

# Public Document Pack

## AUDIT COMMITTEE

25 NOVEMBER 2019

**PRESENT:** Councillor R Newcombe (Chairman); Councillors A Waite (Vice-Chairman), M Collins, N Glover, A Harrison, D Town and H Mordue (ex-Officio).

**APOLOGIES:** Councillors C Adams, S Raven and R Stuchbury.

### 1. MINUTES

RESOLVED –

That the Minutes of the meeting held on 15 July, 2019, be approved as a correct record.

### 2. EXTERNAL AUDIT - AUDIT RESULTS (ISA 260) AND LETTER OF REPRESENTATION

The Committee received a report summarising the auditors findings from the 2018-19 audit which had been substantially completed. The external auditors apologised and explained that due to a number of factors the audit of the accounts had been undertaken later than required by law and this in turn meant they were being submitted to Members for final approval later than in previous years.

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 as soon as possible, although this would be after the 31 July 2019 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 28 January 2019. The planned materiality assessment had been updated based on gross expenditure on provision of services and was £2.14m (Audit Planning report - £2.29m). This resulted in updated performance materiality, at 75% of overall materiality, of £1.6m, and an updated threshold for reporting misstatements of £107,000.
- (ii) Status of the Audit – at the time of issuing the Committee report the audit had been substantially completed and that subject to the satisfactory completion of the following items, it had been expected that an unqualified opinion on the Council's financial statements would be issued:-
  - Valuation of property, plant and equipment – specifically relating to the valuation methodology applied to Community Centres.
  - Review of the final version of the financial statements.
  - Completion of the post balance sheet event review.
  - Receipt of the signed management representation letter.

At the meeting the Auditors confirmed that the work had been completed and they were now in a position to issue their audit opinion.

- (iii) Audit Differences – three unadjusted audit differences had been identified in the draft financial statements that management had chosen not to adjust. Where these differences were not corrected the rationale for not doing so would need to be approved by the Audit Committee and then included in the Letter of

Representation. These related to the maximum impact of GMP equalisation on the pension liabilities, the estimated / actual plan assets of the pension fund, and a re-statement of the prior year accounts for changes to the group consolidation

The auditors informed Members that the Council was in the process of updating the valuations associated with community centre assets. EY specialists had reviewed the methodology and had concluded that the assets as valued were under-valued using an Existing Use Value (EUUV) methodology. The Council's external valuer had provided updated valuations using a depreciated replacement cost methodology. This resulted in a material change, details of which were explained to the Committee.

- (iv) Areas of audit focus – the audit report identified key areas of focus for the audit, setting out observations and conclusions including areas which were either conservative or where there was a potential risk and exposure. There were no matters apart from those already reported to Members that needed to be brought to Members' attention.
- (v) Control Observations – a fully substantive approach had been adopted, so the operation of controls had not been tested.
- (vi) Value for Money – while the Audit Planning Report had not identified any significant risks around the criteria for the Audit Planning Report, one potential significant risk had been identified in relation to the Council's capacity to manage its operations as well as planning a smooth transition to the new Council. There were no other matters to report about the arrangements to secure economy, efficiency and effectiveness in the Council's use of resources.
- (vii) Other reporting issues – the Annual Governance Statement had been reviewed for consistency and the auditor's knowledge of the Council. There were no matter to report as a result of this work. There were also no issues to report following work carried out, as required by the NAO, on the Whole of Government accounts.
- (viii) the auditors had reported that there were no relationships from 1 April 2019 which might be reasonably thought to bear on their independence and objectivity. The auditors had not undertaken any non-audit work outside the NAO Code requirements.

The audit report also contained areas that had been the focus of audit work. 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 – Management Representation letter.

Members sought additional information and were informed:-

- that the Community Centre assets had been valued for the previous 3 years using a depreciated replacement cost methodology.
- that the names of individual staff would be redacted from future reports, which had been the usual practice in the past.
- with a detailed explanation of the reasons why this year's audit had not been carried out to allow the final audit results to be reported to Members by 31 July. EY had taken the decision not to undertake the audit until September. EY had also needed to engage internal specialist in relation to the valuations issue which had also caused a delay.

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 2018-19, particularly as there had been a number of planned audit work timing issues this year
- (3) That the Letter of Representation and associated schedule be agreed, and the Chairman of the Audit Committee be approved to sign it off on the Committee's behalf.

### **3. INTERNAL AUDIT PROGRESS REPORT**

Members received a progress report on activity undertaken against the 2019/20 Assurance Plan that had been approved by the Committee in July 2019. The following matters were highlighted:-

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

One report had been completed since the last Committee meeting:-

**Digital Contact Team** – the review had been classified as low risk and had identified three low risk findings:

- There was not a mechanism in place for analysing customer engagement data and reporting common themes, trends and problems on the Council's departments (low).
- Sampling testing had identified one case where the agent did not promote self-serve through the Council's website or 'My Account'. There was not a structured and consistent approach in place for reviewing, supervising and monitoring customer engagement (low).
- The Council's website included the Digital Contact Team's direct telephone number alongside the main switchboard number (low).

The audit had not covered other customer contact routes outside of the Digital Contact Team, however there was an opportunity to apply these findings to other customer contact teams. The review had also noted a number of areas of good practice, as detailed in the report, that had been reflected in the overall "low" risk classification of the report.

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

#### **Summary of changes to the 2019/20 Internal Audit Plan**

Members were informed that there had been no changes to the plan since it was approved in July 2019.

#### **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.

An exercise had been performed during September/October to assess the status of the actions that were due for completion. 63 individual actions were due (5 high risk, 22 medium risk and 36 low risk findings). The 5 high risk actions all related to the General Ledger audit report and reconciliations between the Tech One finance system and various feeder systems.

For a number of the actions, the action as set out in the original audit report was no longer considered appropriate in the context of the transition to a unitary authority. A full review of all audit actions would be undertaken and reported to the Committee in January 2020. This would determine whether the action should be:

- completed by 31 March 2020.
- handed over to the new Authority to assess and deliver.
- closed, as it was no longer relevant or appropriate.

The Committee was also provided with an update and information on the completion of Safeguarding training for those staff working in level 2, 3 and 4 categories.

Members commented that staff should be congratulated for dealing with 31,000 contacts during the last 6 months, a particularly busy time following changes to the garden service.

RESOLVED –

That the progress report be noted.

#### **4. ANNUAL GOVERNANCE STATEMENT 2018-19**

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 2018-19.

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 a programme of work to ensure that any significant gaps in terms of compliance with the new General Data Protection Regulations (GDPR) which had come into force in May 2018 were fully addressed. An explanation was also provided of the challenges in ensuring data compliance when moving forward into the new unitary council, for example, all payrolls would be moving to SAP, combining of asset registers, and putting in place a set of data sharing agreements across many different areas.

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 Commercial Waste. Progress made in addressing outstanding issues from these reviews was monitored by the Audit Committee through its oversight of internal audit work.

During the year the agreed actions arising from audit reports have been kept under review by Internal Audit and regular reports on overdue actions had been 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.

Significant improvements have been made in some areas highlighted in the previous year’s AGS including in Housing Benefits, providing Management Information and Company Governance. This work was detailed in the AGS report.

Having critically reviewed the Annual Governance Statement 2018-19 and the robustness of the Council’s governance arrangements, it was

RESOLVED –

- (1) That the content of the Annual Governance Statement 2018-19, be noted.
- (2) That the Annual Governance Statement 2018-19 be approved for inclusion in the Council’s Statement of Accounts for 2018-19.

## **5. POST AUDIT STATEMENT OF ACCOUNTS 2018-19**

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 2018/19 accounts had already been reported to Members earlier in the meeting. Members had also been made aware of the exception circumstances of the 2018/19 audit programme.

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, although this would not be done in time 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.

As detailed in the Committee report, that Statement of Accounts had been amended to reflect the correct position for the following items:

- A change in the depreciation charged to buildings at Pembroke Depot which had been incorrectly identified as non-depreciable in the fixed asset register. The depreciation impact on 18/19 of £57,712 was considered an immaterial change.

- A number of changes to the valuations for certain properties resulting from a detailed review of the Valuer's report. The Councils external valuer (WHE) had used the incorrect cost per square metre for assets valued using Depreciated Replacement Cost (DRC). The value of the changes was an increase in asset value of £4.2m.
- A change to the Community centre valuation method from Existing Use Value (EUV) to DRC methodology resulted in asset valuation changes of £7.187m. EY specialists reviewed the methodology and had concluded that the assets were under-valued. The Councils external valuer updated the valuations.
- The fixed asset register had also been amended to reflect changes in asset life but this did not impact on the depreciation charged in 2018/19 as they would only be applicable from 1 April 2019.
- A change had been made in relation to pensions. After the balance sheet date, the Government had been denied leave to appeal to the Supreme Court against a judgement that changes made in public sector pension schemes in 2015 were age discriminatory. Generally known as the McCloud judgement. This was a national issue affecting many public sector bodies. The Council had asked its actuary, Barnett Waddingham, to adjust for the actual figures while they were also addressing the impact of the McCloud case. The effect of these adjustments had been to increase the liability on the balance sheet by £1.552million for McCloud.
- There had been a change in the classification of the Hales Leys Loan repayment. This had been incorrectly identified as a capital receipt. The reclassification of £350,000 to "deferred capital receipts" had been actioned.
- A minor change to the classification of collection fund balances had resulted in an immaterial correction of 19/20 precept balance.
- A change in the disclosure of the number of employees receiving over £50,000 in remuneration had incorrectly stated 25 employees and had now been changed to 29.

In addition to these changes, at the time of publication of the agenda for the Audit Committee meeting, the Statement of Accounts for 2018-19 had been awaiting final review and approval by the Auditors. The Statement of the Accounts had now been reviewed and a number of changes have been made to the version published for the meeting. A paper was circulated at the Audit Committee meeting (included as an attachment to the Minutes) and which provided a reference to the pages of the Accounts where the changes had been made.

The changes made had been actioned in the Councils fixed asset system and Finance System. The changes had been agreed and actioned with the Audit team. The restatement had been addressing an administrative oversight only. Members referred to the Update note as well as the Committee report in reviewing the Statement of Accounts for 2018/19.

The Committee was also informed that there were a number of unadjusted audit differences in the draft financial statements which given their values were below materiality and the Council was not proposing to adjust for these, namely-

- In relation to the impact of the pensions case relating to Guaranteed Minimum Pensions (GMP) equalisation we have estimated the maximum impact on the

pensions liability of £227,000. The Councils actuary have advised that the impact of GMP is not material. This view has been corroborated by the external auditors.

- In relation to the difference between estimated plan assets of the pension scheme and actual plan assets as at 31 March 2019 there is a difference of £659,000. This is the audit team assessment of the likely changes and is not supported by a formal report from the Actuary. The difference will be a factor of timing of the audit.
- In relation to the restatement of the prior year accounts for changes to the group consolidation which were not material and as per IAS 8, should have been corrected in the current year. The impact on the CIES was £236,000.

Having considered the final Statement of Accounts for 2018/19, it was –

RESOLVED –

- (1) That Finance staff be thanked for their work in preparing and auditing the financial statements for 2018-19, particularly given the exception circumstances of the 2018-19 audit programme.
- (2) That the final outturn position of the Council's Statement of Accounts 2018-19, as now agreed, be noted.
- (3) That approval be given to the Chairman of the Audit Committee to sign off the Statement of Accounts for 2018-19 on the Committee's behalf.

## 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 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 15 July 2019 and by Cabinet on 4 November. The following table showing the changing risk profile over time was submitted:-

	Total	Low	Moderate	High	Extreme	Not yet assessed
<b>November 2019</b>	<b>21</b>	<b>3</b>	<b>11</b>	<b>5</b>	<b>2</b>	
September 2019	22	3	10	7	2	
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

The background and comments against each risk was included in the report, as well as a summary in relation to residual risk ratings. The following risks had changed since July 2019:-

- Fail to achieve the MTFP (Risk No 1) – had increased from Low to Moderate as increasing risks had been identified to balance the budget for the 2019-20 financial year.
- Loss of AVDC Senior Management leadership and vision as the unitary programme progressed (Risk No. 2) – the risk had been removed and the risk, consequences and actions had been captured in Risk No. 3.
- Staff morale, mental physical wellbeing deteriorates, increased demand on HR resource to support staff (Risk No. 4) – had increased from High to Extreme as unitary work demands increased, Tier 3 recruitment was in progress, TUPE consultation had commenced, all of which was being felt by staff at all levels.
- Connected Knowledge Programme (Risk No. 6) – the risk had been closed as the CK Strategy and Programme as originally envisaged would not be achieved. Programme close-down was in progress and the final position in respect to achievements, savings identified, savings forgone (by AVDC), and opportunities for the new Council to consider in the future would be reported in due course.
- In-housing of the Street and Horticulture Service (Risk No. 7) – had reduced from High to Moderate as the project was progressing well with respect to contractual / TUPE implications.
- Depot Transformation Programme (Risk No. 8) – had reduced from High to Moderate, AVDC had been the first local authority to successfully achieve Competent Management System (CMS) in September 2019. This had removed the reliance on key individuals to ensure compliance with the Environment Agency licence requirements.
- Impact of BREXIT (Risk no. 15) – had reduced from High to Moderate, although the risk would continue to be monitored.

Members sought additional information and were informed:-

- (i) On well being and other work that was being done to assist staff during the transition period to the new unitary council.
- (ii) Risk 14 – an update was provided on one property with Aylesbury Vale that needed additional work to ensure that it met the safety standards that had been highlighted following the Grenfell fire.
- (iii) that a Press Release would be issued in relation to the Council achieving Competent Management System at the Depot.

RESOLVED –

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

## **7. 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.

RESOLVED –

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

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# Minute Item 5

## Audit Committee Update: Audit Committee 25<sup>th</sup> November 2019

At the time of publication of the papers for the Audit Committee meeting, the Statement of Accounts for 2018-19 was awaiting final review and approval by the Auditors.

The Statement of the Accounts has now been reviewed and a number of changes have been made to the version published for the meeting.

The table below details the changes made and also provides a reference to the pages of the Accounts where the changes have been made.

The changes made had been actioned in the Councils fixed asset system and Finance System. The changes had been agreed and actioned with the Audit team. The restatement was addressing an administrative oversight only.

S. No.	Page	Area	SOA as circulated to AC	Revised and Final SOA
1	53	<b>Revaluation reserve</b>		
		Upwards revaluation of assets	£5,462	£7,485
		Downward revaluation of assets and impairment losses not charged to the deficit on the provision of services	£ 4,939	£ 6,962
4	62	36.3 Finance Lease	The table has been amended to remove "Restated". The number numbers agree to PY signed accounts.	
5	52	23 Provisions	The table has been amended to remove "Restated". The number numbers agree to PY signed accounts.	

Members are asked to note the changes.

Nuala Donnelly  
Corporate Finance Manager

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