

Dear Councillor

AUDIT COMMITTEE - TUESDAY, 28 JUNE 2016

Please find attached, for consideration at the meeting of the Audit Committee on Tuesday, 28 June 2016, the following reports that were unavailable when the agenda was printed.

Please bring this document with you to the meeting.

Agenda No Item

14. **Draft Audit Committee Annual Report 2015/16 (Pages 1 - 6)**

To consider the draft Audit Committee Annual Report for 2015/16 and to make any amendments prior to submission to the Council.

Yours sincerely

Committee Administrator

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**AUDIT COMMITTEE – 28 JUNE 2016
COUNCIL – 11 JULY 2016**

DRAFT AUDIT COMMITTEE ANNUAL REPORT - 2015/16

PURPOSE OF THE REPORT

The purpose of this report is to summarise the work carried out by the Audit Committee during 2015/16.

BACKGROUND

The role of the Audit Committee, which was created in 2012, is to provide assurance regarding best practice in the provision of effective corporate governance arrangements.

The Chartered Institute of Public Finance and Accountancy good practice recommends that an annual report is produced setting out the work that the Audit Committee has undertaken during the preceding year.

MEMBERSHIP

The Membership of the Panel is as follows:

Cllr A O'Sullivan (Chairman)
Cllr J G Ward (Vice-Chairman)
Cllr W G Andrews
Cllr M R Harris
Cllr J D Heron
Cllr Mrs E L Lane
Cllr R A Wappet
Cllr C A Wise

WHAT DOES THE AUDIT COMMITTEE DO?

The terms of reference of the Audit Committee can be found in Annex 1 to Chapter 13 of the Council's constitution, and at the following link :

<http://www.nfdc.gov.uk/CHttpHandler.ashx?id=17902&p=0>

The Committee meets four times per year in June, September, January and March. In summary, the Committee's purview in the main includes the following elements:

- **Annual Financial Report (Statement of Accounts)**
- **Governance Reports**
- **Internal and External audit activity**
- **Treasury Management**
- **Procurement**
- **Risk Management**
- **Regulatory Framework**
- **Counter Fraud**

HOW IS THE COMMITTEE SUPPORTED?

INTERNAL AUDIT

The Council's Internal Audit function is headed by Glenda Chambers (Principal Auditor) who oversees a team of six auditors. The team also provides audit services for partners including the New Forest National Park and two Town Councils and a management service to East Dorset and Christchurch Councils, Purbeck District Council. The Principal Auditor reports to the Section 151 Officer/Chief Executive and the Chair of Audit Committee.

EXTERNAL AUDIT

Following the recent abolition of the Audit Commission, the External Audit Function is now carried out by Ernst and Young, a multinational professional services firm. Mrs Helen Thompson and Mrs Justine Thorpe are the local Ernst and Young contacts.

ACTIVITY OVER THE PAST YEAR

Annual Financial Report 2014/15 (Statement of Accounts)

The Committee approved the Council's statutory annual financial report, which included six Statements of Account:

- (a) Comprehensive income and expenditure statement
- (b) Movement in reserves
- (c) Balance sheet
- (d) Housing Revenue Account
- (e) Collection fund (two separate accounts)
- (f) Cash flow statement

The report also gave details of the general fund budget, capital programme reserve, net receipts from business rates and identified savings.

Annual Governance Statement (AGS) 2014/15

The Committee approved the Annual Governance Statement for 2014/15.

The Leader of the Council and the Head of Paid Service (the Chief Executive) were required to sign the AGS and be satisfied that the document was supported by reliable evidence. It was published with the statement of accounts and provided to the external auditor for review.

ASSURANCES

To enable the Committee to agree the Statement of Accounts and the AGS (above), the following assurances were provided to the Committee during the year, as set out below:

Assurances Provided by the Internal Auditor

Annual Internal Auditor's Opinion Report 2014/15

The Committee considered the annual report of the Principal Auditor for 2014/15. This included an opinion on the adequacy and effectiveness of the control environment, and the effectiveness of internal audit.

The Committee noted the audit plan timetable and outcomes for 2013/14 as well as other audit work, details of the insurance framework and the conformance action plan for 2015.

Based on the work undertaken during 2014/15, the Committee endorsed the opinion of the Principal Auditor that:

- Arrangements were in place to ensure there was an adequate and effective control environment
- Overall systems for managing risks, complying with governance requirements and having good internal control arrangements continued to be effective.
- Agreed policies and regulations had been complied with in the majority of cases.

Progress Against the 2015/16 Internal Audit Plan

The Committee noted regular progress reports made against the 2015/16 audit plan, in particular progress on high priority recommendations.

The Committee noted the current structure of the internal audit partnership and the related resource implications. Members were pleased to note the benefits of the reciprocal working arrangements where staff from this authority undertook work for Purbeck and East Dorset and vice-versa.

Internal Audit Charter, Assurance Framework and Internal Audit Plan 2016/17

The Committee reviewed the internal audit plan for 2016/17.

The Committee noted changes to the Audit Plan for 2016/17 as a result of the current management restructure. The Principal Auditor will continue to work with officers to align the Audits within the Audit plan to the service reviews detailed in the corporate plan.

Review of Local Code of Good Governance 2014/15

The Committee approved the annual report of the Monitoring Officer and the Internal Audit Manager for 2014/15.

They also endorsed the view of the Monitoring Officer and Internal Audit that the Council was able to have confidence in the effectiveness of its governance arrangements.

The actions arising from the review of compliance with the Council's Code of Good Governance for the financial year 2014/15, were also approved.

Assurances Provided by the External Auditor

Audit Results Report 2014/15 (External Auditor)

The Committee noted the External Auditor's Results Report 2014/15. The report which summarised the findings from the 2014/15 Audit had considered the Council's financial statements, appropriate arrangements to secure value for money, whole of Government accounts, and the Audit Certificate. The report also included audit risks and assurances gained in connection with these.

The Committee also noted the content included in the External Auditor's Certification of Claims and Returns Annual report for 2014/15, which included information on sample testing that had been carried out.

External Auditor - Progress Against the 2015/16 Action Plan

The Committee received regular external audit progress reports for its work in 2015/16.

The Committee noted that the Department of Communities and Local Government (DCLG) had decided not to extend the existing arrangements for external audit contracts beyond the end of 2017/18. This means that, from 2018/19 onwards, local authorities will be responsible for appointing their own auditors, and the resulting contract. Councils will need to start putting in place the mechanism required to deliver this, and the selection, appointment and removal of external auditors would need to take place from early 2017. The new auditors would take over for the year 2018/19.

Other Assurances

Treasury Management Annual Out-Turn Report 2014/15 and Monitoring

The Committee received the treasury management annual outturn report for 2014/15.

The report dealt with the management of the organisation's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks. Although the function was operated by Hampshire County Council, overall responsibility for treasury management remained with the Council. All treasury activity had complied with the Council's Treasury Management Strategy and Investment Strategy as well as the prudential indicators for 2014/15. The report covered the economic background, the local context, borrowing strategy, investment activity and outturn, as well as the treasury management indicators.

Hampshire County Council had undertaken the treasury management function since 2014 and also provided the service to Winchester City Council, the Police Service and Hampshire Fire & Rescue. Each individual authority's investments were separate.

The Committee also approved the performance of the Treasury Management function for 2015/16 together with proposed changes to the Treasury Management Strategy.

The report detailed the economic background, the Borrowing Strategy, Investment Strategy, as well as compliance with the Prudential and Treasury Management Indicators. The Committee considered recommended changes to the current strategy, including changes to the Investment Strategy and an increase in investment limits. It was noted that Hampshire County Council managed £65m worth of investments on behalf of New Forest District Council, which was £10m more than the previous year.

Regulation of Investigatory Powers Act (RIPA) - Annual Report

The Committee noted a summary of the Council's use of its powers under the Regulation of Investigatory Powers Act (RIPA) 2000.

It was reported that the Council had not authorised any surveillance activities under RIPA in 2015.

Members were pleased to note that Sir David Clarke, Assistant Surveillance Commissioner, had visited the Council to undertake an inspection of the Council's use and management of its powers under RIPA and had concluded that the Council's RIPA structure remained in good health.

Insurance Procurement

The Committee noted an update on the outcome of the procurement exercise for new insurance arrangements for the Council.

New Forest District Council had collaborated with the other 10 district and borough councils in Hampshire to achieve overall procurement savings in insurance of approximately £1.9 million over the next three years, saving £42,000 per annum for NFDC. The performance of the new arrangements would be monitored to ensure ongoing savings, as well as minimising insurance losses and continued good risk management.

Final Accounts 2014/15 - Bad Debts Write Off

The Committee received a report, detailing total bad debts written off during the financial year 2014/15, in accordance with the Code of Practice for write offs approved by the Cabinet.

The Committee queried whether any improvements could be made to the collection rates. It was explained that officers were attempting year on year improvements through the continuous promotion of direct debit, as well as other measures. It was noted that the current economic climate with welfare reforms, including Universal Credit, was likely to make collections more difficult, but this would be kept under review.

The total bad debt write off for 2014/15 was £769,749 (a slight reduction on 2013/14), which represented 0.3% of the total income collected by the Council.

Procurement Rules, Regulations and Contract Standing Orders - Waivers 2014/15

The Committee noted the waivers to the Council's procurement rules, regulations and contract standing orders approved during the financial year 2014/15.

There were 46 applications for waivers against the procurement rules during the year, the total value of which was £1,513,303. This compared with 24 applications submitted during 2013/14 totalling £543,713. The value of waivers had increased significantly along with the number of applications made. It was believed this may be partly due to improved collation of applications through a new electronic process as well as improved officer awareness following extensive training sessions.

CONCLUSION

In partnership with the External Auditors, and with the support of Officers, the Audit Committee has concluded that it has provided robust and effective independent assurance on a wide range of risk and internal control issues, thereby making a valuable contribution to the Council's corporate governance arrangements.

The Committee was again pleased to note a number of significant improvements over recent years which underline the Council's commitment to improving financial governance arrangements. Within the Annual Governance Statement are a number of recommended actions for continuous improvement which the Committee will continue to monitor.

The Council has continued to work with its partners on Insurance Procurement and Treasury Management, as well as collaborative work on fraud and changes to its banking arrangements. All of these measures have resulted in considerable savings and other financial and organisational benefits.

The Committee members look forward to continuing their work with the support of officers and external partners.

CLLR A O'SULLIVAN
CHAIRMAN