

Minutes



To: All Members of the Audit Committee, Chief Executive, Chief Officers, All officers named for 'actions'

From: Legal, Democratic & Statutory Services
Ask for: Fiona Corcoran
Ext: 25560

AUDIT COMMITTEE 25 NOVEMBER 2015

ATTENDANCE

MEMBERS OF THE PANEL

R F Cheswright, G R Churchard, T W Hone, T Hunter, L R Kercher, R M Roberts (substitute for D Andrews), D T F Scudder, S J Taylor, A D Williams (*Chairman*), W J Wyatt-Lowe (*Vice-Chairman*)

Upon consideration of the agenda for the Audit Committee meeting 25 November 2015, as circulated, copy annexed, conclusions were reached and are recorded below:

Note: No declarations of interest were made by any member of the Committee in relation to the matters considered at this meeting.

PART I ('OPEN') BUSINESS

1. MINUTES

- 1.1 The minutes of the Committee meeting held on 23 September 2015 were confirmed as a correct record and signed by the Chairman.

2. ANNUAL AUDIT LETTER 2014/15

- 2.1 The Committee considered the Hertfordshire County Council Annual Audit Letter 2014/2015, which was provided to communicate key issues arising from the work of the external auditors.

ACTION

- 2.2 The Committee welcomed Neil Harris, Ernst & Young who had taken over from Mark Hodgson in working with the County Council.
- 2.3 Members' attention was drawn to section 4 of the report (Looking Ahead) and it was highlighted that the Highways Network Assets would be a challenge for all local authorities and the County Council was well prepared for this. With regard to the Better Care Fund (BCF), it was noted that the County Council's BCF was well governed with good processes in place.
- 2.4 With regard to Highways Network Assets and the depreciation of replacement costs, it was noted that recording the value accurately would be the biggest challenge and the way in which the County Council captures this information would be critical. Members heard that officers had been working on this for a significant length of time and, although there was a risk in terms of materiality, all possible measures were being put in place to minimise such risks.
- 2.5 Members discussed the level of underspend which could be considered appropriate and noted that regulators tended to disregard reserves and focus on budget gaps over a three year period and that auditors would consider the levels of reserves and whether they were being used in a planned and appropriate way. It was also noted that systematic under or overspending would suggest inadequate budgetary control. The Committee heard that the County Council's reserves had been increased in response to the increasing risk with regard to business rates and that the level of reserves would be continuously reassessed.

Conclusion:

- 2.6 The Committee RESOLVED that the Annual Audit Letter for 2014/15 be noted.

3. UPDATE ON RESPONSE TO THE AUDIT RESULTS REPORT AND OTHER MATTERS

- 3.1 The Committee considered a report which provided a response to the Annual Audit Results Report 2014/15.
- 3.2 Members heard that Ernst & Young had issued an unqualified opinion on the 2014/15 accounts and made no specific recommendations. A small number of issues were raised and details of action being taken to address these in the 2015/16 accounts were detailed in the report.

Conclusion

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3.3 The Committee RESOLVED that the response to the Audit Result Report be noted.

4. EARLY CLOSURE OF ACCOUNTS

4.1 The Committee were provided with an update on changes to the Audit and Accounts Regulations (2015) and specifically the requirements to approve and publish the accounts earlier than previous years.

4.2 Members heard that in practise the changes would mean a need to reduce the time allowed to close accounts by two weeks and that officers were in discussion with actuaries, district councils and EY to plan how to obtain the necessary information earlier and work to the new timeframe.

4.3 In response to questions from Members, it was noted that there would be a regular quarterly update on key areas and risk; officers would be kept up to date with all relevant training courses and reporting structures were being developed.

4.4 Members welcomed the early closure of accounts and it was noted that it would be possible for a six or nine month audit to be carried out. In response to a question about the potential for closing quarterly, the Committee heard that not everything could be done but some aspects such as balance sheet reconciliations could be checked.

4.5 The Committee were informed that a working group with district councils on this subject had met and was becoming a very helpful forum.

Conclusion

4.5 The Committee RESOLVED that this report be noted.

5. MID-YEAR REPORT ON THE TREASURY MANAGEMENT SERVICE AND PRUDENTIAL INDICATORS 2015/16

5.1 The Committee received the mid-year report on the Treasury Management service, detailing the treasury activity for the first six months of the financial year, up to 30 September 2015. The report summarised the economic context, interest rates, forecasts and transactional activity with regards to investments and borrowing during that period.

5.2 Members heard that the County Council had complied with all prudential treasury management indicators as set out in the Integrated Plan and there had been no breaches of the treasury strategy.

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- 5.3 At the request of Members, officers circulated an investments list to the Committee (appendix A attached.)
- 5.4 Members raised the question of the potential impact, should the UK withdraw from the euro zone. It was noted that this could impact GDP as some large companies might relocate but it was also possible that deregulation could reduce costs and attract business and the UK has established trading partners outside Europe. It was highlighted that there would be no currency risk as the County Council did not invest in euro denominated instruments. Members heard that these potential impacts were being considered by officers.

Decision:

- 5.5 The Committee RESOLVED that the mid-year report on Treasury Management activity be noted.

6. RISK MANAGEMENT UPDATE

- 6.1 The Committee received the Risk Management Update report, covering risk management activity over the last quarter. The report included a summary of the Corporate Risk Register and a summary of risk movements since the last report.
- 6.2 Two new risks were highlighted (paragraph 1.7 and 1.8 of the report.) although the overall number of red risks had not increased.
- 6.3 In response to a question from a Member regarding potential financial risk associated with refugees to fund care and support needs, it was noted that it was a risk but the number of refugees expected was not significant. Officers were aware of this financial risk and the support that refugee families may require and provision for unaccompanied asylum seekers was also being incorporated into plans.
- 6.4 The question of risk around data protection was raised by a Member and it was noted that there is coverage on the risk register for this and substantial programmes were in place, including tools and training. There were good controls on the technical measures and most past breaches had been paper based. It was also noted that external partners held some of the more vulnerable data. The Committee were informed that the risk register was very closely tied to what is happening to prevent breaches and to mitigate if any occur.
- 6.5 Officers agreed that an item on the management of risk regarding

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data protection be added to the work programme for the March 2016 meeting of the Committee.

- 6.6 In discussion, Members raised the issue of risk relating to the recruitment and retention of professional staff in areas of planning. It was noted that specific areas of recruitment and retention were drawn out in the report rather than being grouped all together and the annual report on workforce strategy made reference to specific areas such as planning and how it was being addressed.
- 6.7 With regard to recruitment and retention of staff in the area of care work, the Committee heard that work carried out by officers on the Integrated Plan would ensure that the living wage could be met. It was confirmed that a risk would remain in this area until further details on funding and the impact of cuts to health funding were known.

Decision:

The Committee RESOLVED that:

- 6.8 the Risk Management update report be noted.
- 6.9 HFRS0007 (unplanned incidents e.g. terrorism) be the subject of the risk focus report for the March 2015 meeting.

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7. RISK FOCUS REPORT – SCHOOL EXPANSION PROGRAMME

- 7.1 The Committee received a report providing information regarding risks and controls recorded on the County Council Corporate Risk Register relating to the funding of capital projects within the School Expansions Programme.
- 7.2 The Committee heard that the school expansion programme had started with primary schools and was now moving on to secondary schools. It was also noted that the Council might not receive sufficient funding from government to cover the whole school expansions programme but steps had been taken such as tight planning and seeking external funding where possible, which had been successful so far. The fact that there would be increasing demand in future from substantial housing development was highlighted. These factors explain the reasons for the risk remaining high despite the successful work completed over the last 4/5 years and additional funds from the County Council not being sought.
- 7.3 Members discussed the ways in which secondary school expansions raised different challenges to primary schools, with bigger expansion projects needing to take place on fewer schools.
- 7.4 In discussion, it was highlighted that different schools had their own

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individual expectations and needs with the overarching aim of improving the quality of facilities and ensuring the quality of education does not deteriorate. Members noted that the complex specialist facilities required in secondary schools was an important factor that was not an issue for primary schools.

- 7.5 In response to a question from a Member, it was noted that all the new builds except Highfield were academies so the County Council had little involvement in those projects but officers were aware that there had been some slippage although that was to be expected.

Conclusion:

- 7.6 The Committee RESOLVED that the risk focus report on the school expansion programme be noted.

8. INTERNAL AUDIT PROGRESS REPORT

- 8.1 The Committee received the Internal Audit Progress Report which provided updates on the progress made by the Shared Internal Audit Service in delivering the Hertfordshire County Council Internal Audit Plan for 2015-16.
- 8.2 The Committee were informed that all outstanding projects had been allocated and SIAS was on track to meet year end targets. In addition to this, work on schools was on track with two schools due to be audited after being brought to the attention of officers.
- 8.3 There was discussion of officer and Member expenses and it was noted that officers were aware there was an issue surrounding receipts and were looking into a method of ensuring claims could not be submitted without a receipt via the automated system. Guidance would also be provided to officers and Members to ensure this method could be complied with in future using technology.

Decision:

- 8.4 The Committee RESOLVED that:
the Internal Audit Progress Report be noted;
changes to the Audit Plan be noted;
the changes regarding schools be made as detailed in the report;
high priority actions now complete (as detailed in the report) be removed.

**9. HERTFORDSHIRE FIRE AND RESCUE AUTHORITY
STATEMENT OF ASSURANCE 2015/16**

- 9.1 The Committee received a report which detailed the response to the

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government requirement for fire and rescue authorities to provide assurances on financial, governance and operational matters and to demonstrate how they had due regard to their Integrated Risk Management Plan. It was highlighted that as the Fire and Rescue Service was part of the County Council it was also adequately covered in the County Council statements of assurance.

9.2 With regard to the pensions dispute, it was noted that the service had been well prepared for the strike action but had also been fortunate that there had been no major incidents during the strike period. Members noted that further strike action relating to pensions was not anticipated by the Service future industrial unrest should be considered a possibility if budgetary pressures result in a need for significant Service change.

9.3 **Decision:**

The Committee RESOLVED that the Statement of Assurance 2014/15 be approved.

10. FUTURE WORK PROGRAMME

The Committee agreed its future rolling work programme, as follows (new items added at this meeting **in bold**):

23 March 2016 at 10am	<ul style="list-style-type: none"> • Preparation for 2015/16 Accounts • Audit Plan 2015/16 – County Council • Audit Plan 2015/16 – Pension Fund • Letters of Representation on Management and Oversight of The Hertfordshire County Council (Including Firefighters’ Pension Fund) And Hertfordshire Pension Fund Accounts 2015/16 • Risk Management Annual Report 2015/16 • Risk Focus Report - HFRS0007 (unplanned incidents e.g. terrorism) • Data Protection Risk • Internal Audit Progress Report Q4 • Internal Audit Plan 2016/17
21 June 2016 at 10am	<ul style="list-style-type: none"> • Risk Management Update • Risk Focus Report • Annual Governance Statement 2015/16 • Annual Assurance Statement and Internal Audit Annual Report 2015/16 • SIAS Terms of Reference 2016/17 • Internal Audit Progress Report Q1 • Annual Report on the Treasury

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	Management Service & Prudential Indicators
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11. ANY OTHER BUSINESS

There was no other business.

**KATHRYN PETTITT
CHIEF LEGAL OFFICER**

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