

## Appendix 1

### CORPORATE AUDIT COMMITTEE

#### ANNUAL REPORT TO COUNCIL 2015/16

##### 1. INTRODUCTION

This is the eleventh annual report of the Committee since it was established by the Council on 12 May 2005. It covers the work done during the year September 2015 to June 2016.

##### 2. REVIEW OF WORK DONE IN 2015/16

###### **a. Financial Governance – Annual Accounts**

- i. The Committee approved on behalf of the Council an unqualified set of accounts for the year ended 31 March 2015 within the statutory deadline. This included the accounts for the Pension Fund.
- ii. The Committee then considered the formal governance reports for the Council and Pension Fund submitted by the external auditors (Grant Thornton) on their audit of the accounts.
- iii. The Council report highlighted some presentational and technical changes to the accounts and recommendations to improve the Asset registers for accounting purposes. However there were no proposed changes to the General Fund Balances and Reserves. The auditors also noted that the accounts were presented promptly and that they were supported by good quality working papers.
- iv. The report on the Pension Fund Accounts highlighted that the financial statements were produced to a good standard, supported by good quality working papers and there were no material adjustments to the accounts.
- v. Both Governance reports were therefore noted and the audit of the accounts formally completed.

###### **b. Financial Governance – Treasury Management**

- i. The Committee considered the Treasury Management Outturn for 2014/15 which concluded that all prudential indicators were in line with projections and that the average rate of investment return was 0.42% which is 0.02% above the benchmark rate.
- ii. In addition the committee received an update report six months into the 2015/16 year which showed an average rate of investment return of 0.47% which is 0.06% above the benchmark rate and all actions on target in line with the strategy..
- iii. Finally the Committee received an extensive briefing from its Treasury Management advisors – Arling Close – on the state of the economy, the

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Council's role and the various mechanisms we can use to maximise financial returns. Managing the level of risk and return also featured heavily alongside the essential role of Members in scrutinising our strategy.

- iv. Members then reviewed the Treasury Management and Annual Investment Strategy for 2016/17. This set out the treasury limits in force, treasury management indicators, current position, borrowing requirement, prospects for interest rates and the borrowing and investment strategies.
- v. The committee agreed that current performance is good despite this being a very difficult and challenging arena due to the uncertainties within the global financial economy and therefore scrutiny will continue to be important to ensure Council resources are invested wisely

### **c. External Audit -**

- i. Alongside the audit of the accounts for 2014/15 the external auditor also conducted work in relation to concluding a satisfactory VFM opinion for the Council following assessments of our financial resilience, economy, efficiency and effectiveness and a broadly satisfactory review of our four main grant returns.
- ii. The external auditor also presented their new audit fees for the Council and Pension Fund as well as their audit plans for 2015/16. No significant variances were proposed from the previous audit approach and update reports on their work continued to be presented to the Committee alongside references to key national reports and reviews which could impact on the governance framework.

### **d. Corporate Governance –**

- i. The Accounts and Audit Regulations require the Council to carry out an annual review of its governance arrangements, and to produce an annual statement detailing the results of that review. In addition there was a review of progress against actions identified in the 2014/15 statement.
- ii. In relation to the 2015/16 review, two reports were received to introduce the Committee to their role and the overall process of the review.
- iii. It was pleasing to note that no significant issues were identified for 2015/16 which is a positive sign of an effective internal control environment. The formal statement is then to be signed by the Leader of Council and Chief Executive prior to the statutory deadline.
- iv. During the year the Committee also received a report on proposed changes to the Council's Financial Regulations and Contract Standing Orders including those affecting Schools and the Committee recommended them on for formal approval by Council.

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### **e. Internal Audit –**

- i. The Committee received a report on a new approach to the preparation of the Audit Plan – the reasonable assurance model – which looked at eight core themes of an organisation. It was supportive of this new methodology as well as the new style and presentation of the plan which demonstrated the linkages between the Council's priorities and the different elements of the Council's internal control framework.
- ii. The Committee was satisfied with the balance of the plan in relation to the Council's key corporate risks as well as the mix of its planned projects, unplanned commissions and follow-up of previous reports.
- iii. In relation to performance the Committee commended the service on its performance against the plan with almost 94% of the plan completed as at the end of 2015/16 – a significant increase on the previous year - alongside a number of other key indicators such as customer satisfaction and the level of productivity.
- iv. The committee noted the annual opinion on the internal control framework and that with increased pressure on budgets, choices on the degree of internal control had to be made and there was therefore an imperceptible rise in the level of the risk being accepted.
- v. Updates were also received around the new 'Audit West' partnership arrangements with the new integrated service formally in operation under a five year contract. All staff have now successfully integrated into a single structure and benefits were well in advance of original projections.
- vi. The potential to now build on these arrangements is already being realised with new audit methodologies introduced, significant productivity gains through simplification and use of one single process across partners and increased use of areas such as Data Analytics to maximise the sharing of resources.
- vii. The committee was pleased to see the new arrangements working effectively and remains keen to support further progress so that the partnership continues to deliver value to the Council.

### **f. Counter Fraud -**

- i. The Committee considered the annual plan for pro-active work in reducing and eliminating fraud and corruption within the Council's activities and monitored progress.
- ii. The Committee were pleased to hear of the significant and positive progress in reducing fraud, loss and error in a range of areas including Business Rates and Housing & Council Tax Benefits. The committee commended the officers on their progress and supported further activity.

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### **g. Awareness & Briefings**

- i. Updates and briefings continue to be a strong part of the Committee's approach to raising awareness of key governance issues with members and several additional briefings were given this year which included -
  - Role of Audit Committee
  - Role of S151 Officer
  - Internal Audit
  - External Audit
  - Treasury Management
  - Risk Management
  - Annual Accounts
- ii. This approach continues to be welcomed and has resulted in constructive and valuable debate of individual topic areas which will continue in 2016/17.

### **h. Review of Terms of Reference**

- i. As part of good practice a high level desktop review was undertaken of the Committee's Terms of Reference against CIPFA's best practice model for Audit Committees. Areas previously highlighted included independent support and training and development.
- ii. In relation to independent support the committee has already tackled this through the adoption of a co-opted independent member and the level of independence to the committee will be kept under review.

## **3. WORK PLAN FOR 2016/17**

- i. Whilst the Committee's work in 2016/17 will be broadly similar to the year recently ended it will keep under close review a number of key issues –
  - a) Financial resilience of the organisation;
  - b) Future contracting arrangements for External Audit;
  - c) Early closure arrangements for the Accounts and its implications;

## **4. MEMBERSHIP AND SUPPORT**

- i. Following the elections in May 2015 a new Chair was selected Councillor Brian Simmons and two new Councillors – Chris Dando and Chris Pearce – were appointed to the Committee.
- ii. The Committee is supported by a number of officers notably the Head of Audit West and the Chief Financial Officer who leads on financial issues through his S151 role.
- iii. The external auditors are currently represented by an Engagement Lead and Audit Manager from Grant Thornton.