

## **AUDIT COMMITTEE**

**28 JANUARY 2019**

**PRESENT:** Councillor R Newcombe (Chairman); Councillors C Adams, N Glover, G Powell (in place of A Waite), D Town and H Mordue (ex-Officio).

**APOLOGIES:** Councillors M Collins, A Harrison, S Raven, R Stuchbury and A Waite.

### **1. EXTERNAL AUDITORS**

The Chairman welcomed Andrew Brittain and Susan Gill from Ernst and Young to their first meeting of the Audit Committee.

### **2. MINUTES**

Members commented on the Minutes as follows:-

- Minute 2 (paragraph 4, dot point 4) – that the reason for the difference in the Pension Liability Valuation had been primarily down to a timing issue. AVDC had to estimate a Pension Liability Valuation in year based on the best available information at that time. However, by the time the external auditors considered the financial statements for 2017/18 an actual value for the Pension Liability had been calculated by the actuary, which differed to the estimated value.
- Minute 5 (first sentence) – that the Council meeting on the Aylesbury Vale Broadband Review had been held on 28 June 2018, not 11 June 2018.

RESOLVED –

That, subject to the above clarification, the minutes of the meeting held on 8 October, 2018, be approved as a correct record.

### **3. CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2017/18**

The Committee received a report from the External Auditors on their work associated with the certification of grant claims for 2017/18 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 2017-18, 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. Extended testing for 2017/18 had identified errors which had impacted on the claim and, as such, had issued a qualification letter in line with the guidance. The total extrapolated value of the errors identified and detailed below which had not been amended was £7,541.

The external auditors reported that they had checked and certified the housing benefits subsidy claim with a total value of £44,030,312. 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, having a marginal effect on the grant fee, and also identified some extrapolated errors, as reported in the qualification letter. The main findings in 2017-18 had related to:-

- Non-HRA rebate cases: 2 errors had been identified in the initial testing. The one impacting the claim had related to the calculation of earned income. The claim had been adjusted with an overall effect on the value by £34.
- Rent allowance cases: 4 errors had been identified in the initial testing in the areas of earned income, self-employed earning and rent. Two more failures had been identified in rent but no further failures had been found in the other areas. One error had been identified in the initial population of 20 cases which had resulted in an underpayment of benefit. However, as the issue had been reported in the 2016/17 Qualification Letter and the nature of the error was such that either an underpayment or overpayment might arise, the external auditors had tested an additional random sample of 40 cases selected from a sub population of claims containing earnings. This had identified the following errors:
  - Earned Income – 1 underpayment and 2 overpayment. These were similar to errors reported in the Qualification letter in 2015/16 and 2016/17.
  - Self Employed Earnings – 1 error in the initial random sample of 20 cases which had resulted in an overpayment of benefits. No further errors had been identified. Similar findings had been reported in the Qualification letter in 2015/16 but not in 2016/17.
  - Rent – 1 error in the initial random sample of 20 cases which had resulted in an underpayment. An additional 40 rent cases containing rent at the affected Housing Association where the initial error had occurred had been done and this had identified 2 cases where the rent amount was insufficiently supported resulting in an underpayment of benefit. As there was no eligibility to subsidy for benefit which had not been paid the 2 underpayments did not affect subsidy and had not, therefore, been classified as errors for subsidy purposes. No other errors had been found in the 40+ testing.

The Committee was informed that the indicative certification fee for 2017/18 had been £17,411, which had been set by the PSAA. From 2018/19, the Council had been 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. Ernst and Young had been appointed to undertake this work in 2018/19.

RESOLVED –

That the external auditors report on the certification of claims and returns by AVDC for 2017/18 be noted.

#### **4. EXTERNAL 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 2018/19 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 misstatements due to fraud or error, the risk of fraud in revenue and expenditure recognition (incorrect classification of capital), property valuations (land and buildings), pension asset valuation and the impact of new accounting standards (IFRS 9: Financial Instruments and IFRS 15: Revenue from contracts with customers) and whether they had been appropriately implemented by the Council.

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.

The risk assessment had also identified one potential significant risk as a result of the 1 November 2018 announcement by CLG that a unitary authority for Buckinghamshire will be instituted from 1 April 2020. It was possible that there might be an impact on the Council's capacity to manage its operations as well as planning a smooth transition; also on managing strategic risks and medium-term financial planning.

An update on the results of the audit work in these areas would be reported back to the Committee in October 2019.

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 £43,724, 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 specialists for the work on valuation of land and buildings, pensions disclosure and the Management's specialists, as detailed in the Committee report.

The fee for other non-audit services not covered by the audit work was £15,610 and related to the certification of Housing Benefits claims and returns annual report for 2018-19.

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 planning materiality (the amount over which it was anticipated that misstatements would influence the economic decisions of a user of the financial statements) at £2.29m based on 2% of gross expenditure.

Performance materiality, the amount the auditors used to determine the extent of their audit procedures had been set at £1.7m, and represented 75% of planning materiality. Finally, Members were informed that any uncorrected audit mis-statements greater than £114,500 would be reported to the Audit Committee.

Members requested further information and were informed:-

- (i) that Aylesbury Vale Estates was a private company, although it's accounts were incorporated with AVDC's accounts. As part of their work the external auditors could rely on the work by other auditors done on the AVE accounts, and could ask them to look at certain elements.
- (ii) that the risk of misstatements due to fraud or error and the risk of fraud in revenue and expenditure recognition were key risks and were looked at as a part of all Audit Plans.
- (iii) that, in particular, the impact of the unitary decision would be looked at as part of the value for money conclusion, looking at the Council's arrangements for taking informed decisions, deploying resources in a sustainable manner and working with partners and other third parties.
- (iv) that Appendix A to the auditor's report included information on the indicative fees for the work looking at 2018/19 financial statements and for the certification work on Housing Benefits.

RESOLVED –

That the contents of the external auditors' Audit Plan for 2019 be noted.

## **5. INTERNAL AUDIT PROGRESS REPORT**

The Committee received a progress report on activity undertaken against the 2018/19 Assurance Plan that had been approved by the Committee in June 2018. The following matters were highlighted:-

### **Final Reports issued since the previous Committee Meeting**

The following reviews had been completed since the last Committee meeting:-

- **Commercial Waste (High risk)** – the review had identified one high risk, 3 medium risk and 2 low risk findings. The audit had been performed during September-October 2018 and Members were informed that significant work had taken place since then to address the risks identified, as outlined in the comments from management. The current and ongoing level of risk had been

reduced, and this would be validated by internal audit through the follow-up process over the coming months.

- **Comments, Compliments and Complaints (Low Risk)** – the review had identified one medium and one low risk finding. A sample of 25 had been tested from a total of 50 comments, 60 compliments and 510 complaints received during the period April-November 2018. The medium risk related to delays in responding to Stage 1 complaints with a further delay where the complaint had escalated to Stage 2. Action had already taken place to improve the monitoring of response times and plans were in place to address other weaknesses.

The full review reports were attached as Appendix 3 to the Committee report.

### **2018/19 Internal Audit Plan Work in Progress**

The Committee was informed that a number of reviews were in progress and would be reported to the Audit Committee in March 2019. These included:-

- Section 106 Agreements.
- Housing Benefits.
- Parking Services.
- Company Governance (Aylesbury Vale Estates).
- Connected Knowledge.

### **Implementation of Agreed Audit Actions**

The implementation of actions and recommendations raised by internal audit reviews were monitored 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.

A detailed listing of all internal audit actions, together with a status update was included at Appendix 4. In total, 40 actions were followed up for the January 2019 Committee – that included an update on all actions due for completion by 31 December 2018. 12 out of the 40 actions (30%) had been completed, compared to a 55% completion rate reported in October 2018.

Members sought further information and were informed:-

- that good progress had been made against the most significant finding from the Commercial Waste review regarding completing site risk assessments for all commercial waste customers. It was anticipated that all assessments would be completed by the end of February 2019.
- that a trade waste meeting had been arranged including all key members of the management team involved with commercial waste, with bi-weekly meetings now being scheduled to discuss all key projects / KPIs and plans concerning commercial (trade) waste.
- that management had tightened the controls, monitoring and reporting of the Comments, Compliments and Complaints process, and these measures would lead to greater accountability.
- that internal audit would continue to monitor the implementation of actions agreed during the last audit of Accounts Payable, rather than undertake a new review.

- of Members concerns on the lack of progress with the level of safeguarding training for employees, as identified in the Safeguarding Review 2016/17.

RESOLVED –

- (1) That the progress report be noted, including the progress made in implementing the findings of the Commercial Waste review.
- (2) That, should the outstanding actions and implementation of the findings of the Safeguarding 2016/17 Review not be completed by the end of March 2019, senior Officers and the Cabinet Member be requested to attend the Audit Committee in June 2019 to provide an update on the lack of progress.

## **6. AYLESBURY VALE BROADBAND - REVIEW UPDATE**

The Committee received a report detailing the work that the Cross Party Group had done following the review into Aylesbury Vale Broadband.

On 28 June, 2018, Council resolved that a cross party group would be formed to oversee the implementation of the 22 recommendations of the BDO LLP review into AVB. It had also been agreed that in view of concerns about various financial aspects of financial matters reported in the BDO LLP report, a detailed examination of the accounts of AVB would be carried out as a matter of urgency by AVDC's internal audit team and a report of this be delivered to the Audit Committee.

Prior to the Council meeting, the Audit Committee had resolved on 12 June, 2018 that the Council's "Guide to the Creation and Working with Companies in which AVDC has an interest" ( the "Guide") should be updated to reflect the recommendations identified in the BDO report. The Committee had also asked the Democratic Manager to review the Councillors' Code of Conduct taking into account the AVB review recommendations, in particular, the section relating to the divulgence of confidential papers.

The Cross Party Group comprising Councillors Branston (Chairman), B Chapple, A Cole, S Cole, Christensen, Lambert and Cooper had met on 6 December 2018 to consider the progress made on implementation of recommendations arising from the AVB review report. This had included receiving a report of how the recommendations had been incorporated into the Guide together with a draft of the updated Guide. A copy of the updated Guide, with tracked changes highlighting where the recommendations had been incorporated, was included with the Committee report.

In particular, the Group's attention had been drawn to Recommendation 17 (Confidentiality requirements and the Code of Conduct). The new Members' Code of Conduct had been drafted taking into account the Audit Committee's request that about the divulgence of confidential papers. The Chairman of the Audit Committee had been closely involved in this process. An updated Code of Conduct had been agreed by the Standards Committee on 3 December 2018 and would now be submitted to full Council for final approval.

The Group had then considered the AVB Financial Review that had been undertaken by the Corporate Governance Manager. Members were informed that sample testing of income and expenditure incurred by AVB from inception to 31 March 2018 had been performed. Samples had been selected from the AVB Nominal Ledger. The AVB annual accounts had been prepared by external accountants (Tax Assist) on the basis of the information contained in the nominal ledger. A report was presented detailing the testing performed and the results, and which had concluded that no exception had been identified in the sample testing.

On the basis of the documentation reviewed and the financial testing performed no concerns had arisen that would indicate that the financial accounts of AVB were not an accurate record of the affairs of the company. Following consideration of all of the above information, the Group had agreed that the Guide should be updated with regard to information required in support of business cases, as discussed at the meeting. The group had also been satisfied that the 22 recommendations stemming from the BDO LLP report on the review of AVB had been actioned, as well as the requested Financial Review, and should be reported back to the Audit Committee in January 2019.

In summary, the Cross Party Group had concluded that in accordance with Council's resolution their work had been concluded and there would be no further need for the Group to meet again.

Members sought additional information and were informed that the investigation into the 'yellow pages' breaches that had been raised during the review of AVB was still ongoing and would be reported to Members in due course.

RESOLVED –

- (1) That the work of the Cross Party Group and the Officers supporting it be noted.
- (2) That the Council be recommended to approve the updated "Guide to Creation and Working with Companies in which AVDC had a Financial Interest", which is part of the Council's Constitution at Section G (Codes and Protocols).

## **7. 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 Strategic Board. Some of the risks were not dissimilar to those faced across other local authorities.

Since the last Audit Committee meeting in October 2018, the Secretary of State had announced his decision for a single unitary district council for Buckinghamshire. The CRR had been fully refreshed and updated to reflect the changing context for AVDC risks. The CRR had been reviewed by Strategic Board on 9 January 2019 and by Cabinet on 14 January 2019.

Members were informed that the unitary decision had significantly increased the overall level of risk within the Council. 2 new risks had been added and the ratings of other risks had been increased. This reflected the impact of both the level of uncertainty over the influence of the Shadow Authority and the high likelihood of the loss of key staff, on AVDC's ongoing ability to deliver its objectives and services in line with the current business model.

The background and comments against each risk was included in the report, as well as a summary in relation to residual risk ratings. There were now 23 risks on the Corporate Risk Register. The changing risk profile over time was as follows:-

	Total	Low	Moderate	High	Extreme	Not yet assessed
<b>January 2019</b>	<b>23</b>	<b>3</b>	<b>8</b>	<b>7</b>	<b>4</b>	<b>1</b>
October 2018	26	2	13	7	1	3
June 2018	25	2	12	9	1	1
March 2018	22	2	12	6	1	1
Direction of travel		↔	↓	↔	↑	

The extreme risks related to:-

- Unknown impact of the influence of the Shadow Authority on AVDC's ability to deliver strategic goals and priorities in line with agreed objectives and the current business model. Focus on priority projects and planned transformation could diminish with the competing demands of the unitary authority.
- Deterioration in core services delivery due to loss of key staff and the inability to recruit or retain high performing staff. Poor morale, or lack of foreseeable opportunity leads to "the best" seeking alternative employment, or not being willing to join AVDC.
- Lack of clarity and/or political engagement with partners hinders ability to engage in and influence next round of growth including consideration of CaMKOx Corridor, HS2, housing need targets. A Bucks wide plan could result in even more housing growth in the Vale geography.
- Depot transformation Programme failed to deliver commercial, customer, health and safety, and environmental objectives.

The risk relating to failing to deliver the Commercial Property Investment Strategy and achieve the planned return on investment had not yet been fully assessed and rated as the viability and priority of the investment strategy needed to be reviewed in light of the Unitary change.

Members requested information and were informed:-

- that existing controls, mitigation and proposed actions to be taken in relation to the loss of key staff was detailed in the CRR. This had been recognised as part of the budget setting process and an allowance for possible additional costs had been made for the 2019/20 financial year.
- that AVDC's senior management and Cabinet Members had held a number of information sessions with staff to keep them up-to-date on arrangements for the new unitary authority. The sessions had also allowed staff to raised their concerns.
- that, in due course, the Shadow Authority would have an Implementation Plan, Programme Directors and Management Team, which would direct the transition programme to the new Buckinghamshire Authority. An Implementation Risk Register was being developed with input from the 5 Councils. At the same time, AVDC would continue to monitor and report its own CRR and look to carry on with business as usual until the new Council was in place.
- that the Buckinghamshire authorities, apart from the County Council, shared their respective CRRs as public documents.

RESOLVED –

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



## **8. 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.

Members agreed that a formal review of the Audit Committee's Effectiveness would not be performed and therefore it should be removed from the 2018/19 and 2019/20 Work Programmes, ie between now and 1 April 2020.

Members were reminded they could request training at any time. A number of Councillors had recently attended CIPFA Audit Committee training events.

Members commented that the Audit Committee Tracker had not been included with the Work Programme and asked that it be updated and report to the next meeting.

**RESOLVED –**

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