer doing this until early in 2019 as there had been a number of Members that had recently come onto the Audit Committee.

Having critically reviewed the Annual Governance Statement 2017-18 and the robustness of the Council’s governance arrangements, it was

RESOLVED –

- (1) That the content of the Annual Governance Statement 2017-18, be noted.
- (2) That the Annual Governance Statement 2017-18 be approved for inclusion in the Council’s Statement of Accounts for 2017-18.

9. POST AUDIT STATEMENT OF ACCOUNTS 2017-18

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 June 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 2017/18 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 31 July statutory deadline. However, it was requested that the Committee delegate to the Director with responsibility for 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. The adjustments had no overall impact on the financial outturn for the financial year, and were as follows:-

- Change in debtor position relating to grant amount of £617,000, adjusted to reflect the correct financial year, but deferred to the business rate reserve.
- A further change on depreciation relating to the current year and the write back of depreciation on buildings elements of some car parks of £104,000.
- NHS debtor reclassification of £187,000 from "other entities and individuals" to "NHS debtors".
- Two minor updates to the cash flow statement (i.e. internal consistency in interest payable in Note 28.3 and line swapping in Note 30).
- Change in Note 33 car parks surplus to amend an inconsistency in reporting.

There was one unadjusted error which related to a pension revaluation matter, out of the control of the Council, that had become known after 31 March 2018.

Members sought additional information and were informed:-

- (i) that the Vale Commerce accounts for the current year were being prepared for submission to Companies House.
(Note: add to Action Tracker)
- (i) that details of companies owned by the Council had been incorporated into the Group Accounts.
- (ii) that a review of governance arrangements for Aylesbury Vale Estates had been included in the Internal Audit Plan 2018/19, as approved by the Committee in June 2018.

Having considered the final Statement of Accounts for 2017/18, it was –

RESOLVED –

- (1) That Finance staff be thanked for their work in preparing and auditing the financial statements for 2017-18, particularly as the timetable this year required all work to be completed and agreed by the earlier deadline of 31 July.
- (2) That the final outturn position of the Council's Statement of Accounts 2017/18 be noted.

- (3) That approval be given to the Chairman of the Audit Committee to sign off the Statement of Accounts for 2017/18 on the Committee's behalf.
- (4) That approval be given to the Director with responsibility for Finance, in consultation with the Chairman or Vice Chairman of the Audit Committee, to make such changes as considered necessary to achieve sign off by the statutory 31 July deadline.

10. 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. Members agreed that once completed actions were reported back to the Committee they could be removed from the tracker.

It was also agreed that topics / issues for future training and briefing sessions would be considered after some Committee Members had attended CIPFA training in September.

RESOLVED –

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