

AUDIT COMMITTEE ANNUAL REPORT - 2018/19

PURPOSE OF THE REPORT

The purpose of this report is to summarise the work carried out by the Audit Committee during 2018/19.

BACKGROUND

The role of the Audit Committee 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 advice recommends that an annual report is produced setting out the work the Audit Committee has undertaken during the preceding year.

MEMBERSHIP

The Membership of the Panel is:

Cllr A D O'Sullivan (Chairman)
Cllr J G Ward (Vice-Chairman)
Cllr A R Alvey
Cllr W G Andrews
Cllr J D Heron
Cllr Mrs E L Lane
Cllr Ms A Sevier
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.newforest.gov.uk/CHttpHandler.ashx?id=17902&p=0>

In summary, the Committee's purview in the main includes the following main elements:

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

HOW IS THE COMMITTEE SUPPORTED?

INTERNAL AUDIT

The Council's Internal Audit function is headed by Antony Harvey, Deputy Head of Partnership representing the Southern Internal Audit Partnership.

The Southern Internal Audit Partnership is responsible for the provision of internal audit for NFDC and NFNPA. The Deputy Head of Partnership (acting as NFDC's Principal Auditor)

reports to the Section 151 Officer and to the Chairman of the Audit Committee and he also has direct access to the Council's Monitoring Officer and the Chief Executive.

EXTERNAL AUDIT

The External Audit Function is carried out by Ernst and Young, a multinational professional services firm. Mr Kevin Suter and Mr James Stuttford are the local Ernst and Young contacts.

ACTIVITY OVER THE PAST YEAR

Annual Financial Report 2017/18

The Committee considered the Council's Annual Financial Report for 2017/18.

The report included a narrative statement which provided an outline of the Council's achievements over the last twelve months.

The report showed that the Council's General Fund had net savings of £1.671 million within services, achieved through savings, efficiencies and improved income. It was felt the Council had performed well in the last financial year and was in a positive position.

Local Code of Good Governance Review

The Committee received the Local Code of Good Governance Review report for 2017/18, prepared by the Council's Monitoring Officer and the Chief Finance Officer.

The report reviewed the Council's compliance against the Code, which contained 7 core principles. The report concluded that the Council was able to have confidence in the effectiveness of its governance arrangements.

It was felt that the Council had performed well in the last financial year and that financially, the Council was in a positive position.

Annual Governance Statement

The Committee considered and approved the Annual Governance Statement for the financial year ended 31 March 2018.

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:

Assurances Provided by the Internal Auditor

Annual Internal Audit and Opinion Report 2017/18

The Committee received the Annual Internal Audit and Opinion report for 2017/18. The Council's framework of governance, risk management and management control was considered to be 'Reasonable' and audit testing had demonstrated controls to be working in practice. Where internal audit work identified areas where management controls could be improved or where systems and laid down procedures were not fully followed, appropriate corrective actions and a timescale for improvement were agreed with the responsible managers. No significant issues requiring inclusion within the Annual Governance Statement were identified as a result of the internal audit activity.

Internal Audit Progress Reports

The Committee noted the performance of Internal Audit for 2018-19.

The Committee was also advised of progress in implementing the actions that had been identified during audit reviews and were pleased to note that good progress had been made with respect to the high priority actions that had been identified and welcomed the new style of reporting on these important matters.

Good relationships were being built up with service heads, and internal audit were assisting with service reviews by analysing processes and systems and suggesting improvements. The Committee noted an example of this where internal Audit had been requested by the new Service Manager of Waste and Transport to carry out an end to end process review of trade waste services with specific focus on the costing elements to help inform a service review and the development of a new service plan.

Internal Audit Plan 2019/20

The Committee agreed the comprehensive internal audit plan for the next three years, which had been compiled in consultation with Executive Management Team and service heads and reflected strategic risks relating to corporate plan priorities.

Internal Audit Charter 2019/20

The Committee approved the Internal Audit Charter, which defines the internal audit activity, purpose and responsibility, in line with the Public Sector Internal Auditing Standards.

Assurances Provided by the External Auditor

Audit Results Report 2017/18

The Committee received the External Auditor's report. The report summarised the findings from the 2017/18 Audit. These included:

- Areas of audit focus
- Audit differences
- Value for money conclusion
- Other reporting issues
- Assessment of control environment
- Data analytics
- Independence

The External Auditor informed the Committee that they were able to give an unqualified opinion of the accounts and financial statements.

2017/18 Annual Audit Letter

The Committee noted that the Annual Audit Letter in relation to the audit of the 2017/18 accounts contained an Executive Summary which emphasised the unqualified opinion on the financial statements and an unqualified conclusion that the Council was securing value for money in the use of resources.

External Audit Plan

The Committee received the external auditor's planning report which provided a basis for the Committee to review the proposed audit approach and the scope for the 2018/19 audit. It was also to ensure that the audit was aligned with the Committee's service expectations.

The external auditor set out the significant risks and associated actions to assess them. There had been no substantial change from the previous year, although new accounting standards had been introduced which would affect the scope of the audit for 2018/19. The impact of the standards would be assessed to determine whether they had been appropriately implemented by the Council.

The Committee noted that the pension fund liability on 31 March 2018 was estimated to be £95 million. The auditor had no concerns regarding the level of deficit and it was noted that the overall pension fund deficit had reduced in recent years.

Certification of Claims and Returns Annual Report

The Committee noted the certification of claims and returns annual report for 2017/18. The report detailed the certification of the housing benefits subsidy claim.

The value of the claim presented for certification was £39,284,266 and was subsequently amended by an increase of £1,933 after extrapolation.

Six errors had been identified in the sample testing for 2017/18 and extended testing was required. The errors had been identified in four areas, which had a small net impact on the claim. As a result of the additional testing carried out, the auditor's fee for the certification of the housing benefits subsidy claim was increased from £5,492 (indicative fee) to £11,770.

It was noted that the level of work required in order to carry out further testing was very time consuming and was reflected in the auditor's increase in fee. The errors identified had been of minimal financial value. The Department for Work and Pensions set out the methodology which needed to be followed by the auditor and therefore it was necessary for the additional testing to be carried out.

OTHER ASSURANCES

Treasury Management Out-Turn Report 2017/18

The Committee agreed the Treasury Management outturn report for 2017/18 which confirmed compliance with all treasury management activities, including the authorised investment and borrowing limits.

The Committee was advised that there was a private member's bill progressing through parliament with the aim of restricting the acquisition of land and property by local authorities in England outside their own local authority boundaries, as well as limiting investment in commercial 'risk taking enterprises' and public borrowing for non-core activities. It was hoped that the bill would be modified in Parliament so that the more prudent authorities (such as NFDC) were not adversely affected. Whilst it was as yet unknown whether the bill would pass into statute, the Council will continue to monitor the issue.

Treasury Management Mid Year Monitoring Report 2018/19

The Bank of England's decision in August to increase interest rates would have some benefits in increasing income for the Authority.

There had been no borrowing activity, which was in accordance with the Treasury Management Plan.

The main area of activity was in investments, with the value having grown since March, largely as a consequence of the pattern of cash flow within the organisation, with cash flowing into the Council in the early part of the financial year. Consequently the majority had

been placed into short term investments. The decision had however been taken to increase investment in pooled property funds, with an additional £0.5 million having been invested so far and 2 further tranches of £0.5 million planned. The percentage of unsecured investments in the portfolio had also increased, but a spread of risk had been maintained to mitigate that change.

Overall, the investment benchmarking showed that the Council was maintaining a positive position.

Treasury Management Strategy

The Committee approved the proposed Treasury Management Strategy for 2019/20-2021/22. The report also included the Treasury Management Investment Strategy for 2019/20 and the Treasury Indicators.

The report detailed the Council's current financial position and the forecast borrowing and investments until 2022. It was noted that the Council did not expect to need to borrow in 2019/20.

Investment Strategy 2019/20

The Committee considered the proposed Investment Strategy for 2019/20. The Investment Strategy outlined the Council's investments and had been produced following statutory guidance issued by the Government in January 2018. The strategy primarily focused on commercial investments.

Risk Update and Risk Register

The Committee received an update on the strategic risk register and risk management arrangements. The Committee would be consulted on the development of the future register.

Fraud Update

The Committee received an update on activities to combat fraud in the period since January 2018. In that period there had been a total of 36 referrals and details of the outcomes were noted. The Committee was reminded that, in addition to this work, the service also undertook extensive data matching to identify potential fraud. The staff resource dedicated to combatting fraud would be kept under review to ensure best value for money to the Council.

Final Accounts Bad Debts Write-Off 2017/18

The Committee received a summary of the total bad debts written off during the financial year 2017/18.

Regulation of Investigatory Powers Act 2000 Policy

The Committee received a summary of the Council's use of its powers under the Regulation of Investigatory Powers Act 2000 (RIPA). The Council used its powers under RIPA infrequently, and had not authorised any surveillance activities under RIPA since the last report to the Audit Committee in 2017. The Council had adopted two policies relating to its use of RIPA:

- Surveillance Policy - updated January 2019
- Policy for the Acquisition of Communications Data - updated January 2019

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

CLLR A D O'SULLIVAN
CHAIRMAN