



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

From: Legal, Democratic & Statutory Services
Ask for: Theresa Baker
Ext: 26545

**AUDIT COMMITTEE
30 NOVEMBER 2016**

ATTENDANCE

MEMBERS OF THE PANEL

D Andrews, F Button (substituted for R F Cheswright), G R Churchard, I M Reay (substituted for T W Hone), T R Hutchings (substituted for T Hunter), J Lloyd, 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 30 November 2016, 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.

Chairman's Announcements

There were no chairman's announcements

PART I ('OPEN') BUSINESS

1. MINUTES	ACTION
1.1 The minutes of the Committee meeting held on 23 September 2016 were confirmed as a correct record and signed by the Chairman.	
2. HERTFORDSHIRE COUNTY COUNCIL ANNUAL AUDIT LETTER FOR THE YEAR ENDED 31 MARCH 2016	
[Contact: Neil Harris, Director on behalf of Ernst & Young LLP]	
2.1 The Committee considered the Hertfordshire County Council Annual Audit letter 2015-2016 which communicated key issues arising from the work of the external auditors Ernst & Young (EY).	
2.2 Neil Harris (NH) of Ernst & Young (EY) gave an unqualified opinion on the financial position of the Council and Pension Fund, also expenditure and income to 31 March 2016. He concluded that the Council had in place proper arrangements to secure value for money in its use of resources and commented on the preparedness of the Council for fast close. The Committee heard that there was nothing to draw out from the annual audit letter	
2.3 Issues relating to future developments from the referendum were	

identified as an area for consideration by the Council.
Members heard that the updated and renamed Highways Network Asset (HNA) Code used depreciated replacement cost (as opposed to the previously used depreciated historic cost) for the valuation approach for infrastructure assets and did not necessitate the disclosure of comparative information. EY updated the committee that the requirement for this method of valuation had been deferred from 16 April 2016 for 1 year and would coincide with fast closure of accounts. In respect of the 'change in valuation approach' it was noted that the Auditors would need to obtain sufficient assurance over the material accuracy of the single highways network asset of £20 billion approx.

2.4 Following discussion officers clarified that improvements to the highways contract arrangements since the review in 2014, also the Improvement Plan, were reported within the overall assurance report. Members requested that an update report on the Improvement Plan be brought to panel.

C Cook,
O Mapley

2.5 On hearing that this was Penny Irwin's last attendance at Audit Committee the chairman commented that her 9 years of input left the County Council in a much better position and wished her well for the future.

2.6 During debate on the 115 assets with a value of 36 million which had been valued in prior years and not reassessed in 2015/16 with the IFRS 13 – Fair Value Measurement, officers clarified that in terms of best use of resources, work was underway on enhancing capital receipts and generating future revenue streams and highlighted that this would take longer than taking properties through for disposal. It was further noted that some of the 115 assets were not surplus but were operational whilst others were land for development. Officers agreed to bring a report to Committee on the number of surplus County Council assets.

O Mapley

2.7 In response to questions officers confirmed that the 2% social care precept in the 2016/17 budget went into Health and Community Services. Members asked for confirmation of the link between the precept and spend on social care.

C Cook
O Mapley

Conclusion:

2.8 The Committee RESOLVED that that the Annual Audit Letter for the year ended 31 March 2016 be noted.

3. UPDATE ON RESPONSE TO THE AUDIT RESULTS REPORT AND PREPARATIONS FOR 2016/17 AUDIT

[Officers Contact: Owen Mapley, Director or Resources
(Tel: 01992 555601)]

- 3.1 The Committee considered a report which provided a response to the Annual Audit Results Report 2015/16 and an update on the audit of the 2016/17 accounting statements.
- 3.2 Members heard that Ernst & Young had issued an unqualified opinion on the 2015/16 accounts and made no specific recommendations.
- 3.3 The actions being undertaken by Finance to prepare for 2016/17 and subsequent audits were detailed in the report. These included a review of accounts closure and audit process; review of critical pathway activities to see where efficiencies could be achieved; continuation of robust procedures for property asset valuations, new accounting arrangements for the Better Care Fund; management override risk and fraud in revenue recognition; officer representation on the Highways Asset Management Finance Information Group working within CIPFA and the Department of Transport on implementation of the Code; also formalisation of the Council's arrangements for value for money sustainable resource deployment in the in the 2017/18 – 2019/20 Integrated Plan.

Conclusion:

- 3.4 The Committee RESOLVED to note the contents of the report.

4. APPOINTMENT OF AUDITORS 2017/18 AND BEYOND

[Officers Contact: Owen Mapley, Director of Resources
(Tel: 01992 555601)]

- 4.1 The Committee considered a report which provided details of the options available to the Council on appointing their own external auditors for the audit of the 2018/19 accounts and outlined potential issues for Members to consider.
- 4.2 Officers advised Members that the report title should read **Appointment of Auditors 2018/19 (not 2017/18) and Beyond.**
- 4.3 The Committee heard that current audit contracts, managed by an independent company 'Public Sector Audit Appointments Limited' (PSAA) would end with the completion of the 2017/18 audits for principle local government bodies. Members noted the timetable for establishing Auditor Panels which would specify the Invitation to Tender and run the procurement exercise in 2017 to ensure appointment of an auditor by December 2017.
- 4.4 Members noted the three options for local authorities to appoint auditors:
 - 1. Establish an independent auditor panel: County Council would have complete autonomy over the process, but setting up a panel and procurement exercise costs could be

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significant and the Council were unlikely to have sufficient purchasing power to obtain best value;

2. Jointly establish an auditor panel with other authorities: this panel would be significantly smaller than those undertaken by national bodies, thus even shared procurement with all authorities in Hertfordshire was unlikely to achieve sufficient economies of scale;
3. Op-in to an approved sector led body (SLB) (to be approved by Department for Communities and Local Government (DCLG): Use of PSAA Limited would allow local resources to be focused on core business activities and ensure independence of auditors was maximised through separation of the Council from decision-making.

4.5 When officers suggested that option 3 was the most attractive as it gave continued value for money through a national procurement exercise, a Member supported this on the basis that it did not make sense to spend more money.

Conclusion:

4.6 The Committee RESOLVED to note the contents of the report and provided a view on which option should be taken forward for appointing an external auditor for the audit of the 2018/19 accounts and beyond.

5. MID-YEAR REPORT ON THE TREASURY MANAGEMENT SERVICE AND PRUDENTIAL INDICATORS 2016/17

[Officer Contact: Patrick Towey, Head of Specialist Accounting
(Tel: 01992 555148)]

5.1 The Committee considered a mid-year report which summarised Treasury Management Service performance against the prudential indicators specified in the Integrated Plan, part E approved by the County Council on 23 February 2016 and confirmed compliance with the prudential and treasury management indicators set out in the Integrated Plan.

5.2 Members noted that the breach of Treasury Management Strategy on 30 April 2016 was the result of a failure of the authority's bank, Barclays', online banking platform. Barclays had accepted responsibility for this breach, and offered compensation for interest lost on balances which it was not possible to transfer out for investment. The Council was implementing a separate on-line contingency payment system, and has also tested the manual backup process should Barclays system fail again.

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- 5.3 The Committee heard that political and economic changes stemming from the EU membership referendum had caused a reduction in the value of Sterling and the Bank of England base rate, also instability in equity markets and government bonds (gilt yields) and a reduction in short term investment returns. Officers reported that growth was also rising more slowly and that Arlingclose (the council's Treasury Advisor) forecast interest rates continuing 'lower, for longer'.
- 5.4 Officers highlighted that the Treasury Management Strategy (TMS) set in 2016/17 had been amended to include Peer to Peer lending and that yield on investments was secondary to security and liquidity of funds. Members were referred to Table 3 for the value of maturities and investments and heard that despite downgrading of the UK's Sovereign credit rating to AA, there was no impact on the Council's investment portfolio as all investments met the criteria set out in the Council's TMS and the advice of Arlingclose. Officers reported that the 0.33% rate of return for the investment portfolio in the 2nd quarter (excluding pooled fund investments) was down from the 0.70% achieved in the first quarter but exceeded the LIBID bench mark of 0.20%. Although there had been capital value variations in pooled funds, emphasis was placed on their long-term nature and ability to offset fluctuations.
- 5.5 With respect to the two remaining deposits with Icelandic banks Members heard that as of 30 September 2016 repayments for the investments in Heritable totalled 98.0p in the £ and no further distributions to creditors were forecast by the administrators. Recovery from Kaupthing, Singer & Friedlander stood at 83.75p in the £ with an additional repayment of 0.50p in the pound expected in October 2016; the auditor estimated the total return would be 85.5-86.5p in the £.
- 5.6 Members noted that long term borrowing outstanding at 30 September 2016 totalled £258.8m. In relation to this Barclays had waived its future options to vary the rate on the £106.1m of LOBO loans to the Council and consequently £88.1m of LOBO loans had been reclassified as Fixed rate commercial loans. The Council had also accepted Barclay's offer, after negotiations, to convert the 18m Range LOBO to a fixed rate instrument resulting in a change of interest rate from 4.7% to 4.625% with no penalty and equating to a reduction in interest payable of £13,500 per annum.
- 5.7 The Committee were referred to Appendix A for the detail of the Prudential Indicators 2016/17 as at 30 September 2016.
- 5.8 Officers clarified that the County Council had been unaffected by the Bank Assurance issues reported by the press as it did not have any investments with RBS and Barclays treasury rating was unchanged.

Conclusion:

- 5.9 The Committee RESOLVED that the Treasury Management mid-year report be noted.

6. RISK MANAGEMENT UPDATE REPORT

[Officer Contact: Fiona Timms, Risk & Insurance Manager
(Tel: 01438 843565)]

- 6.1 The Committee considered a report on the County Council's Risk Management activity over the last quarter. It included summaries of Corporate risk movements, new risks, the 35 Corporate Risks and the full Corporate Risk Register.

- 6.2 Members heard that there were 13 severe (red) risks and that the two most significant changes were ENV0030 and a new risk PROP0021.

- 6.3 In terms of ENV0030: "In the event of a failure in road inspection and / or fault reporting procedures, there is a risk that the condition of our roads falls below expected standards, which results in injury to citizens and/ or successful claims against the County Council", officers reported that the Deputy Director of Environment had determined that this risk could now be reduced from significant (amber 16) to material (yellow 8). This resulted from the service's partnership with Ringway to ensure that work was carried out robustly and so achieved the target frame for defect repair, also audit inspections which showed no significant issues. In response to questions officers clarified that the Ringway contract had a number of years to run and that the audit inspections had been carried out on a limited sample of the work undertaken by Ringway.

- 6.4 The Committee heard that the new risk PROP0021 "In the event that the review of how the Hertfordshire County Council disposes of its surplus land and property assets determines that the County Council should develop these sites and assets itself or through joint venture arrangements, there is a risk that such a change to the disposal policy may slow the delivery of the current £20m per annum receipt value in the current Integrated Plan" was rated as significant (amber 12) and related to the time it would take to achieve a return.

- 6.5 Risk R02 "Insufficient money to support infrastructure needs derived from new housing developments etc. (CIL/S106)", Risk reference PROP0022 was identified as the risk to be reviewed by Committee at its next meeting on 1 March 2017. In relation to this a member commented on the inconsistent application of CIL in the Districts.

A Bucksey
F Timms

Conclusion:

- 6.6 The Committee RESOLVED that

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1. The Risk Management Update be noted;
2. Risk R02 “*Insufficient money to support infrastructure needs derived from new housing developments etc. (CIL/S106)*”, risk reference PROP0022 be reviewed at its next meeting on 1 March 2017.

7. RISK FOCUS REPORT – TREE HEALTH

[Officer Contact: Tony Bradford, Head of Countryside Management Service (Tel: 01992 556028)]

- 7.1 The Committee considered a report on Corporate Risk ENV0142 relating to Tree Health with the potential to impact on the future of trees and woodlands in Hertfordshire which had an overall risk score of 40 (severe). It was noted that world trade in plants and plant material, also climate change, which provided more hospitable conditions for the survival of pathogens, were contributory factors to an increased threat to trees in the UK from a wide range of plant pathogens and other pest species.
- 7.2 In terms of potential impact officers reported that there were approximately 150,000 trees on the public highway of which 142,000 were in urban areas and had been surveyed. Members noted that the Council was interested in any trees within falling distance of the highway or the 3,000km of Rights of Way (ROW) as well as those on other county council owned land, with the aim of ensuring that public safety was managed as far as practical and reasonable, that no obstructions to the highway resulted and potential damage to property was avoided.
- 7.3 Based on the Forestry Commission’s interactive map of confirmed infection sites and also the projected movement of pathogens, *Chalara* (Ash Dieback), Oak Processionary Moth (OPM) and Oriental Chestnut Gall Wasp (OCGW) were reported as the key corporate risks on the basis of the significant number of trees growing on County Council owned land for which it had management responsibility. Damage to the trees by various pathogens could leave them weakened and more susceptible to other diseases leading to an increased risk of decay and premature death. In light of this the County Council’s approach to tree management had been refined and Members were referred to Appendix 1 for the assessment and rating of this risk and the controls in place to minimise or avoid its occurrence.
- 7.4 Officers reported that there was no way to treat / cure *Chalara* (Ash Dieback) which was well established in the county and spreading. Unless an infected tree posed a safety hazard proactive felling was not necessary especially as leaving trees in the environment might help with identifying resistant stock. The youngest trees would likely be the first to show signs of infection and quickly deteriorate compared with older more mature and established trees. Smaller

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trees though potentially posed less of a safety hazard. Members heard that research projects to establish trees resistant to *Chalara* were being funded by Defra etc. with the hope of a seed source for replacement planting. Members noted the costs of dealing with a dangerous tree were dependant on size and location but could be in the region of £1,600 before any additional costs such as traffic management were factored in. It was anticipated that over the next 10-20 years tree diseases would have a significant impact on the Hertfordshire landscape.

- 7.5 Members heard that Oriental Chestnut Gall Wasp (OCGW) had been identified in highway verge trees in St Albans which led to a Statutory Plant Health Notice and the removal of 9 associated Chestnut trees at a cost £52,000.
- 7.6 The Committee noted that there were no recorded instances of Oak Processionary Moth on County Council land to date, but cases had been reported and dealt with in Hertfordshire and it was expected to spread. This disease was highlighted as a public health issue as the hairs of the moth's caterpillars contained a toxin which caused skin rashes and less commonly sore throat, breathing difficulty and eye problems.
- 7.7 In relation to Members questions officers clarified that:
- surveys of trees on the Council's' land were undertaken in Hertsmere first as it was the most heavily wooded area and would be rolled out to all other areas;
 - District and Borough Councils, who usually had their own arboriculturalists, sat on the Hertfordshire County Council Tree Health Network;
 - the County Council encouraged land owners / householders to deal with affected trees on their land which could cause danger to the public on nearby ROW's or highways; if action was not taken the County Council could undertake the work and recharge costs to the landowner;
 - the Property department had updated schools via the Schools Grid on their responsibilities regarding trees on school property;
 - when replacing trees, stock should be UK sourced and consideration given to species that were resilient to climate change e.g. more drought resistant species;
a public facing web based information hub on tree health issues had been developed to aid public engagement and awareness raising ; further consideration on how to disseminate information was on-going.

Conclusion:

- 7.8 The Committee RESOLVED that the report be noted and commented on the information in the report.

**8. HERTFORDSHIRE COUNTY COUNCIL INTERNAL AUDIT
PROGRESS REPORT**

[Officer Contact: Margaret Mulkerrin, Audit Manager
Tel:01438 845504]]

- 8.1 The Committee considered a progress report from the Shared Internal Audit Service (SIAS) as at 5 November 2016 which detailed progress made in delivering the County Council Audit Plan for 2016/17; proposed amendments to the approved 2016/17 Audit Plan; 'Limited Assurance' audits issued since 23 September 2016; implementation status of previously agreed high priority audit recommendations and agreement to remove completed actions, medium priority recommendations and an update on performance management information.
- 8.2 Officers confirmed that 49% of the Council's Internal Audit Plan days had been delivered and referred Members to Appendix A for the status of each deliverable.
- 8.3 Members noted that since the update report had been written, two further reports had been finalised and issued and the two outstanding responses in respect of the implementation status of the associated medium priority recommendations had also been received.
- 8.4 The Committee heard that to ensure all six audits in relation to the Council's Key Financial Systems were delivered in time for the early closure of accounts Terms of Reference had already been produced and agreed and fieldwork was underway for four of the audits.
- 8.5 In terms of Schools Audit Activity Members' attention was drawn to Theme 2 (Safe Recruitment) where further site visits of a random sample of schools were on hold pending review, to ensure that the language used could not be misinterpreted by Ofsted.
- 8.6 Under Proposed Audit Plan Amendments officers highlighted that two audits had evolved from SIAS's closer working with Shared Anti-Fraud Services (SAFs) i.e. Cash Security–Corporate Appointeeships and HCS Contract Retention and Management.
- 8.7 The Committee heard that that one Limited Assurance opinion had been provided in respect of Fuel Card (HES). The audit gave assurance on the adequacy of the internal control environment and not on the actual use of fuel cards. Following identification of fuel card misuse within the Service at the start of the audit, the matter was referred to the SAFS and a disciplinary investigation was underway.

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8.8 In response to a Member's question, officers commented that where applicable, the operation of the Highway's Contractor as per the requirements of the contract was considered in the scope of an audit as appropriate.

8.9 With respect to Appendix B and the 'Recommendation' in relation to 'CLA Financial Administration' and future educational needs, officers agreed to check whether financial assets in the child's name were protected from sequestration.

M Mulkerrin
T Barnett

Conclusion

- 8.10 The Committee RESOLVED to:
- Note the Internal Audit Progress Report
 - Agreed the changes to the audit plan
 - Agreed to the removal of high priority actions now complete.

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

[Officer Contact:
Darryl Keen, Deputy Chief Fire Officer (Tel: 01992 507503);
John Johnstone, Senior Business Support Manager
(Tel: 01992 507537)]

9.1 The Committee considered the draft Statement of Assurance for Hertfordshire Fire and Rescue Authority (HFRA) to provide assurances on financial, governance, operational matters for 1 April 2015–31 March 2016, also to demonstrate due regard to the published Integrated Risk Management Plan (IRMP).

9.2 Officers reported that in accordance with Government guidance, the statement of assurance was written in a style which made it accessible to communities, Government, local authorities and other partners to make a valid assessment of the HFRA's 'performance and contained links to other pertinent documents.

9.3 Members noted that HFRS carried out its duties as part of the County Council in respect of ensuring that public money was properly accounted for and used economically, effectively and efficiently and that it adhered to the Council's financial procedures. In line with this it was covered by the external auditor's conclusion on the financial statements that the accounts presented provided a true and fair view of the financial position and a true record of expenditure and income for the financial year 2015/16.

9.4 Officers confirmed that no significant areas of non-compliance had been noted by the County Council's Internal Audit department.

9.5 Members were pleased to note that the most recent CIPFA fire and rescue statistics for 2014/15 showed HFRS as one of the lowest

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cost English FRSs with a budgeted expenditure of £32.73 per head.

- 9.6 In operational terms officers reported that HFRS now used various data sources including Mosaic and Exeter Health data to securely access GP Registration data to identify the 65' year olds and over, which with local intelligence, fire activity data and partner referrals enabled HFRS to produce a community risk profile to target resources and activities.
- 9.7 As an example of fulfilling the statutory duty for FRA's to provide fire safety education and advice officers highlighted Crucial Crew, a multi-agency community safety scheme delivered to 6,500 year 6 pupils each year. Members were pleased to note that the update of Crucial Crew in 2015/16 in a more immersive and interactive style had been well received and work was on going to make it more accessible to special needs groups and pupils with English as a second language. Officers clarified that staff who engaged with young people had undergone appropriate screening and checks.
- 9.8 Partnership working between HFRS's and Trading Standards in preventing the sale of unsafe mobile phone chargers which could lead to house fires was also noted.
- 9.9 The Committee heard that as part of its ongoing work to ensure continued national resilience, HFRS had reviewed and updated its Incident Command policies and was investigating the viability of introducing the Hydra system into Hertfordshire.
- 9.10 To Members questions officers confirmed that they would:
1. Liaise with Trading Standards and investigate whether there was a compensation scheme through which HFRS might seek recompense for the financial outlay involved in the event of being called out to fires caused by faulty mobile phones;
 2. Raise such compensations schemes (as per 9.10.1) as a general principle with the Local Government Authority;
 3. Find out whether fire sprinklers formed part of the fire safety requirements for any new schools being built and if not to seek to make them a recommendation for each school.

D Keen,
J Johnstone

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J Johnstone
D Keen,
J Johnstone

Conclusion:

- 9.11 The Committee RESOLVED to approve the draft Statement of Assurance 2015/16.

10. FUTURE WORK PROGRAMME

- 10.1 The Committee noted the future work programme below (new items added at this meeting in **bold**)

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<p>Wednesday 1 March 2017 at 10am</p>	<ul style="list-style-type: none"> • Preparation for 2016/17 Accounts • Audit Plan 2016/17 – County Council • Audit Plan 2016/17 – Pension Fund • Letters of Representation on Management and Oversight of The Hertfordshire County Council (Including Firefighters' Pension Fund) And Hertfordshire Pension Fund Accounts 2016/17 • Risk Management Annual Report 2016/17 • Risk Focus Report: Risk R02 • Internal Audit Progress Report Q4 • Internal Audit Plan 2017/18 	
<p>Tuesday 27 June 2017 at 10am</p>	<ul style="list-style-type: none"> • Risk Management Update • Risk Focus Report – • Annual Governance Statement 2016/17 and Code of Corporate Governance • Annual Assurance Statement and Internal Audit Annual Report 2016/17 • Internal Audit Progress Report Q1 • End of Year Report on the Treasury Management Service and Prudential Indicators 2016/17 • Whistle Blowing Annual Report 2016/17 	

11. ANY OTHER BUSINESS

11.1 There was no other business.

KATHRYN PETTITT
CHIEF LEGAL OFFICER

CHAIRMAN _____

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