

AUDIT COMMITTEE ANNUAL REPORT - 2017/18

PURPOSE OF THE REPORT

The purpose of this report is to summarise the work carried out by the Audit Committee during 2017/18.

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>

Since the last annual report, the Committee has met on 4 occasions, in August 2017 and January, March and May 2018. 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, Audit Group Manager representing the Southern Internal Audit Partnership. Until 31 March 2018, the in-house team provided 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.

Since then the Southern Internal Audit Partnership has taken over responsibility for the provision of internal audit for NFDC and NFNPA. The Audit Group Manager (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 Ms Emily Farley are the local Ernst and Young contacts.

ACTIVITY OVER THE PAST YEAR

Annual Financial Report 2016/17 (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) Expenditure and Funding Analysis
- (c) Movement in Reserve Statement
- (d) Balance Sheet as of 31 March 2017
- (e) Collection Fund – Council Tax and Business Rates
- (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 considered that the accounts reflected that the Council was in a good financial position, and thanked members of his team for their hard work in the production of the report. The Committee also recorded their appreciation to the Council's finance and audit team members.

Draft Annual Financial Report 2017/18

The Committee also approved the Council's draft unaudited six Statement of Account:

- (a) Comprehensive income and expenditure statement
- (b) Expenditure and Funding Analysis
- (c) Movement in Reserve Statement
- (d) Balance Sheet as of 31 March 2018
- (e) Collection Fund – Council Tax and Business Rates
- (f) Cash flow statement

The report also summarised the Council's financial position as at 31 March 2018.

Annual Governance Statement (AGS) 2016/17

The Committee approved the Annual Governance Statement for 2016/17.

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.

Draft Annual Governance Statement 2017/18

The Committee also approved the Draft Annual Governance Statement for 2017/18.

Local Code of Good Governance Review – 2017/18

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 and concluded that the Council was able to have confidence in the effectiveness of its governance arrangements.

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 Auditor's Opinion Report 2017/18

The Committee received the Annual Internal Audit and Opinion report for 2017/18. This stated that 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.

Progress Against the 2017/18 Internal Audit Plan

The Committee noted regular progress reports against the Internal Audit Plan for 2017/18, and progress made against high priority audit recommendations.

Internal Audit Charter, Assurance Framework and Internal Audit Plan 2018/19

The Committee considered the proposed Internal Audit Plan for 2018/19, the aim of which was to provide independent and objective assurance to management in relation to the business activities, systems or processes under review that:

- The framework of internal control, risk management and governance was appropriate and operating effectively; and
- Risks to the achievement of the Council's objectives were identified, assessed and managed to a defined acceptable level

It was explained that, over a three year cycle, comprehensive audit coverage could be achieved using half the number of resource days than under previous arrangements, which the Internal Auditor felt was appropriate when compared with other partner authorities.

The Audit Group Manager felt that the District Council's Executive Management Team were very supportive and that good communications and relationships had already developed.

Assurances Provided by the External Auditor

Audit Results Report 2016/17 (External Auditor)

The Committee has received the External Auditor's Results Report for 2016/17. The report summarised the findings from the 2016/17 Audit, which included:

- Areas of audit focus
- Audit differences
- Value for money
- Assessment of control environment
- Audit Certificate

The External Auditor was pleased to inform the Committee that they could give an unqualified opinion of the accounts and financial statements.

External Auditor – Annual Audit Letter

The Committee received a summary of the external auditor's audit letter from the year ended 31 March 2017. The report covered opinion on the Council's financial statements, use of resources, governance statement, and public interest report, all of which were concluded satisfactorily, with no weaknesses having been identified. The Committee thanked the officers for their efforts in producing this result.

Other Assurances

The Committee received the following Treasury Management reports:

Treasury Management Annual Out-turn Report 2017/18

This report confirmed compliance with all treasury management activities, including the authorised investment and borrowing limits.

It was noted 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. The Committee would be kept informed.

Treasury Management Mid Year Monitoring Report 2017/18

This report detailed the economic background, the Borrowing Strategy, the Investment Strategy, as well as compliance with the Prudential and Treasury Management Indicators. Investments had been in line with the Treasury Management Strategy and there was no additional borrowing activity.

The Committee was informed that the European Union would be changing rules on how local authorities access regulated financial services through its Market in Financial Instruments Directive (MiFID II). This would affect how financial services firms classified/treated local authorities. Currently local authorities were classified as 'professional clients' but from January 2018, they would default to 'retail clients'.

In order to maintain the most favourable investment position possible, the Council had been advised by Hampshire County to opt up to professional client status. The Committee supported this view.

Treasury Management Strategy for 2018/19

This report detailed the economic background, the Borrowing Strategy, Investment Strategy, as well as setting the Prudential and Treasury Management Indicators for 2018/19-2020/21.

Other (non Treasury Management) reports to the Committee included:-

Final Accounts 2017/18 - Bad Debts Write Off

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

Summary Strategic Risk Register

The Committee reviewed the Strategic Risk Register and an update on the number and nature of insurance claims over the last five years, in order to assess the Council's overall performance in this area. The annual cost of insurance policies for 2017/18 was £638,399. EMT and service managers were under an obligation to consider any issues or changes that were likely to have a bearing on future arrangements, including alternative service delivery models, establishment of trading companies or any other major changes in the past twelve months or over the next twelve months. These would be notified to the insurers as part of the renewal.

NFDC's indemnity limit for both public and employer's liability currently stood at £25m with £40m being proposed.

The Strategic Risk Register summarised the most significant risks to the delivery of the Corporate Plan, and the proposed action to mitigate the risks.

Review of Financial Regulations

The Committee agreed an update to the Council's Financial Regulations to reflect the current policy and practice adopted by the Council. The regulations are an essential point of reference for all service managers and form a mandatory framework for financial administration in New Forest District Council.

Contract Standing Orders Relating to Procurement Waivers

The Committee noted a summary of procurement waivers approved in 2017/18.

Anti-Fraud, Bribery and Corruption Strategy

The Committee has agreed the adoption of a new Anti-Fraud, Bribery and Corruption Strategy to take effect from 17 April 2018. The Committee also agreed a Whistleblowing Policy.

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