

**AUDIT COMMITTEE – 23 JUNE 2017
COUNCIL – 10 JULY 2017**

AUDIT COMMITTEE DRAFT ANNUAL REPORT - 2016/17

PURPOSE OF THE REPORT

The purpose of this report is to summarise the work carried out by the Audit Committee during 2016/17.

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.newforest.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 seven auditors. The team also provides audit services for partners including the New Forest National Park, two Town Councils and a management service to East Dorset and Christchurch Councils and Purbeck District Council. The Principal Auditor reports to the Section 151 Officer and the Chairman of Audit Committee and also has a direct access to the Council's Monitoring Officer and Chief Executive.

EXTERNAL AUDIT

The External Audit Function is 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 2015/16 (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.

The Section 151 Officer felt the accounts reflected that the Council was in a good financial position.

Annual Governance Statement (AGS) 2015/16

The Committee approved the Annual Governance Statement for 2015/16.

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 2015/16

The Committee considered the annual report of the Principal Auditor for 2015/16. This included an opinion on the adequacy and effectiveness of the control environment, and the effectiveness of internal audit.

The Committee noted the audit outcomes for 2015/16 as well as other audit work, including work undertaken against the assurance framework.

Based on the work undertaken during 2015/16, the Committee endorsed the opinion of the Principal Auditor that the adequacy of the Council's internal control, risk management and governance systems, and effectiveness of the system of internal control were in line with Regulation 6 of the Accounts and Audit Regulations 2015.

Progress Against the 2016/17 Internal Audit Plan

The Committee noted regular progress reports made against the 2016/17 audit plan, in particular progress on high priority recommendations.

Internal Audit Charter, Assurance Framework and Internal Audit Plan 2017/18

The Committee reviewed the internal audit plan for 2017/18.

The Committee noted changes to the Audit Plan for 2017/18 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.

Local Code of Good Governance – The New Framework

The Committee and the Council has recently agreed a new version of the Local Code of Corporate Governance, which centred on seven new core principles. The Committee will shortly be receiving a report on compliance against the new code.

Assurances Provided by the External Auditor

Audit Results Report 2015/16 (External Auditor)

The Committee noted the External Auditor's Results Report 2015/16. The report, which summarised the findings from the 2015/16 Audit had considered the Council's financial statements, and appropriate arrangements to secure economy, efficiency and effectiveness in the Council's use of resources.

The report covered the housing benefits subsidy claim with a total value of £43,088,594. Two minor errors were identified from samples of HRA cases. The External Auditor explained that this was a very good result for the Council, as it was very rare that councils were given unqualified certification of their returns, which was to the credit of the NFDC Housing Benefit Team. The Committee congratulated the Team on their excellent performance.

The Committee agreed that the Management Representation Letter should be signed by the Section 151 Officer and Chairman of the Committee.

External Auditor - Progress Against the 2016/17 Action Plan

The Committee received regular external audit progress reports for its work in 2016/17.

The Committee was reminded that from 2018/19 onwards, local authorities will be responsible for appointing their own auditors, and the resulting contract. Selection, appointment and removal of external auditors will take place in 2017, NFDC was part of a national scheme for the independent appointment of auditors for 270 principal authorities in England, and the new auditors would take over for the year 2018/19.

External Auditor – Annual Audit Letter

The Committee noted the external auditor's annual audit letter for the year ended 31 March 2016.

The report concluded that the financial statements gave a true and fair record of the financial position of the Council as at 31 March 2016 and of its expenditure and income for the year ended. It is also concluded that other information published with the financial statements was consistent with the Annual Accounts, and that there were proper arrangements in place to secure value for money in the use of the Council's resources.

Other Assurances

The Committee received the following Treasury Management reports:

Annual Out-turn Report 2015/16

The Committee received the treasury management annual outturn report for 2015/16.

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 is operated by Hampshire County Council, overall responsibility for treasury management remained with the Council. The Committee was pleased to note that cash balances had increased and the out-turn had improved with borrowing from the previous year decreasing.

Mid Year Monitoring Report 2016/17

The Committee received the mid year monitoring report for 2016/17. Investments had been in line with the Treasury Management Strategy. The Committee noted that reductions in the base rate would reduce yield from investments.

Strategy for 2017/18

Members supported the introduction of a larger investment limit (up to £20m) applicable but not limited to pooled property and equity fund investments in order to improve the flexibility of the investment portfolio, and better utilise the forecast underlying cash balance available for long term investment.

Final Accounts 2015/16 - Bad Debts Write Off

The Committee received a report, detailing total bad debts written off during the financial year 2015/16, in accordance with the Code of Practice for write offs approved by the Cabinet.

The total bad debt write off for 2015/16 was £645,221 (a reduction on 2014/15), which represented 0.26% of the total income collected by the Council. An updated Code of Practice for Write-Offs was adopted following the management restructure.

Procurement Rules, Regulations and Contract Standing Orders - Waivers 2015/16

The Committee noted the waivers to the Council's procurement rules, regulations and contract standing orders approved during the financial year 2015/16.

There were 36 applications for waivers against the procurement rules during the year, the total value of which was £786,280. This compared with 46 applications submitted during 2014/15 totalling £1,513,303. The number of waivers had decreased due to the implementation of a more robust procurement process.

Summary Strategic Risk Register

The Committee has approved a revised strategic risk register.

The introduction of the new Corporate Plan for 2016-2020 necessitated a review of the strategy. The new strategy recognised that Government funding remained the overriding risk. Proposed actions to mitigate these risks were set out in the report, which included service plans and working with partners to achieve Council objectives.

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 O'SULLIVAN
CHAIRMAN