AUDIT COMMITTEE

15 JULY 2019

PRESENT: Councillors C Adams, M Collins, N Glover, R Newcombe, R Stuchbury, D Town and A Waite.

APOLOGIES: Councillors A Harrison, S Raven and H Mordue.

1. ELECTION OF CHAIRMAN

RESOLVED –

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

2. APPOINTMENT OF VICE CHAIRMAN

RESOLVED –

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

3. MINUTES

RESOLVED –

That the minutes of the meeting held on 25 March, 2019, be approved as a correct record.

4. EXTERNAL AUDIT PROGRESS REPORT

The Committee was advised that the draft accounts for 2018/19 had been completed by the finance team by the deadline of 31 May,2019. They had been published on the Council's website and were available therefore for public inspection. The target date for publishing the final accounts was 31 July, 2019. However, the Council would be unable to meet this deadline because the external auditors (Ernst and Young) had advised that they could not support an audit to meet this timetable. The audit had been postponed until September.

At a meeting with a representative of the external auditors and the Chief Executive of the PSAA, attended by the Chairman of this Committee, it had been stated that the external auditors did not have enough qualified staff and that the quality of the audit rather than the need to meet the deadline was more important. Other local authority Audit Committee Chairmen and finance officers had been present at this meeting. The Council was one of 19 local authorities (including those in Buckinghamshire) affected by the delay. The external auditors had indicated that 31 job offers had been made, but Members appreciated that this was no guarantee that all would be taken up.

The Chairman of this Committee had expressed disappointment with this situation which was felt to be unacceptable, given that the external auditors had had enough time to assess their capacity when tendering their services to all the local authorities to which they had been appointed external auditors. The external auditors had been asked to provide a form of wording that could accompany the final (unaudited) accounts when published in July. It was indicated that the audit had now been arranged to take place from 2 to 28 September, 2019. This had meant that there was now a need to rearrange the previously diarised meetings of this Committee, and Members expressed their thanks to the finance team for organising their annual leave arrangements in a flexible manner in order to accommodate the new timetable.

The Chairman (supported by Members of the Committee) expressed his disappointment at the lack of customer engagement and insight shown by the external auditors and the PSAA in relation to the operational/reputational impact of the delay on the affected local authorities. It had become clear at the meeting referred to above that no consideration had been given to local factors such as the transition to a single authority for Buckinghamshire. The meeting had also expressed disappointment at the fact that the local authorities affected had not been given an opportunity to comment on the delay and the fact that they had not been offered any flexibility. The issue of financial compensation had been raised but the only response from the PSAA had been that the affected local authorities could challenge the fees. It was reported that subsequently, the Secretary of State for Housing, Communities and Local Government had announced that he would be instigating a review of local authority audit arrangements.

Members had no option but to

RESOLVE –

That the current position be noted.

5. INTERNAL AUDIT STRATEGY AND PLAN 2019-20

The Committee received a report which detailed a strategic risk assessment and plans for internal audit work for 2019/20. Information on the annual plan and indicative timeline of proposed reviews was detailed at Section 4 of the plan.

A summary of the approach undertaken for the risk assessment and preparing the internal audit plan was provided. The plan was driven by the Council's organisational objectives and priorities, and the risks that might prevent the Council from meeting those objectives.

The development of the internal audit risk assessment and plan had taken into account the requirement to produce an annual internal audit opinion by determining the level of internal audit coverage over the "audit universe" and key risks. Each auditable unit had been risk assessed at a high level to determine the priority for internal audit, represented by the frequency of audit review.

In developing the internal audit risk assessment, assurance had come from numerous sources within the Council as well as taking into account other sources where reliance could be placed upon them. Corporate level objectives and risks had been considered when preparing the plan. Members were informed that in developing the plan for the final year of AVDC, particular consideration had been given to the Unitary context and the changing priorities and risk of AVDC as a transitioning authority rather than as a continuing organisation.

In putting together the plan, consideration had been given to the impact that an internal audit review might have on the capacity of teams involved to deliver their core activities, particularly as teams were already stretched to deliver those services; additional work associated with a review and, in many cases, transitionary work in preparation for the unitary authority. More assurance from "first and second level" sources, such as the risk management process and work being undertaken as part of the transition programme would be needed.

Input had been obtained from Directors, Assistant Directors and Senior Managers to identify any specific areas that might require reviewing.

Members were informed that the Internal Audit Plan would be reviewed on a quarterly basis to allow for flexibility to pick up new areas of risk or organisational change and would be reported to the Audit Committee as part of the progress report.

Members sought further information on the Plan for 2019/20 and were informed:-

(i) It was confirmed that particular attention had been given to audits that provided added value to the Council as a transitioning authority. Because of this, the plan was "lighter touch" than would normally be the case. However, flexibility had been built into the plan to enable specific reviews to take place if considered to necessary.

(ii) Referred to in response to a number of the reports included on the Committee agenda, it had been recognised that the risk of losing key staff during the transitioning process was relatively high and was likely to increase as vesting day approached. The Committee was assured that Cabinet was reviewing the position regularly and was prioritising work and resource allocation accordingly.

(iii) It had been recognised that as the Council moved towards vesting day, there would also be limited time for the implementation of any actions arising from internal audit reviews.

(iv) An explanation was given concerning the treatment of fixed assets transferring to the new unitary authority.

RESOLVED –

That the approach taken in connection with the formulation of the Internal Audit Strategy and Plan for 2019/20 be endorsed and the Plan as a whole be approved.

6. INTERNAL AUDIT ANNUAL REPORT 2018-19

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 2018-19. 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 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 2018-19 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.

- Two high risk findings had been identified in the areas of Commercial Waste and General Ledger Reconciliations.

- Good progress had been made during the year on implementing actions identified during internal audit reviews to strengthen the overall control environment.

A total of 8 assurance reviews had been completed in 2018/19 of which 1 had been classified as "high" risk, 5 as "medium" risk and 2 as "low" risk. This had resulted in the identification of 2 high, 12 medium and 25 low risk findings relating to weaknesses in the design and operating effectiveness of controls. This compared to 9 assurance reviews (6 high, 16 medium and 20 low risk recommendations) in 2017/18, 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" findings identified in the reviews of the General Ledger and Commercial Waste. 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:-

- reviewing the Council's governance arrangements over its investment in Aylesbury Vale Broadband.

- conducting an advisory review in March 2019 to evaluate the effectiveness of the Council's governance of its investment in Aylesbury Vale Estates LLP (AVE), based on the expectations set out in the "Guide to creation and working with companies in which AVDC has a financial interest".

- conducting an advisory review in March 2019 to evaluate the arrangements for measuring and reporting benefits arising from the Connected Knowledge Programme.

- 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. A total of 113 audit actions had been completed during the year and progress had been made to address all outstanding actions. There were no significant issues to report regarding the follow up of any audit recommendations.

Members were informed that significant progress had been made in Housing Benefits and Management Information to address previously identified weaknesses in these areas.

The Committee was informed that to remain relevant, the annual internal audit plan needed to be flexible to respond to emerging or changing risks. With budget restraints there was a need to ensure prioritisation was given to work that would achieve the greatest value to the organisation. Since the internal audit plan had been initially approved in June 2018 changes had been made in the reviews of Accounts Payable, Payroll, Tech One, Waste and Recycling – contracts, and Section 106 agreements.

The Corporate Governance Manager explained that the individual pieces of internal audit work were delivered under a contract with BDO LLP under a co-source arrangement. All organisations providing Internal Audit Services had to be subject to an independent external assessment every 5 years. In 2015, BDO had been subject to an external examination assessment of compliance to the Public Sector Internal Audit Standards (PSIAS) and been found to be compliant across all 58 assessable areas. The Corporate Governance Manager had considered the requirements of the PSIAS and had found that there were no areas of concern to indicate that the current arrangements were not fully compliant with the Standards.

Members asked whether there was any evidence of increased fly tipping as a result of the introduction by the County Council of charges for the deposit of certain categories of waste, particularly DIY waste, at household recycling sites. It was indicated that there was at present no analytical information available.

Members expressed their thanks to Officers for the good quality of the audit work undertaken during 2018/19.

RESOLVED –

That the content of the Corporate Governance Manager's annual report for 2018-19 be noted.

7. INTERNAL AUDIT PROGRESS REPORT

Members 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:-

- **Connected Knowledge – Benefits Realisation (Risk Rating: n/a)** – the review had used a sample of 3 completed Connected Knowledge projects to assess the approach the Council was taking to identify, measure and report on the benefits and lessons learnt. The report highlighted a number of areas of good practice and, for the projects sampled, the majority of service users had stated that the projects had delivered improvements on the previous arrangements. However, the review had concluded that, at this stage of the programme, it was hard to form a definitive view on the benefits realised to date, with further improvements needed on the clarity with which anticipated benefits were stated and subsequently reported.

The review had also found that arrangements to close down projects needed to be further formalised, using a two stage approach. Members commented on the need in particular to be mindful of the decision of Council to ensure a proper assessment of the benefits of projects against the aspirations of the new unitary authority.

- **General Ledger Reconciliations and Management Information (Medium Risk)** – the review had identified one high risk, one medium risk and 2 low risk findings. The purpose of the review had been to assess the control design and operating effectiveness with regard to AVDC's management of its general ledger, particularly in terms of how it interfaced with other systems and the processes for reconciliation. The findings had been summarised as follows:-

  - there had been a lack of automated integration between some Council systems and the general ledger and some key reconciliations (including Licensing, Environmental Health (RegServe) and Commercial Property) had not taken place to confirm the accuracy and completeness of data held. This lack of integration had created inefficiencies in some of the Council's billing processes. **(High)**

  - reconciliations in the Waste service, including Garden Waste and Trade Waste had not been undertaken. **(Medium)**

  - other areas for improvement in reconciliation processes had been identified including Bulky Waste, Domestic Waste, Land Charges, Planning and Markets. **(Low)**

  - procedures relating to the completion of reconciliations between AVDC's various financial systems had not been sufficiently detailed. This included not having a documented reconciliation approval form to record all reconciliations that had not taken place. **(Low)**

  - the Quarterly Finance Digest had not always been reported for formal scrutiny on a timely basis. **(Advisory).** It was commented that the Financial Digest should be circulated as soon as it had been finalised with a request for Members to raise any issues directly with officers for subsequent report to this Committee if necessary.

A number of areas of good practice had been noted during the review and these had been reflected in the overall "Medium" risk classification for the report.

- **Debt Management (Low Risk)** – the review had identified one medium risk and 3 low risk findings. The purpose of the review had been to assess the control design and operating effectiveness with regard to the Council's debt management processes. The review had found that significant work had been undertaken to improve the management and recovery of debt. However, it had been identified that further improvements could be made in the following areas:-

  - Credit notes had been raised and approved by the same member of staff with a lack of segregation of duties, increasing the risk of inappropriate credit notes being issued. **(Medium)**

- Actioning of debt write-offs, where necessary, was not consistently carried out on a timely basis. **(Low)**

- There was insufficient evidence of due diligence procedures carried out for new customers provided with credit by the Council, with insufficient procedures in place to review the appropriateness of existing credit terms provided to current customers. **(Low)**

- There had been no documentation to evidence that the review of customer account changes had been completed and action taken, where necessary. **(Low)**

The scope of the audit had also covered the review of processes to ensure the accurate and complete billing for Council services. Issues had been identified in this area as a result of the lack of integration, automated interface and reconciliation between service systems and the general ledger. This had been picked up and highlighted in the General Ledger Reconciliations and Management Information internal audit report. The overall "Low" rating for the Debt management review related to debt management and recovery procedures only.

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

Summary of changes to the 2018/19 Internal Audit Plan

Members were informed that it was important for the plan to be flexible to respond to emerging or changing risks. The following changes had been made to the 2018/19 plan since its approval in June 2018:-

- **Payroll** – the original plan had included a post-implementation review of the new Payroll/HR system (XCD). As the XCD project had been cancelled and existing processes kept in place, the audit days would be reallocated to other reviews. Previous audits of the current payroll system had assessed it as low risk.
- **Tech One** – it was intended to review system integration and data transfer controls to ensure that the data held in Tech One was complete and accurate. An IT project was underway to look at Council wide data transfers (Uniflow). System integration aspects had been picked up in work on reconciliations as part of the General Ledger review and audit days allocated.

- **Waste and Recycling – Contracts** – the original plan had included for a review of the contracts for Street Cleansing / Horticulture and Recycling. Street scene services were being brought back in-house when the current contract concluded in January 2020. A new contract for recyclates had been agreed last year. For both contracts, management procedures were in place and they were not considered a high risk for internal audit review. The audit days would be reallocated to allow for more in-depth reviews of Commercial Waste and Parking Services.

- **Section 106 Agreements** – an audit had been scoped to assess processes and controls over the allocation, financial management and monitoring of Section 106 funds. Work had been undertaken during December and January by BDO but unfortunately they had been unable to complete the review and issue a final report. The status of the review would be further assessed as part of the 2019/20 internal audit plan of work.

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, 58 actions had been followed up for the July 2019 Committee – that included an update on all actions due for completion by May 2019 or earlier. 30 out of the 58 actions had been completed or had been closed.

Aylesbury Vale Broadband Review

The Committee was informed that the results of the independent review undertaken by BDO LLP, into the governance arrangements over the Council's investment in Aylesbury Vale Broadband (AVB) had been reported to the Audit Committee in June 2018. Recommendation 17 of the BDO report had concluded that, "If the Council's wider Members are to have greater oversight of the Council's commercial ventures, then the confidentiality requirements of 'yellow pages' must be respected."

The Council had requested for the Lead Legal and Monitoring Officer to carry out an investigation into the unauthorised disclosure of confidential in relation to AVB and the results of that investigation were attached as Appendix 5 to the Committee report. Members asked that in future alleged breaches of the Code of Conduct in relation to the release of confidential information should be actioned as soon as they had been identified. It was confirmed that this would be discussed with the Lead Legal and Monitoring Officer.

Members sought further information on the following:-

- It was affirmed that if the training in relation to safeguarding was not delivered in a timely fashion the relevant Cabinet Member and Assistant Director should be invited to attend a meeting of this Committee to give an update on proposed actions.

- In relation to safeguarding training for taxi drivers, concern was expressed that a number of drivers had not yet been through the training programme. The Chairman would raise this issue with the Chairman of the Licensing Committee.

RESOLVED –

(1) That the progress report be noted.

(2) That (subject to the caveat referred to above) the details and results of the investigation by the Lead Legal and Monitoring Officer into the breach of confidentiality (stemming from recommendation 17 of the Aylesbury Vale Broadband Review by BDO LLP), be noted.

8. REVIEW OF DRAFT STATEMENT OF ACCOUNTS 2018-19

The Committee received a report on the current position in terms of the Statement of Accounts preparation, which set out the provisional financial outturn for 2018/19.

The Council was required to make available for audit its draft Annual Accounts by 31 May 2019, with a view to producing the final (audited) Annual Accounts for approval by 31 July 2019. The Accounts and Audit Regulations required the accounts to be formally signed off by the Chairman of the Audit Committee and the Director responsible for Finance.

Whilst there was no requirement to do so, the guidance to the Accounts and Audit Regulations suggested that it was good practice to give Members an early notification of the financial outcome of the previous year and to this end, the draft Statement of Accounts had been submitted to this meeting. The timetable for the preparation of the draft accounts (31 May deadline) and final approval (31 July) was earlier than previous years and had presented challenges for both the preparers and the auditors of the financial statements.

The timetable for the preparation of the accounts had been completed to a draft accounts deadline of 31 May 2019. From 1 June 2019 to 15 July 2019, members of the public and local government electors would be able to inspect the accounts of the Council for the year ended 31 March 2019 and certain related documents. A copy of the Council unaudited statement of accounts was also currently available on the Councils website.

The Committee was informed that the Council's accounts were subject to external audit by Ernst and Young (EY) LLP. In May 2019, the external audit team had informed the Council that they would be unable to carry out the audit to meet the 31 July 2019 target date. The deadline represented a target date for the publication of the accounts and was not a statutory deadline.

As referred to earlier during the meeting, Ernst and Young had cited exceptional levels of staff vacancies leading to staff shortages as the primary reason for the delay, with AVDC being 1 of 19 authorities affected by it. The Public Sector Audit Appointments (PSAA) who contracted with EY had supported the decision to delay, on the understanding that the delay would ensure the required high quality of audit, and outweighed any considerations over timeliness. The NAO, MHCLG and the LGA had also been informed of the decision. AVDC had not been consulted on the delay and had been presented with a "fait accompli".

The formal audit was now scheduled to commence on 2 September 2019 and continue for 4 weeks. The final accounts would then be presented to the Audit Committee on 25 November 2019 where Members would be asked to consider the approve the statement of accounts. The Audit Committee would also be asked to consider the findings of the annual review of the effectiveness of the system of internal control, approve the Annual Governance Statement and consider the Annual Audit Letter.

The Accounts presented detailed the Accounts for the Authority but also extended to the group financial statements where the Council had material interests in subsidiaries and joint ventures. The accounts includes results for Aylesbury Vale Broadband, Vale Commerce and reflected the material interest in Aylesbury Vale Estates.

The Accounts

Local authority financial statements had to comply with CIPFA's Local Authority Code of Practice, which was based on International Financial Reporting Standards (IFRS), and also the requirements of accounting and financing regulations of central government. The year end position within the Statutory Accounts contained transactions that were required by the Accounting Regulations. These transactions were intended to provide a complete picture of the Council's financial affairs during the course of the year.

The report explained the key features of the primary statements and notes that made up the set of financial statements. These included:-

Narrative Report/Explanatory foreword: which provided a commentary on the financial statements, including an explanation of key events and their effect on the financial statements. The explanatory foreword reconciled the year end financial position reported to Members (the outturn) to the statutory financial accounts.

Annual governance statement: The annual governance statement (AGS) set out the arrangements the Council had put in place to manage and mitigate the risks it faced when meeting its responsibilities. The AGS explained the risks facing the authority and the controls in place to manage them. While the AGS was prepared by the authority at the end of the year, it was built up from processes designed, run and tested throughout the year.

Movement in reserves statement (MIRS): Reserves represented the authority's net worth and showed its spending power. Reserves were analysed into two categories: usable and unusable. The movement in reserves statement (MIRS) analysed the changes in each of the authority's reserves from year to year. The statement provided detail on what had caused the movement in each reserve.

- Usable reserves: these resulted from the authority's activities and included the General Fund, earmarked reserves and capital receipts reserve.

- Unusable reserves: These were derived from accounting adjustments and could not be spent. They included pensions reserve, revaluation reserve and the capital adjustment account.

Comprehensive income and expenditure statement: The comprehensive income and expenditure statement (CIES) reported on how the authority had performed during the year and whether its operations had resulted in a surplus or deficit. The CIES included cash payments made to employees and for services, as well as non-cash expenditure such as depreciation and accruals. It also showed all sources of income received and accrued in the year. The CIES showed the accounting position of the authority before statutory overrides were applied. It analysed income and expenditure based on services. This included:-

- Cost of services: Presented in a standardised format as set out by the Service reporting code of practice for local authorities. This included service specific income and expenditure.

- Other operating income and expenditure: This included the surplus or deficit from the sale of property, plant and equipment.

- Financing and investment income and expenditure: This included interest payable and receivable.

- Taxation and general grant income: This included revenue from council tax and the revenue support grant.

- Other comprehensive income and expenditure: Items that were not allowed to be accounted for elsewhere in the CIES, such as increases in the value of land and buildings and changes in the actuarial assessment of pension liabilities.

Balance sheet: The balance sheet was a 'snapshot' of the authority's financial position at a specific point in time, showing what it owned and owed at 31 March 2019. The balance sheet was always divided into two parts including (a) assets less liabilities and (b) reserves.

The main elements of the balance sheet were:-

- Non current assets: including property, plant and equipment, heritage assets, intangible assets, investment property. Non-current assets had a life of more than one year. For AVDC, the biggest balance by far was property, plant and equipment. These were tangible assets that were used to deliver the authority's objectives.

- Current assets: included cash and other assets that, in the normal course of business, would be turned into cash within a year from the balance sheet date. Other assets included investments, non-current assets held for sale, inventories and debtors.

- Current liabilities: Comprised short-term borrowing, trade creditors, amounts owed to other government bodies and receipts in advance.

- Long-term liabilities: Included borrowings, any amounts owed for leases and private finance initiative (PFI) deals. There would also be an estimate for the cost of meeting the authority's pension obligations earned by past and current members of the pension scheme.

- Reserves: These were usable and unusable reserves.

The Accounts also included a number of other statements:-

- Cash flow statement: Set out the authority's cash receipts and payments during the year, analysing them into operating, investing and financing activities. Cash flows were related to income and expenditure, but were not equivalent to them.

- Collection fund: Showed the transactions in respect of council tax.

- Group accounts: Prepared if the authority had a significant subsidiary, such as a local authority trading company. It Showed the combined income and expenditure and balances of all the constituent bodies

The Accounts also included Additional disclosures, contained within the notes to the financial statements. These included:-

- Accounting policies: setting out the accounting rules the authority had followed in compiling its financial statements. They were largely specified by International Financial Reporting Standards and the Local Authority Code of Practice.

- Estimates: The authority might need to use estimates to value assets, liabilities and transactions. The major sources of estimation uncertainty should be disclosed if there was a significant risk the estimate would need to be materially adjusted next year.

- Property, plant and equipment: Details about assets acquired and disposed of during the year, whether they had been revalued, the impact of any changes in value and the amount of depreciation charged.

- Leases and PFI schemes: Set out how much would be paid annually to leasing companies and how much would be paid in total over the lifetime of the agreement.

- <u>Employee remuneration:</u> Details of the pay of the most senior officers, all officers' remuneration, disclosed in bands, and the cost of any redundancies. Other notes showed the annual cost and cumulative liabilities of pensions.

- <u>Contingent liabilities</u>: Details of possible costs that the authority might need to meet, but had not charged to the CIES because it was thought that it would probably be able to avoid them.

The Quarterly Financial Digest: 2018/19 Year End Position

The Statutory Accounts only present actual expenditure and income, without reference to budgeted levels. Therefore, whilst the accounts presented the definitive position on the Authority by way of its financial resources, it did not inform on whether this was planned or the expected position.

The Quarterly Financial Digest was the primary reporting tool for in-year financial management and provided management information designed to explain significant financial events which had occurred during the year by comparing them with the expected or budgeted equivalent figures.

The Quarterly Financial Digest for the financial year 2018-19 had been submitted to the Finance and Services Scrutiny meeting on 2 July 2019. Based on the provisional financial results for 2018/10, Members were informed that the provisional financial outturn reported a surplus of £0.432m for the financial year when comparing actual expenditure against that budgeted (before the transfer from general fund balances).

The outturn was better than planned by £192,000 and better than forecast by £535,000. A planned surplus of £240,000 had been assumed in budget plans for 2018-19.

As a consequence of the outturn, the General Fund balances would be marginally higher than predicted as at the end of March 2019. The level of general balances for the financial year was now £2.353m, that was above the minimum assessed level of balances that the Council should hold.

The Committee report included a schedule showing the Council's 2018/19 revenue outturn position.

Members were informed that the year end financial position was largely being driven by above budgeted levels of staff costs. There had been a need during the year to employ agency staff in a number of key operational areas to support project work and service delivery. This had been incurred for reasons including:-

- To support funded project work e.g. Connected Knowledge programme and GDPR.

- To support service delivery where there were vacancies or activity related pressures.

- To provide flexibility of service provision.

It was explained that the use of agency staff incurred a premium cost and adverse variance to agreed budgets, and had been largely as forecast. It had been largely possible to offset these costs with additional efficiencies and income, which was described in detail in the Committee report.

A number of factors had contributed to changes to the budget forecast for 2018/19 including:-

- An increase of £96,000 on portfolio spend – due to increased levels of staff costs and a revision to income targets and other spend levels.

- Lower than anticipated collection fund levy.

- Realisation of dividend payments not previously forecast.

- Above planned levels of business rates income particularly retained enterprise zone relief.

- Lower than forecast spend against the contingency budget, where it had previously been assumed that this budget would be fully utilised.

- Higher than planned interest payments and lower borrowing costs.

Capital Outturn 2018-19

The Council had spent £9.166m on the delivery of its capital programme in 2018/19. Of this, £3.024m has been incurred in the creation of new assets including the Public Realm Waterside North and the Pembroke Road depot scheme. A further £6.142m had been incurred to support capital development in relation to financing for the Public Realm Waterside North scheme and also the Enterprise Zone at Silverstone.

Capital expenditure was financed by revenue contributions and capital receipts. It was anticipated during the year that a significant element of the programme would be funded from prudential borrowing.

The Council had taken a prudent approach to financing the capital programme by deploying revenue reserves and cash balances instead of using external borrowing where possible as this produced a lower net cost. The change in funding had therefore reduced the on-going financing cost of the capital programme.

Reserves and Balances

General fund balances would be marginally higher than predicted as at the end of March 2019. The level of general balances for the financial year was now £2.353m, which was above the minimum assessed level of balances to be held.

A schedule showing the detail of the general fund was submitted.

A full list of reserves and provisions had been included in the Statement of Accounts. As at 31 March 2019, the Council was holding £30.608m as reserves

RESOLVED –

(1) That the current position in relation to the statutory accounts preparation and the outturn, and arrangements for their audit be noted.

(2) That the provisional financial outturn position for 2018-19 be noted.

9. 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.

The CRR had been fully updated in January 2019 to reflect the impact of the Secretary of State's decision to implement a single unitary authority for Buckinghamshire. The CRR had last been reviewed by the Audit Committee on 25 March 2019 and by Cabinet on 16 June. The following table showing the changing risk profile over time was submitted:-

	Total	Low	Moderate	High	Extreme	Not yet assessed
July 2019	**23**	**4**	**8**	**8**	**3**	**-**
May 2019	23	4	8	9	2	-
March 2019	23	3	8	7	4	1
January 2019	23	3	8	7	4	1
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 background and comments against each risk was included in the report, as well as a summary in relation to residual risk ratings. Members were informed on the following:-

Staff capacity

That the highest risk currently facing AVDC was the lack of staff capacity to maintain services and deliver priority projects (CRR Risks 2, 3 and 4). There was increasingly a recognition that there was no longer "business as usual" but that the Council needed to operate under a new model as it transitioned away from AVDC and towards the new Buckinghamshire Council. This risk was now the subject of regular reports to Cabinet.

Support to Unitary Implementation

Information was provided that a number of AVDC staff members were already working full time for the Unitary Implementation team, that others were being considered for transfer or were considering moving, whilst the Council was also experiencing significant demands on "experts" to resource unitary work streams. In some cases, AVDC senior managers were providing 50% or more of their time to support unitary work. This was from across all areas of the Council. The scope and scale of resource involvement was likely to increase over time

Staff retention and recruitment

A number of key staff had left AVDC to join outside organisations, as well as there being a number of recent management resignations. There were already a number of hard to fill posts and this, coupled with the instability associated with the unitary transition was likely to make recruitment increasingly challenging.

Following the confirmed plans of the Chief Executive and a Director to leave AVDC shortly, there was an increasing risk that the existing leadership structures would no longer be sufficient to operate as they had previously done.

Managing the Risks

The Committee report provided details of the work that was being done to ensure that critical services were maintained, priorities delivered and that AVDC transitioned to the new Council in an orderly fashion. The risk of losing key staff on the Council's ability to achieve this was greater in some areas than others but was likely to increase across AVDC as April 2020 approached. The 5 Councils across Buckinghamshire were all being impacted by these issues.

Risks associated with "No-deal Brexit"

In line with advice from MHCLG, the Council had been monitoring the potential risks associated with Brexit, with CRR number 15 reflecting the overall level of risk to AVDC. In recent months there had been a focus on risks associated with a "No Deal Brexit". The risks and information were regularly updated as more information was released from Central Government.

In March 2019, the Audit Committee had received a report summarising the identified key risks that AVDC might face should the UK exit the EU without a deal. This had sought to provide Members with a level of assurance that, as far as possible, appropriate planning and contingencies were in place should the UK exit the EU without a deal.

The Director with responsibility for finance responded to questions from Members in relation to the transition to SAP (the County Council's Finance system), business continuity plans, and IT resilience testing, after which it was,

RESOLVED –

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

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.

Members also considered the Actions Tracker and it was agreed that the outstanding actions and implementation of the findings of the Safeguarding 2016/17 Review (AT 2/19) should be marked as complete.

RESOLVED –

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

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