

AUDIT COMMITTEE – 26 JUNE 2015

DRAFT AUDIT COMMITTEE ANNUAL REPORT - 2014/15 – REPORT TO COUNCIL

PURPOSE OF THE REPORT

The purpose of this report is to summarise the work carried out by the Audit Committee during the 2014/15 Municipal year.

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. This is the first of such reports.

MEMBERSHIP

The Membership of the Panel has changed slightly following the elections, and 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**
- **Write offs**
- **Counter Fraud**

These are dealt with in more detail later in the report.

HOW IS THE COMMITTEE SUPPORTED?

INTERNAL AUDIT

The Council's Internal Audit function is headed by Lucinda Upton (Internal Audit Manager) 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 and North Dorset District Council. The Internal Audit Manager reports to the Section 151 Officer, Bob Jackson (Executive Director) and has access to the 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 (Statement of Accounts) 2013/14

Perhaps the Committee's most important task is to consider the Annual Financial Report (Statement of Accounts). The Council is required to publish an Annual Financial Report, which shows how money was spent in each financial year. This is a lengthy detailed document including:

The accounts for 2013/14 comprise the following statements:

- Comprehensive Income and Expenditure Statement
- Movement in Reserves Statement
- Balance Sheet
- Cash Flow Statement
- Housing Revenue Account (HRA) Income and Expenditure Statement
- Collection Fund
- General Fund
- Housing Revenue Account

The Committee's role is to consider and approve the Statement of Accounts as a true and fair view of the Council's position. The External Auditor confirmed that the Council had a "clean bill of health" (unqualified opinion) on the Statement of Accounts and for its Value for Money Conclusion.

The Committee were satisfied with the Financial Statement, and in approving it, supported the letter of representation being signed by the Chairman of the Committee and the Section 151 Officer.

Annual Governance Statement (AGS) 2013/14

Under the Account and Audit Regulations 2011, the Council is required to produce an annual governance statement (AGS) following an assessment of its governance framework.

The draft AGS 2013/14 was approved by the Audit Committee in June 2014 and provided to the external auditors for review. Members were reminded of the section in the External Auditor's report concerning the Council's Annual Governance Statement, which confirmed that:

- It complied with the requirements of the CIPFA / SOLACE Delivering Good Governance in Local Government framework; and
- It was consistent with other information that the External Auditor was aware of from their audit of the financial statement.

Members were satisfied with the Annual Governance Statement and indicated their support to it being signed by the Leader of the Council and the Chief Executive as the Head of Paid Service. The Annual Governance Statement 2013/14 is published on the Council's website, ensuring ease of access.

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

1. Internal Audit - Progress Reports Against the Approved risk based Audit Plan

The Committee received reports at every meeting detailing progress against the internal audit plan. Issues highlighted throughout the year included:-

- Partnership working on fraud initiatives
- Collaborative Bank and insurance procurement initiatives
- Work to comply with new procurement regulations
- Audit activities and levels of assurance for various areas
- Progress on high priority recommendations

2. Annual Internal Auditor's Opinion Report 2013/14

The Committee considered the Internal Auditor's opinion on the adequacy and effectiveness of the control environment and reviewed the effectiveness of internal audit.

The key areas of the report were

- The Internal Audit Manager's opinion on the adequacy and effectiveness of the Council's control environment. The control environment is defined by the approved Assurance Framework.
- Matters to be considered for inclusion within the Annual Governance Statement
- The performance and effectiveness of Internal Audit
- Conformance against the Public Sector Internal Audit Standards (PSIAS)

Based on the work undertaken by Internal Audit during 2013/14 the Committee supported the opinion of the Internal Audit Manager 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.

The Committee confirmed that the annual report and opinion and the level of assurance over the adequacy of the Council's internal control, risk management and governance systems as stated in the report be accepted and that the effectiveness of the internal audit function in line with the Account and Audit Regulations 2011.

3. Internal Audit Charter, Assurance Framework and Internal Audit Plan 2015/16

The Committee considered the Internal Audit Charter, Assurance Framework and Internal Audit Plan for 2015/16. The Internal Audit Manager explained that additional resources were being allocated for fraud and transformational projects in the forthcoming year.

4. Review of the Local Code of Good Governance – Annual Report of the Monitoring Officer and Internal Audit Manager 2013/14

The Committee considered the actions arising from the review of compliance with the Council's Code of Good Governance for the financial year 2013/14.

Members supported the Monitoring Officer and Internal Audit's conclusion that the Council was able to have confidence in the effectiveness of its governance arrangements, which was illustrated by the few and relatively minor areas identified.

Assurances Provided by the External Auditor

1. External Audit Plan 2013/14

The Committee received the External Auditor's Audit Plan for 2013/14, which was intended to provide the Committee with a basis to review the External Auditor's proposed audit approach and scope for the audit in accordance with legislation and guidance.

The report gave an overview and covered the following areas:

- Financial statement risks
- Economy, efficiency and effectiveness
- The audit process and strategy
- A note on the independence of the External Auditor in the process
- Fees
- Required information to be provided to the Audit Committee

Regular progress reports were received by the Committee.

2. External Audit Progress Report 2014.

The Committee received the External Auditor's overview of their 2013/14 audit and an outline of their plans for the 2014/15 audit.

No significant risks had been identified in respect of the value for money assessment. The overall audit was proceeding as planned, and as usual, much of the work would be undertaken between September and November.

3. Local Government Audit Committee Briefing

The Committee regularly received from the External Auditor the Local Government Audit Committee Briefing, which contained government and economic news, accounting, auditing and governance, and an update on regulation.

4. Certification of Claims and Returns Annual Report 2013/14

The Committee received the External Auditor's Certification of Claims Annual Report for 2013/14. Local Authorities routinely claimed large sums of public money in grants and subsidies from Central Government and other bodies and those grant-paying bodies required certification from an auditor.

No issues had been found in connection with the returns. In common with many other authorities, the Council had received a qualification letter. The number of changes in circumstances meant there was always a high risk of human error, but NFDC had a good track record compared to other authorities in this regard.

5. Audit Results Report 2013/14 (External Auditor)

The Committee noted the External Auditor's results report for 2013/14. This included:

- Financial statements
- Value for money
- Whole of Government accounts
- Audit Certificate

The report set out the results of the Audit and included audit risks and assurances against these. The External Auditors were able to give an unqualified opinion of the accounts and value for money statement. There were no objections from members of the public. No issues had been identified for arrangements for financial resilience and the authority was undertaking longer term financial planning.

6. External Auditor's Annual Audit Letter

The Committee received the Annual External Auditor's Audit Letter, which set out findings on financial statements, the Annual Governance Statement, and conclusions on the economy, efficiency and effectiveness of the Council and its use of resources. There were no major issues of concern.

Other Assurances

1. Treasury Management Strategy Annual Outturn and Monitoring

The Committee received the Treasury Management Annual Outturn Report for 2013/14, including the performance of the treasury function and recommended updates to the 2014/15 investment strategy.

Although overall responsibility for treasury management remained with the Authority, the delivery of the treasury management function for NFDC transferred to the Finance Service of Hampshire County Council in March 2014.

The Executive Director (Finance) felt that the new arrangements overseen by Hampshire County Council had resulted in a greater diversity of investment opportunities and better rates of return as well as better security of the District Council's funds and more favourable long-term opportunities. It was noted that Winchester City Council would be joining the Hampshire County Council investment arrangements shortly, in the same way that New Forest District Council had.

NFDC's investment holding was £55.4m at 31 August 2014, which was over £12.9m (30%) higher than the same time last year.

The emphasis was now on achieving a diversity of investments and reducing exposure to bank and building societies, by moving to other non-banking investments including money markets, corporate bonds, and pooled investments.

The Committee noted the related Investment Strategy.

The Executive Director felt the working relationship developed with County Council partners over the last 12 months was a good one and was already producing improved results.

2. Final Accounts 2013/14 Bad Debts Write Off

The Committee received a report on the total bad debts written off during the financial year 2013/14, which was approved in accordance with the Code of Practice for Write-Offs approved by the Cabinet.

The total bad debt write-off for 2013/14 was £781,232, compared with £780,304 in 2012/13. This represented 0.3% of the total income collected. Write-offs in any financial year often refer to debts incurred over a number of previous years.

There appeared to have been a rise in Council Tax and NNDR write-offs, though the overall total had not changed greatly due to reductions in other areas.

The Committee would continue to monitor this issue with regular reports.

3. Procurement Rules, Regulations and Contracts Standing Orders – Waivers 2013/14

The Committee agreed the waivers to the Council's procurement rules, regulations and contract standing orders be approved during the financial year 2013/14.

4. Banking Contract Update

The Committee received an update on a change to the Council's banking arrangements, following a joint procurement exercise with five other councils. As a result, the Council was to change from the Co-Operative Bank to Lloyds Bank over the next year, with an anticipated saving to be made in relation to acquiring facilities. Project progress reports would be made to the Committee as required.

5. Insurance Procurement Hampshire District and Borough Councils

Members noted progress throughout the year on a collaborative insurance procurement initiative.

The collaborative arrangements with the 11 other Hampshire authorities came to an end in March 2015, so that the contracts with Zurich ended at that time. New contracts were awarded in March 2015. NFDC's annual spend was currently £660,000. There were opportunities for the Council to realise potential savings through self-insurance, depending on the level of risk it was prepared to accept, including through the housing stock. At present the Local Government insurance market was limited, giving the previous provider, Zurich Municipal, considerable leverage on pricing. It was hoped that these collaborative arrangements would encourage other companies to come into the market and increase competition.

Members were pleased to note that this initiative had saved the Council £45,000 per annum.

6. Strategic Risk Register

The Committee received a report on the revised Strategic Risk Register. The current register summarised the significant risks to the delivery of the Corporate Plan and the proposed actions of the Portfolio Holders to mitigate against these risks. A mid-year Governance follow-up report includes progress against actions arising from the Strategic Risk Register.

7. Regulation of Investigatory Powers Act (RIPA) – Annual Report

The Committee receives an annual report on the Council's activities under the Regulation of Investigatory Powers Act 2000. Details were given of the constraints of the legislation and procedures. No RIPA authorisations had been sought within the Council since 2011.

WORK PROGRAMME

The Committee regularly reviews its Work Programme and considers its future training requirements.

CONCLUSION

In partnership with the External Auditors, and with the support of Officers, the Audit Committee has concluded 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 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 worked 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 new Committee members look forward to continuing their work over the next four years with the support of officers and external partners.

CLLR A O'SULLIVAN
CHAIRMAN