

ANNUAL REPORT 2016/17 – CHAIRMAN OF AUDIT COMMITTEE

COUNCILLOR ABBOTT BRYNING

1 INTRODUCTION

I am pleased to present my Annual Report to Council on the work of the Audit Committee during 2016/17.

The Terms of Reference of the committee are set out in Part 3, Section 8 of the Council's Constitution. The scope of its activity is summed up in the statement of purpose:

“The audit committee’s purpose is to oversee and, independently of the Executive and Overview and Scrutiny function, provide the council with assurance of the adequacy of its corporate governance arrangements, including the risk management framework and the associated control environment. The committee reviews the authority’s exposure to and management of risk across all financial and non-financial activity, and oversees the financial reporting process.”

2 OVERVIEW OF AUDIT COMMITTEE RESPONSIBILITIES

AUDIT AND ASSURANCE WORK

Internal Audit

At its June 2016 meeting, the Audit Committee approved *the Internal Audit Strategy and Risk Based Plan* for 2016/17. This set out the strategy for the delivery and development of the Internal Audit function and how it will contribute to the achievement of the Council's organisational objectives and priorities, over the three year period. The risk-based plan set out the elements of work to be delivered in providing assurance to support the annual opinion on the Council's internal control environment. It also set out the Internal Audit resources to be devoted to other areas of work of an advisory/support nature.

Throughout the year, the Audit Committee has monitored the work of Internal Audit against the approved Annual Audit Plan and has received Internal Audit reports providing a specific opinion on the level of assurance that can be given and action plans to improve arrangements where necessary. Audit Committee formally reviews the position where an audit report has resulted in an adverse assurance opinion, and monitors progress made to implement agreed corrective action until such time an acceptable level of assurance can be achieved.

Audit Committee has also reviewed the results of other areas of audit work including advice, support and investigative work. The committee has overseen monitoring reports from the Internal Audit Manager to ensure that acceptable levels of assurance are provided as to the effectiveness of the Council's internal control and governance arrangements.

The end product of this is the Internal Audit & Assurance Manager's Annual Report and Assurance Statement which will be submitted to the June 2017 meeting of the Committee.

Combatting Fraud

In June 2016 the Committee received an Annual Report for 2015/16 from the Corporate Fraud Manager. This set out the extent of, and outcomes from the counter-fraud activity of the team during the year.

From the establishment of the new shared arrangements with Preston and Fylde Councils, on 1st June 2015, to 31st March 2016 the new Corporate Enquiry Team achieved 7 sanctions at Lancaster, consisting of 1 financial penalty and 6 cautions. In the same period overpayments of £61,853.45 were identified, consisting of Benefit, Council Tax Support and incorrect Council Tax discounts/exemptions. Following a new avenue of investigation, two Council owned properties were recovered from tenants who were sub-letting properties to family members.

External Audit

The Committee receives all scheduled reports produced by the Council's external auditor, currently KPMG. During the year, these included the following items:

- Certification of grant claims and returns 2014/15
- External Audit Plan 2015/16
- External Audit Fee Letter 2016/17
- Report to those charged with governance (ISA 260) 2015/16

In addition, in January 2017, the Audit Committee reviewed the external auditor's main report for the year, the Annual Audit Letter for the 2015/16 audit

The report summarised the findings from the 2015/16 audit and once again highlighted some very positive and pleasing messages for the Council including:

- An unqualified value for money conclusion was reached. This means that the auditors were satisfied that, during the year, the Authority had in place appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources. To arrive at their conclusion the auditors had looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.
- An unqualified opinion on the Authority's financial statements on 21 September 2016. This means that the auditor believed the financial statements to give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.
- The auditor commented on the quality of the accounts and the supporting working papers which had been submitted for audit, these being maintained at a high standard in 2015/16, and which had assisted with the delivery of an effective and efficient audit.
- The Council's Annual Governance Statement was consistent with the auditor's understanding of the authority.
- The auditor made and agreed with managers three recommendations, none of which were classed as "high priority". These recommendations were concerned with:
 - Documentation regarding the reconciliation of the Fixed Asset Module to the Northgate Housing Management System;
 - Periodic review of General IT controls and user access to financial systems; and
 - The maintenance of up-to-date declarations of interest for all key officers and members.

CORPORATE GOVERNANCE

Local Code of Corporate Governance and Annual Governance Statement

In 2007/08 the Audit Committee approved a *Local Code of Corporate Governance* complying with legislative requirements. The legislation also requires the Council to publish an annual *Governance Statement* alongside the financial statements. The committee approved the 2015/16 annual statement in September 2016.

The Statement reflects the importance and contribution of recognised systems of internal control including effective policy and decision making arrangements; strong corporate values

and standards of conduct, and arrangements covering corporate governance, risk and financial management and the economic, efficient and effective use of resources.

Maintaining and reviewing the effectiveness of these systems of internal control and governance is a continuous process which is informed throughout the year by:-

- The work of internal audit and senior managers of the Council, who have responsibility for maintaining effective systems of internal control;
- Comments made by the Council's external auditors and other review agencies and inspectorates, and;
- The role of the Audit and Overview and Scrutiny Committees and that of the Budget and Performance Panel.

In September 2016, the Audit Committee considered the overall arrangements for the review and evaluation of evidence in support of the 2015/16 Governance Statement, concluding that the Council has internal control and corporate governance arrangements in place that accord with proper practice and are generally working effectively. Those areas identified as having an ongoing or emerging influence on governance arrangements were:

- Information management and governance arrangements;
- Democratic structures and cultural aspects of governance;
- Performance management, risk management and assurance;
- Senior management changes;
- Regional funding issues;
- Lancashire combined authority;
- Impact of Storm Desmond;
- Staffing resources and capacity; and
- National politics (especially Brexit).

3 CONSTITUTIONAL MATTERS

The Committee did not consider any constitutional matters during the year.

4 OTHER MATTERS

In September 2016, the committee considered the Local Government Ombudsman's Annual Review Letter and Report for 2015/16. The Ombudsman had received a total of 12 complaints and enquiries regarding the Authority, compared with 22 for the previous year. Three of the cases had been investigated in detail, with two of them, the first relating to actions of one of the Council's contracted bailiffs, and the second relating to market stalls, being upheld by the Ombudsman.

5 CONCLUSION

The organisation and operation of the Audit Committee is considered as part of the external auditor's annual value for money opinion. I am certain that the work of the Audit Committee, other elected members and council officers in providing effective systems of corporate governance and internal control have continued to make an important contribution to the standing and achievements of the council. I would like to thank them all again for their continued support and hard work.