



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
1 MARCH 2017**

ATTENDANCE

MEMBERS OF THE PANEL

D Andrews, T R Hutchings (substituted for R F Cheswright), G R Churchard, F Button (substituted for T W Hone), 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 1 March 2017, as circulated, copy annexed, conclusions were reached and are recorded below:

Note: A conflict of interest was declared by a member of the Cabinet Panel in relation to the matters on which conclusions were reached at this meeting and are recorded at item 3B.

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 30 November 2016 were confirmed as a correct record and signed by the Chairman.	
2. REPORT ON PREPARATION FOR THE 2016/17 ACCOUNTS	
[Officer Contact: Claire Cook, Assistant Director Finance (Tel: 01992 555737)]	
2.1 The Committee considered a report on actions undertaken in preparation for the 2016/17 Statement of Accounts.	
2.2 Members heard that the auditor had issued an unqualified opinion on the 2015/16 accounts and no specific recommendations.	
2.3 The Committee noted that 2016/17 was the pilot year for early preparation of draft accounts by 31 May and final auditing by 31 July and to address new requirements. To achieve this the project plan had identified critical path activities to achieve efficiencies, staff had been trained, including "Telling the Story" review to give a clearer view of the authority's spending and funding. Subsequent to review	

there were no changes to accounting standards or statutory requirements and the Finance team were testing to ensure smooth operation in July.

Conclusion:

2.8 The Committee RESOLVED to note the report.

3A. AUDIT PLAN 2016/17 HERTFORDSHIRE COUNTY COUNCIL

[Contact: Neil Harris of Ernst & Young LLP]

3A.1 The Committee received Ernst and Young's Audit Plan for the financial statements of Hertfordshire County Council, its Group and Fire-Fighters' pension fund. It was noted that N Clark was the new Audit Manager for Local Government External Audit.

3A.2 In terms of the financial statement risks Members heard that as a consequence of the deferral by the Chartered Institute of Public Finance (CIPFA), references to the valuation and accounting requirements of the Highways Network Asset for had been removed from the 2016/17 financial statements. Following clarification on the impact that this might have on Highways benchmarking it was noted that this changed purely affected accounting; County Council officers continued to review appropriate benchmarking sources.

3A.3 In discussion N Harris highlighted that EY audited other partners in the Sustainability and Transformation Plan (STP) and hence had a broad perspective on the health and social care environment in Hertfordshire and West Essex. He agreed that Hertfordshire's involvement with the STP to deliver £550m in savings by 2021 to address the total shortfall could be construed as a cost cutting exercise or a way of moving costs from one part of the public sector to another and as such was a significant value for money risk and would be revisited throughout the audit process.

3A4 Following on from discussions on the Financial Statement Risk posed to the council by its participation in the Local Government Pension Scheme (LGPS) N Harris agreed in future to provide assurances in relation to the assumptions made by the actuary and provide further granularity.

N Harris

3A.5 For transparency N Harris agreed to add to future audit reports the names of EY specialists who had contributed to key judgements.

N Harris

3A.6 To concern about the dependence on analytics to improve audit efficiency Members heard that EY also used other methods.

Conclusion:

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3A.8 The Committee RESOLVED to note the contents of the report.

3B AUDIT PLAN 2016/17 HERTFORDSHIRE PENSION FUND

S J Taylor declared a declarable interest in relation to item 3B of the agenda as she is a beneficiary of the pension scheme. She remained in the room and participated in the debate and vote.

3B.1 The Committee received Ernst and Young’s Audit Plan for Hertfordshire County Council’s Pension Fund accounts.

3B.2 N Harris clarified that in terms of management override controls EY examined the same test searches on journal entries at year end.

3B.3 The Committee RESOLVED to note the contents of the report.

4. REPORT ON LETTERS OF REPRESENTATION ON MANAGEMENT AND OVERSIGHT OF THE HERTFORDSHIRE COUNTY COUNCIL (INCLUDING FIREFIGHTERS’ PENSION FUND) AND HERTFORDSHIRE PENSION FUND ACCOUNTS 2016/17

[Officer Contact:
Lindsey McLeod, Head of Accountancy Services (Tel: 01992 556431);
Patrick Towey, Head of Specialist Accounting (Tel: 01992 555148)]

4.1 The Committee considered draft Letters of Representation to the External Auditors (EY) on management and oversight of both the General and Pension Fund accounts (Appendices A & B to the report); the Letters being required by Ernst & Young on an annual basis, in accordance with International Accounting Standards, to update their understanding of the management and processes of these accounts.

4.2 Members heard that there were no areas which would affect the financial accounts of the council for 2016/17.

4.3 During discussion Members heard that the whistle blowing process was live and that all such events had been dealt with during the year.

Conclusion:

4.4 The Committee RESOLVED that the letters of representation to EY be approved for signature by the Chairman of the Committee.

5. RISK MANAGEMENT UPDATE REPORT 2016/17

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

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- 5.1 The Committee considered an annual report which outlined the County Council's key Risk Management activity undertaken since March 2016. It included the current position of the Corporate Risk Register, key risk movements over the last quarter, key corporate risk movements over the last year and the audit findings on Risk management.
- 5.2 Members were referred to the Heat Map for the movement in the Full Corporate Risk Register and for Q3 their attention was drawn the following and the reasons for each change:
- HC02 which had risen from red 32 to red 64 (severe);
 - R12 which had risen in category from amber 16 (significant) to red 32 (severe);
 - R19 which had been escalated to the Corporate Risk Register (amber 24 (significant));
 - R18 had been established, with a current risk score of amber 12 (significant), for the new corporate financial and reputational risk of not taking appropriate action to offset the Apprenticeship Levy and provide apprenticeship opportunities.
- 5.3 With regard to PROP0022 comment was passed that, in view of the increasing risk posed by infrastructure costs in general, Health Partners should be encouraged to place infrastructure bids for S106 and CIL funding.
- 5.4 Subsequent to discussion officers agreed to implement a time line for the 'In Progress' control descriptions in Appendix A to the report and refine the terminology.
- 5.5 During discussion of HCS0012 the Committee heard that there were further potential risks posed to Adult Care and Health by reductions/ withdrawal of NHS funding for projects organised by other organisations; officers agreed to consider updating the risks to reflect this. Members noted that one of the key controls was through the Adult Care and Health cabinet panel.
- 5.6 Risk R12 'Cyber-attack on Hertfordshire County Council's ICT' was suggested as the risk to be reviewed at the next meeting of the Committee.

F Timms

F Timms

Conclusion:

- 5.7 The Committee RESOLVED that
- i. The changes in the Corporate Risks since the last report to the Committee be noted;
 - ii. That the Risk Management Annual report be noted;
 - iii. Risk R12 *"In the event of failing to maintain and ensure the*

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use of our security systems, technical protocols and change management processes, there is a risk of a cyber-attack (virus, penetration or malicious internal action) on Hertfordshire County Council's ICT environments causing significant service disruption and possible data loss" be reviewed at its next meeting in June 2017.

6. RISK FOCUS REPORT - CIL

[Officer Contact:
Angela Bucksey, Assistant Director, Property (Tel: 01992 556397)]

- 6.1 The Committee considered a report on Corporate Risk Reference PROP0022 relating to Risk No. R02 *"Insufficient money to support infrastructure needs derived from new housing developments etc. (CIL/S106)"* with an overall risk score of 32.
- 6.2 Members heard that the Community Infrastructure Levy (CIL) had been introduced in 2014 to simplify the developer contributions mechanism for smaller developments. S106 agreements were retained and were still negotiated for larger developments throughout the county. Four of the ten District Planning local authorities in Hertfordshire had adopted CIL and it was likely that the remaining six would implement the regime between 2017- 2020 as part of their emerging Local Plans. Those that had adopted the legislation had each taken a different stance to implementation and delivery. However, all required the County Council to provide written 'bids' for funding from the CIL collected fund, alongside all other parties enabled to bid for funding (town and parish councils etc.) as and when they opened the their bidding process.
- 6.3 The Committee noted that the corporate risk was owned by the Assistant Director, Property in the Resources Directorate and were referred to Appendix 1 to the report for the controls which were coordinated by Property staff within Development Services.
- 6.4 Members heard that Local Infrastructures Documents (LIDs) for each District were required to be developed as part of the CIL fund requesting process; they would be used to support individual bids for CIL funding monies from the appropriate District Council. These documents, encompassing all forms of County Council infrastructure needs, were currently in development and would shortly be presented to Members for approval.
- 6.5 The Committee were advised that CIL and S106 process training sessions had been held in 2015/16 for members and officers, and would be re-run after the next election to enable all members to have a clearer understanding of the mechanisms of both. The Committee were asked to recommend attendance to all Members as and when dates were announced.

Members

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- 6.6 Members noted the difficulty in calculating what funding was being lost to the County Council as a consequence of the CIL regulations and also identification of the most appropriate five contributions to support a specific scheme under the S106 pooling rule.
- 6.7 Issues raised during discussion included:
- a. the fact that districts and boroughs could not be forced to support infrastructure projects which were the responsibility of the county council;
 - b. the associated likelihood that the County Council would bear the cost of community infrastructure (e.g. schools and roads) should the system produce insufficient funding or funding be diverted for other local schemes;
 - c. a potential role for the Hertfordshire Infrastructure Panel to examine the issue in a cross county and cooperative way;
 - d. potential mitigation of the impact on other areas of the county council by encouraging public sector bodies (e.g. Health Partners) to engage with developers and local planning authorities for funds for adequate infrastructure growth;
 - e. the need for greater discussion of the issue at cabinet levels in Hertfordshire as a consequence of the negative effect of the regulations on two tier (combined) authorities;
 - f. that Parish Councils could apply for 15% of CIL fund.

6.8 In relation to 6.7d above, officers agreed to check if replacement manpower had been found to encourage the necessary relationships.

A Bucksey

Conclusion:

6.9 The Committee RESOLVED that given CIL could result in a funding deficit for infrastructure development for which the County Council would be responsible, the risk should remain currently identified in the Risk Register and that the appropriate Cabinet Panel should keep the item under review going forwards.

7 HERTFORDSHIRE COUNTY COUNCIL INTERNAL AUDIT PROGRESS REPORT

[Officer Contact: Darren Williams, Audit Manager, Shared Internal Audit Service (Tel 01438 844341)]

- 7.1 The Committee considered a progress report from the Shared Internal Audit Service (SIAS) as at 6 February.
- 7.2 The Committee were pleased to note that since the report had been written the number of Internal Audit Plan days delivered had risen from 73% to 76.5% excluding unused contingency days.

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- 7.3 With respect to Schools' Audit Activity Members heard that the one remaining draft report under Theme 1 'Assessment of the effectiveness of internal control in relation to the requirements of the Schools Financial Value Standard' (SFVS) had now been completed.
- 7.4 In terms of the key amendments to the approved 16/17 Audit Plan:
1. Health and Community Services (HCS) had proposed:
 - cancellation of the audit of the Better Care Fund (15 days);
 - a reduction in the audit budget for the Residential Invoicing Audit from 15 days to 5;
 2. The Head of Childhood Support had proposed deferral of the audit of Extended Entitlement to Free Childcare;
 3. The Assistant Director (Education, Access and Provision) had proposed two increases to the schools' audit plan which would be accommodated by reductions in the number of schools covered in the Safe Recruitment theme and the Financial Planning theme:
 - an allocation of 10 days to accommodate SIAS attendance at Children's Services safeguarding seminars for Head Teachers and Governors;
 - an increase of 15 days to the allocation for Theme 1 (SFVS)
- 7.5 Members noted that no limited Assurance opinions were provided by SIAS.
- 7.6 During discussion of the high priority recommendation on HCS Cash Handling Procedures, Members were updated on revised actions being taken by management to improve the internal control environment, thereby explaining a difference between the original recommendation (detailed in paragraph 2.23) and the update provided in Appendix B of the progress report.

Conclusion

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

8. HERTFORDSHIRE COUNTY COUNCIL 2017/18 INTERNAL AUDIT PLAN REPORT

[Officer Contact:

Terry Barnett, Head of Assurance Services (Tel 01438 845508)]

- 8.1 The Committee received a report which provided the programme of the Internal Audit Plan for 2017/18 and which also formed part of the County Council's wider assurance framework. Members were referred to Appendix A to the report for the high level proposed outline scope for each audit and the suggested month for delivery,

with any major changes to the plan being notified via the quarterly progress reports; to Appendix B for the Reserve List of audits which could be added to the plan should audit resources become available or the risk profile of an audit change and require substitution into the 2017/18 plan; and Appendix C for areas identified for the internal audit plan for 2018/19. The plan had been shared with External Audit colleagues and the Head of Assurance was not aware of any concerns from their perspective.

- 8.2 It was clarified that the number of Plan Days allocated to each audit area were indicative and that, following scoping of the area and subsequent consultation with the area’s management, the number of days could be adjusted as necessary.
- 8.3 Following discussion of cyber security issues, comment was passed that as much as possible needed to be done to defend the Council from cyber breach. In light of this the committee felt that the audit review of this area should be comprehensive in approach rather than high level.
- 8.4 During discussion the Committee were assured that the audit of bus contracts would include contract management and therefore include consideration of the integrity of the data used. In relation to this Members discussed methods of incentivising bus drivers to issue every passenger with a ticket including those using bus passes.

Conclusion:

- 8.5 The Committee RESOLVED to approve the proposed Hertfordshire County Council Internal Audit Plan for 2017/18.

9. FUTURE WORK PROGRAMME

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

<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 • SAFS report on anti-fraud activity at HCC for 2016/2017 - delayed from March Mtg. • SAFS report on Anti-Fraud Action Plan for
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	2017/2018 – delayed from March mtg.	
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The Chairman thanked C. Cook (Assistant Director (Finance)) for her work on the committee, particularly on qualification of the accounts and achieving best practice in conjunction with the finance team, and wished her well in retirement.

10. ANY OTHER BUSINESS

10.1 There was no other business.

**KATHRYN PETTITT
CHIEF LEGAL OFFICER**

CHAIRMAN _____

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