

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 11 SEPTEMBER 2017

ATTENDANCE

MEMBERS OF THE PANEL

P Bibby, S N Bloxham, F Button (Chairman), J M Graham, C K Hogg, A K Khan, A J S Mitchell, T J Williams, W J Wyatt-Lowe (Vice-Chairman), P M Zukowskyj

OTHER MEMBERS

T W Hone

Upon consideration of the agenda for the Audit Committee meeting 11 September 2017, 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

- (i) As the Director of Resources could not attend the meeting the Letters of Representation for the financial statements (items 3 & 6) would be signed following the meeting.
- (ii) In relation to point 8.7 (ii) of the minutes of 7 July 2017, hard and email copies of Appendix 2: 'Shared Anti-Fraud Service Action Plan 2017/18' had been circulated to the Committee and approval received by email.

PART I ('OPEN') BUSINESS

ACTION

1. MINUTES

- 1.1 The minutes of the Committee meeting held on 7 July 2017 were confirmed as a correct record and signed by the Chairman.

2. HERTFORDSHIRE COUNTY COUNCIL AUDIT RESULTS REPORT 2016/17

[Contact: Neil Harris, Executive Director Ernst & Young LLP]

- 2.1 The Committee considered the Hertfordshire County Council Annual Governance Report 2016/2017 of the external auditors.
- 2.2 Neil Harris of Ernst & Young (EY) praised the quality of the draft accounts and working papers and thanked officers for their

cooperation throughout the audit. Members expressed their thanks to officers for the quality of their work throughout the year. EY expressed confidence that the Council would meet the timetable for early closure in July 2018 for the 2017/18 accounts, to which officers were already working.

- 2.3 The Committee's attention was drawn to the key matters and that, subject to the Committee's decision on the accounts, EY intended to issue an unqualified opinion on the financial statements as at 31 March 2017 alongside the audit certificate; an unqualified value for money conclusion and that there were no other matters to report.
- 2.4 One projected unadjusted audit difference of £1.4m was noted, i.e. expenditure treated as REFCUS which should have been capital additions in property, plant and equipment. On investigation this was identified as an extrapolated error based on a test relating to 3 items totalling £4,801.61; it had not been corrected by management as it was a projected rather than actual error which could not be reasonably amended within the financial statements. EY requested that the Committee approve the rationale for non-correction and that it was included in the Letter of Representation.
- 2.5 Subsequent to discussion N Harris agreed to look into any updates from the national audit centre on the consideration that auditors should give to the implications of social value in relation to economy, efficiency & effectiveness.

N Harris

Conclusions:

- 2.6 The Committee RESOLVED to note the Audit Results Report 2016/17 for the County Council.

3. RESPONSE TO THE AUDIT RESULTS REPORT – HERTFORDSHIRE COUNTY COUNCIL (INCLUDING FIRE FIGHTERS' PENSION FUND) FINANCIAL STATEMENTS 2016/17

[Contact: Owen Mapley, Director of Resources (Tel: 01992 55601)]

- 3.1 The Committee considered a report which provided a recommended response to the Audit Results Report 2016/17, including the draft Letter of Representation (LOR).
- 3.2 In relation to the unadjusted error, officers highlighted that the errors in testing had now been reviewed and the Section 151 officer had given assurance that no other errors had arisen from it. The process would also be reviewed to ensure that this type of error was isolated earlier in the audit process.
- 3.3 Members attention was drawn to point 5.3 of the report and the erroneous inclusion of the sentence *'We also note the auditor's conclusions on payment processes, accruals and reconciliations for*

Highways spend (p7) and the early conclusion of the agreement of 2015/16 spend with the main contractor' which applied to the previous financial year.

- 3.4 The Assistant Director (Finance) commented that this was the briefest and cleanest audit report he'd ever seen and that he would ensure any comments from the Committee would be reported to the Director of Resources and that the LOR was signed.

S Pilsworth
O Mapley
F Button

- 3.5 There were no comments from the Committee.

Conclusions:

- 3.6 The Committee:
1. Noted the report;
2. RESOLVED to approve the Letter of Representation.

**4. ANNUAL STATEMENT OF ACCOUNTS 2016/17 –
HERTFORDSHIRE COUNTY COUNCIL (INCLUDING FIRE
FIGHTERS' PENSION FUND) FINANCIAL STATEMENTS**

[Contact: Owen Mapley, Director of Resources (Tel: 01992 55601)]

- 4.1 The Committee considered a report which outlined any significant changes made through the course of the audit to the draft Statement of Accounts as detailed in Appendix A to the report.
- 4.2 All Member questions on the accounts were answered during the accounts training session which immediately preceded the Committee meeting; the chairman observed that the training had been very helpful.

Conclusions:

- 4.3 The Committee RESOLVED to approve the Annual Statement of Accounts.

**5. HERTFORDSHIRE PENSION FUND AUDIT RESULTS REPORT
2016/17**

[Contact: Richard Page, Executive Director Ernst & Young LLP]

- 5.1 N Clarke of EY summarised the Audit Results Report for the Hertfordshire Pension Fund 2016/17 and highlighted that as in previous years materiality had been set at 1% of net assets i.e. £42.2 m; there had been minimal disclosure changes; EY expected to issue an unqualified opinion on the Pension Fund's financial statements and that there were no other matters to report. The pensions team were congratulated on the quality of their work which had enabled the audit to proceed so smoothly. Officers confirmed that there had been no further changes.

- 5.2 During discussion of the Fund's improved funding level of 91% officers clarified that as the pension fund approached 100% funding, the Pensions Committee were applying a strategy of de-risking the fund in favour of defensive assets that matched the Fund's liabilities. Members heard that the fund was valued every three years and the funding position monitored every three months using market data. Additionally the funding positions of the 290+ employers in the scheme were risk assessed and rated using the Fund's risk register.

Conclusions:

- 5.3 The Committee RESOLVED that the Audit Results Report 2016/17 for the Pension Fund be noted.

6. RESPONSE TO THE AUDIT RESULTS REPORT 2016/17 – PENSION FUND

[Contact: Jolyon Adam, Finance Manager (Tel: 01992 555078)]

- 6.1 The Committee received a report providing a response to the Audit Results Report 2014/15 – Pensions Fund.
- 6.2 Officers were pleased to note that there were no recommendations, any errors identified during the audit had been minor and that this had been a strong audit result for the Pension Fund.
- 6.3 During discussion of the impact of Brexit on Forex and hence the future performance of the Pension Fund, officers clarified that the Pensions Committee strategy of diversification of the fund's investments into different asset classes ensured it was well cushioned against such movements in the market. In addition to this some of the fund managers used forward hedges to protect the Fund's overseas income against foreign exchange movements. Further assurance was gained from the fact that the performance of individual fund managers was reviewed on a quarterly basis.
- 6.4 The chairman highlighted that the presentation prior to the meeting had been very helpful.

Conclusions:

- 6.5 The Committee RESOLVED that:
- the Audit Results report for the Pension Fund be approved,
 - the Letter of Representation be signed by the Director of Resources and the Chairman of the Audit Committee

7. RISK MANAGEMENT UPDATE

- 7.1 The Committee received the quarterly Risk Management Update report including a summary of Corporate risk movement, summary of new risks, a heat map of the 32 Corporate Risks with amendments since the July meeting and the full Corporate Risk Register.
- 7.2 Members' attention was drawn to the section 5 and activity resulting from the actions requested in relation to the risk management update report provided to the meeting of the Committee on 7 July, also the movements and risk score changes.
- 7.3 Officers advised the Committee that a copy of the Corporate Risk register had been circulated to Members who had been unable to view it on their electronic devices could be circulated to any others who requested it.
- 7.4 During discussion of reduction in the number of Corporate risks from 33 to 32, the Committee noted that following review by ACS Board of all Corporate Risks AC09 'Failure of care providers (adults), insufficient care workers' had been withdrawn and this risk was now covered by the reworded and refocussed risk AC03; the amendment of the wording of AC01 to focus on the Homecare workforce and, in view of the current inability to attract the required workforce, raising of the probability to 'almost certain' and the risk score overall to 40.
- 7.5 In view of the more extensive scope and application of the General Data Protection Regulations (GDPR) scheduled for 25 May 2018, as part of the controls officers agreed to make Members aware of their obligations for compliance under the new regulations through training/guidance.
- 7.6 During discussion of the continuing high level of certain risks above their target score, Members heard that in the majority of cases external factors influenced this rather than a failure of the controls.
- 7.7 During further debate on the high level of risk associated with CP01 and associated potential underfunding of Hertfordshire Fire and Rescue Services and hence overreliance on national support for fire cover during unplanned incidents of terrorist activity etc., members expressed satisfaction that resilience was provided by support from neighbouring authorities. Officers agreed to check the target score and whether the risk required rewording to encompass resilience.

M Aust

F Timms
G Pratt

Conclusion:

- 7.8 The Committee RESOLVED:
- (i) to note the Risk Management Update report;
 - (ii) that Risk AC01: 'If there is a continuing inability to attract the

required number of Homecare work force in line with the Adult Care Services Workforce strategy, there is an increasing risk of non-compliance and a reduction in the ability to provide safe and appropriate care in users own homes which may lead to impacts on their health and wellbeing' be the subject of the risk focus report for the December 2017 meeting.

8. HERTFORDSHIRE COUNTY COUNCIL INTERNAL AUDIT PROGRESS REPORT

[Officer Contact: Darren Williams, Client Audit Manager
(Tel: 01438 844341)]

- 8.1 The Committee received an internal audit progress report (as at 14 August 2017) on Shared Internal Audit Service (SIAS) delivery of the Hertfordshire County Council Internal Audit Plan for 2017/18; proposed amendments to the approved 2017/18 Audit Plan; 'Limited Assurance' audits issued since the last meeting of the Committee; the implementation status of previously agreed high priority audit recommendations and agreement to remove completed actions, also medium priority recommendations; an update on performance management information.
- 8.2 Members noted the following updates since the writing of the report:
- a. Finalised reviews –rise to 7 audits and 2 grant certifications completed;
 - b. No limited assurance reviews;
 - c. Draft audits issued - rise to 5 including Prevent, GDPR and Blue Badge reviews;
 - d. Reviews remaining for completion from 2016/17 – decrease to 2;
 - e. Schools Audit Activity (Theme 1) – rise to 17 final reports issued with the remaining 8 being at draft report stage;
 - f. Schools Audit Activity (Themes 2 & 3) – completion of both expected in autumn term;
 - g. Proposed Audit Plan Amendments – as noted in d. audit of GDPR on electronic transfer of sensitive data within Children's Services now issued in draft stage;
 - h. Contingency balance of days not allocated to planned audits was now 36 days; it was preferable not to increase this to avoid the Council paying for days on which no work was delivered;
 - i. No limited assurance audits issued;
 - j. No new high priority recommendations;
 - k. Performance Management – Planned days - rise to in excess of 32%; Planned projects – rise to 32%;
- 8.3 Officers clarified that they anticipated issuing shortly the draft report of the 2016/17 audit of the Ringway contract which was specific to discrete areas of contract. Members were assured that there were no specific concerns and a positive opinion was anticipated.
- 8.4 In relation to the implementation of high status priority

**CHAIRMAN'S
INITIALS**

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recommendations and audit of 'HCC Service User Manager Monies', Members were advised that a substantial amount of work had been carried out by ACS and officers were agreeing with ACS Board the remaining evidence required to allow closure of the recommendation.

- 8.5 During discussion officers clarified that issues were identified for internal audit by review of the risk register, external horizon scanning, consultation with boards (for most on a quarterly basis) and heads of service. The contingency balance also enabled SIAS to audit issues as they arose.

Conclusions:

- 8.6 The Committee RESOLVED to:
- note the Internal Audit Progress report
 - agree the changes to the audit plan

9. SHARED INTERNAL AUDIT SERVICE ANNUAL REPORT 2016/17

[Officer contact: Terry Barnett, Head of Assurance Services
(Tel: 01438 845508)]

- 9.1 The Committee received a report on the activity of the Shared Internal Audit Service for 2016/17.
- 9.2 Members noted the challenges to SIAS as a consequence of sickness absence and vacancies held over in lieu of a planned service restructure. In respect of the latter, officers highlighted that as a consequence of ongoing financial pressures Local Government clients had been obliged to consider their investment in assurance work.. This had required SIAS to provide its services in the most cost effective manner whilst maintaining its high quality, as evidenced by its client satisfaction of levels 96% (erroneously shown as 95% on page 9 of the report).
- 9.3 In response to questions officers clarified that, as part of improving efficiency in SIAS, a new time recording system (dashboard) was already active in providing weekly updates on individual performance towards achieving the annual performance target of billable days. It also enabled performance issues to be identified at an earlier stage than monthly meetings and gave staff ownership of their workload.
- 9.4 A member observed that the lack of a cover sheet made it unclear whether the report was for information only. Officers confirmed that future reports would be submitted in the regular format.
- 9.5 Members requested that pie charts and graphs be printed in colour.

T Barnett

T Baker

Conclusions:

- 9.6 The Committee RESOLVED to note the Shared Internal Audit Service Annual Report 2016/17 :

10 RISK FOCUS REPORT- PREVENT - Radicalisation

[Officer contact: Guy Pratt, Deputy Director Community Protection
(Tel: 01992 507501)]

- 10.1 The Committee received a report on the risk and associated controls recorded on the Hertfordshire County Council Corporate Risk Register relating to 'PREVENT' (CP02 / CP0004):

"As a result of disruptive factors influencing the lives of people in Hertfordshire, there is a risk that residents or staff become radicalised or drawn into terrorism, which could cause harm to themselves or the wider public and reduce community / social cohesion."

- 10.2 Members noted the County Council's statutory responsibility to prevent radicalisation of its staff and residents and the methods used to achieve this. Further to this the Hertfordshire County Council PREVENT Board, the Multi-Agency PREVENT Board and the Channel Panel ensured a consistent approach to PREVENT across both county and County Council.

- 10.3 The Chairman moved the meeting into PART II (Closed Session) and passed the decision at paragraph 10.4.

- 10.4 That under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 7 of Part 1 of Schedule 12A to the said Act and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

- 10.5 Following discussion on the Part II report on the item referred to at 10 above and Recommendations, the Chairman moved the meeting back into Part I (Open Session) and considered the Part I Recommendations and made the decision at 10.6 below.

Conclusions:

- 10.6 The Committee RESOLVED to note and commented as in PART II on the information provided within the report.

11. FUTURE WORK PROGRAMME

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

1 December 2017:

- **HFRS Statement of Assurance 2016/17**
- Annual Audit Letter – HCC 2016/17
- Response to HCC Audit Results Report and preparation for 17/18 accounts
- Mid-Year Report on the Treasury Management Service and Prudential Indicators 2017/18
- Risk Management Update
- Risk Focus Report
- Internal Audit Progress Report
- SAFS Progress Report on 2017/18 Plan
- **Interim PREVENT update report**

26 March 2018:

- **Audit Plan 2018/19 – County Council**
- **Audit Plan 2018/19 – Pension Fund**
- Preparation for 2017/18 Accounts
- 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
- Internal Audit Progress Report
- Internal Audit Plan 2018/19
- SAFS HCC Anti-Fraud Action Plan 2018/19
- SAFS Annual Report
- **PREVENT update report**

25 July 2018:

- Internal Audit Progress Report
- Risk Management Update Report
- Risk Focus Report
- HCC Audit Results Report 2017/18
- Response To The Audit Results Report – HCC (Including Fire Fighters' Pension Fund) Financial Statements
- Annual Statement Of Accounts 2017/18– HCC (Including Fire Fighters' Pension Fund) Financial Statements
- Audit Results Report 2017/18 – HCC Pension Fund
- Response To The Audit Results Report 2017/18 – HCC Pension Fund
- Annual Governance Statement 2017/18 and Code of Corporate Governance
- Annual Assurance Statement and Internal Audit Annual Report 2017/18
- End of Year Report on the Treasury Management Service and Prudential Indicators 2017/18
- Whistle Blowing Annual Report 2017/18

12. ANY OTHER BUSINESS

12.1 There was no other business

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**KATHRYN PETTITT
CHIEF LEGAL OFFICER**

CHAIRMAN_____

**CHAIRMAN'S
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