

ANNUAL REPORT 2014/15 – CHAIR OF AUDIT COMMITTEE

COUNCILLOR MALCOLM THOMAS

1 INTRODUCTION

I am pleased to present my Annual Report to Council on the work of the Audit Committee during 2014/15.

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."

With effect from the start of the 2014/15 municipal year, the number of meetings of the Committee has been reduced from 4 per year to 3.

2 OVERVIEW OF AUDIT COMMITTEE RESPONSIBILITIES

AUDIT AND ASSURANCE WORK

Internal Audit

At its June 2014 meeting, the Audit Committee approved *the Internal Audit Strategy and Risk Based Plan* for 2014/15. 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. 2014/15 has again thankfully been free from any major disciplinary or fraud investigations.

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 Manager's Annual Report and Assurance Statement which will be submitted to the June 2015 meeting of the Committee.

In January 2015 the Committee considered a report from the Internal Audit Manager advising of a number of proposals aimed at strengthening the Council's information governance, internal audit and assurance and corporate anti-fraud arrangements. The Committee supported the proposals, which are planned to come into effect during the forthcoming financial year.

External Audit

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

- Certification of grant claims and returns 2012/13
- External Audit Plan 2013/14
- External Audit Fee Letter 2014/15
- Report to those charged with governance (ISA 260) 2013/14
- Fraud Briefing 2014

In January 2015, the Audit Committee reviewed the external auditor's main report for the year, the Annual Audit Letter for the 2013/14 audit

The report summarised the findings from the 2013/14 audit and once again highlighted some very positive messages for the Council including:

- An unqualified value for money conclusion was reached, the auditors identifying the following significant matters:
 - The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
 - The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.
- An unqualified opinion on the Council's financial statements for 2013/14. The auditors had identified and reported one significant audit risk during the audit. This was in relation to the introduction of the Business Rates Retention Scheme, which required the Authority to recognise a provision within the financial statements which estimates the potential cost of outstanding business rate appeals up until 31 March 2014. As the calculation of the provision required significant assumptions and judgements to be made in relation to Lancaster's hereditaments under appeal, in particular, the two power stations, an expert, Inform-CPI, had been engaged to assist in calculating the provision. Following their audit work, KPMG were satisfied with the basis of the estimate for the NNDR provision included within the financial statements.
- The Council's Annual Governance Statement was consistent with the auditors' understanding of the authority.
- The Authority's submission of information in support of the Whole of Government Accounts was consistent with the audited statements
- The auditors had identified no high priority recommendations as a result of their 2013/14 audit work.

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 2013/14 annual statement in September 2014.

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 2014, the Audit Committee considered the overall arrangements for the review and evaluation of evidence in support of the 2013/14 Statement, concluding that the Council has internal control and corporate governance arrangements in place that accord with proper practice and are working effectively.

3 CONSTITUTIONAL MATTERS

In June 2014, the Committee considered proposals to amend the Committee's terms of reference in relation to the Authority's financial regulations and Contract Procedure Rules. These changes placed responsibility for future versions on the Section 151 Officer, with amendments to be reported to the Audit Committee for endorsement. This change was approved by full Council in July 2014

In September 2014, the Committee duly endorsed the adoption of a newly drafted set of Financial Regulations. The opportunity was also taken to redraft Article 14.04 of the Constitution to remove an anomaly surrounding the signing of contracts and use of the official seal. This was referred to full Council for approval.

4 OTHER MATTERS

In September 2014, the committee considered the Local Government Ombudsman's Annual Review Letter and Report for 2013/14. The Ombudsman had received a total of 19 complaints and enquiries regarding the Authority. Six of the cases had been investigated with 3 being upheld. A remedy had been offered in two of these cases and a minor injustice had been identified in the third complaint

In January 2015, the Committee considered a report by the Internal Audit Manager advising Members of the Council's current position regarding the use of surveillance and the outcome of a recent inspection by the Office of the Surveillance Commissioner. Members were advised that the Council had continued to take a measured approach to its use of surveillance and that the report of the Assistant Surveillance Commissioner following the latest visit was extremely positive. Some minor changes to the RIPA Policy were approved.

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.