

AUDIT COMMITTEE

ANNUAL REPORT 2015/16

To be considered at the Council Meeting on 1 February 2017



FOREWORD

I am pleased to present this report on the work of the Audit Committee in 2015/16.

Over the six meetings that were held the Committee has focussed on its core areas of business and followed up on issues where it considered that this was necessary.

We continued to monitor the implementation of recommendations from the high opinion audit reports and 11 audits were removed from the action tracker as sufficient progress had been made.

One of the functions of the Committee is to approve the Annual Accounts. The Committee were given assurance by officers that they would be able to meet the change to the statutory deadline for approval and publication of the accounts from 30 September to 31 July from 2017/18.

The Committee could not function without the hard work of its members. They provided robust challenge and scrutiny to the reports and issues that were considered during the year.

I would also like to thank all the officers from both the Council and KPMG that attended meetings and supported the Committee.

Rick Plews term of office as one of the Committee's independent co-opted members ended in May 2016 and Rick was thanked for his valuable contribution to the work of the Committee.

This is the last Annual Report of the Audit Committee as it was merged with the Standards Committee in September 2016.

Finally, there are no issues or areas of concern I wish to draw to the attention of the Council and I recommend that Council receives this report on the work of the Audit Committee in 2015/16.



Councillor Josie Paszek
Chair of the Audit and Standards
Committee

1. INTRODUCTION

- 1.1 The Committee was established in 2007 and this annual report highlights the work of the Committee from July 2015 to July 2016, prior to the merger with Standards Committee.
- 1.2 The Audit Committee is a key part of the Council's corporate governance arrangements. It oversees and assesses the Council's risk management, control and corporate governance arrangements and advises the Council on the adequacy and effectiveness of these arrangements. It also has responsibility for the statutory financial reporting process through approval of the Statement of Accounts and considering the External Auditor's audit of the accounts.

2. COMMITTEE INFORMATION/SUPPORT

- 2.1 There were six meetings of the Committee during the year and details of the membership are attached at Appendix A.
- 2.2 The work programme is based around the Committee's Terms of Reference and items requested during the year and is reviewed at each Committee meeting. A list of the items that have been considered by the Committee is attached at Appendix B to the report.
- 2.3 The Committee is well supported by the Chief Executive, Acting Executive Director, Resources, Head of Strategic Finance, Director of Legal and Governance, Senior Finance Managers (Internal Audit and Accounts) and officers in Finance, Internal Audit and Legal and Governance. There is also close working with the Partner/Director and Senior Audit Manager at KPMG, the Council's External Auditor. Officers from the relevant Portfolios also attend meetings as and when required.

3. ACCOUNTS

- 3.1 The Committee approved the 2014/15 Statement of Accounts and accepted the External Auditor's Report to those Charged with Governance (ISA 260). The External Auditor issued an unqualified audit opinion on the accounts and an unqualified value for money conclusion that meant that they were satisfied that the Council had proper arrangements for securing financial resilience and challenging how it secures economy, efficiency and effectiveness. The Annual Audit Letter summarised the key findings from KPMG's audit of the accounts.
- 3.2 Officers were confident that the Council could meet the change to the statutory deadline for approval and publication of the final accounts that would move from 30 September to 31 July from 2017/18, with the accounts to be approved at the July Committee meeting.

4. EXTERNAL AUDIT

- 4.1 The Committee received Annual Reports on the certification work that KPMG had undertaken on the grant claims and returns. For 2014/15, the work was in relation to the Housing Benefit Subsidy Claim (completed under the Public Sector Audit Appointment certification arrangements), Pooling Capital Receipts and the Teachers' Pension return. The recommendations from the Annual Report had

been accepted by the Council.

- 4.2 The External Audit Plan for 2015/16 described the audit of the Council's financial statements, the value for money arrangements work and other areas of audit focus that included the new Fair Value Measurement (IFRS 13) and the Better Care Fund. Although some additional work had been identified as part of the audit, no major issues had emerged from the work undertaken.

5. **INTERNAL AUDIT ACTIVITY**

5.1 **Progress on High Opinion Audit Reports**

- 5.1.1 A report is issued with a High Opinion where, as a result of an audit review, Internal Audit considers the risk of an activity not achieving its objectives to be high and that sufficient controls were not present. Each High Opinion Audit report was circulated to Members of the Committee who had the opportunity to submit questions to the Senior Audit Manager (Internal Audit) for a response.

- 5.1.2 The Committee were updated twice a year on progress on the high opinion audits. Six audit reports with a high opinion were issued during the year and 11 were removed from the action tracker as sufficient progress had been made in implementing Internal Audit's recommendations and addressing the risks identified by the audit.

- 5.1.3 Where considered appropriate, the Committee will ask management for further information about action taken in response to the High Opinion audits. In September 2015, the Committee were updated on progress with the six outstanding recommendations from the Internal Audit report on the Markets Service issued in January 2015. The Committee agreed in January 2016 to the item being removed from the High Opinion Audit action tracker report.

5.2 **Internal Audit Plan 2016/17**

- 5.2.1 The Internal Audit Plan set out the Internal Audit planning methodology and programme of work for 2016/17 and was presented to the Committee in April 2016. This Plan focussed on areas of high-risk activity in order to provide assurance that risk and internal control systems were being properly managed by Directors in service areas. The planning process was based on perceived areas of risk and emerging issues.

- 5.2.2 The Committee endorsed the programme of work and requested that the Internal Audit Annual Report included the impact of any additional fraud work on other areas of the Internal Audit Plan.

5.3 **Internal Audit Annual Fraud Report**

- 5.3.1 The Committee received a report in April 2016 informing them of Internal Audit's work on fraud and corruption in 2015/16 and the outcomes of the work from its investigations and the National Fraud Initiative. 15 investigations were undertaken by Internal Audit that had been reported by management and they also gave advice on a further 20 cases where investigations remained with management.

- 5.3.2 This was the first report since the creation of the Single Fraud Investigation

Service that now investigated housing benefit fraud and which was previously the largest element of fraud investigation undertaken by the Council. Following the closure of the Audit Commission, two bodies came forward to undertake the survey on fraud previously undertaken by the Commission called Protecting the Public Purse. It was decided not to take part in either exercise in 2015 due to the short notice and the work involved.

5.3.3 The Committee noted the report and the Governance Checklist for Fraud 2015/16 for those responsible for governance and this highlighted the Council's processes compared to best practice. CIPFA were developing a new process that would be used for this exercise in future years.

5.4 **Public Sector Internal Auditing Standards External Assessment Process 2016/17**

5.4.1 The Committee received a report in April 2016 setting out the proposed approach to the Public Sector Internal Auditing Standards External Assessment Process. There was a requirement for an external assessment of the Internal Audit service to be undertaken once every five years by a qualified independent assessor or assessment team. The purpose of the external assessment was to help improve delivery of the audit service and establish whether governance requirements relating to provision of the service are embedded.

5.4.2 The Committee approved participation by the Council in the peer review process developed by the Core Cities' Chief Internal Auditors' Group which would address the requirement for an external assessment using a validated self-assessment approach.

6. **REGULATORY FRAMEWORK AND RISK MANAGEMENT**

6.1 **Annual Governance Statement**

6.1.1 The Annual Governance Statement (AGS) forms part of the Council's Statutory Accounts and is intended to identify any significant control weaknesses and also set out how the Council intended to address any weaknesses identified. The 2015/16 AGS was presented to the Audit Committee in July 2016.

6.1.2 The Committee were informed that no significant control weakness had been identified through the 2015/16 AGS process.

6.2 **Strategic Risk Management**

6.2.1 As in previous years, the Corporate Risk Manager gave a presentation to the Committee every six months that assessed:-

- the Council's current Risk Management arrangements and the measures being implemented to further strengthen and improve those arrangements
- the Risk Management trend analysis; and
- the current and emerging risks to delivery of the Council's strategic objectives and the controls in place to manage those risks.

6.3 Information Commissioner's Office Consensual Audit

6.3.1 The Committee received a report in September 2015 that outlined the recommendations following a consensual audit of the Council's processing of personal data undertaken by the Information Commissioner's Office (ICO). The audit focused on Freedom of Information, Subject Access Requests and Information Sharing mainly within Communities and Children & Young People Services and made 69 recommendations from areas such as providing training to staff to updating policies and procedures. An Executive Summary provided an outline of the good practice that had been identified, assessment scores and areas for improvement. An action plan was in place to ensure that the areas of improvement were addressed and the plan was overseen by the Information Governance Board.

6.3.2 A further report in April 2016 informed the Committee of a follow-up data protection audit report from the ICO and indicated that progress had been made in all the areas. Internal Audit intend to review progress made against those recommendations that were partially completed. The ICO was pleased with the progress that the City Council had made to date and that areas would be prioritised to continue to meet all the initial recommendations.

6.4 Compliance With International Auditing Standards

6.4.1 As part of the International Auditing Standards (IAS), there was a requirement for those charged with governance (for the Council this was the Audit Committee) to formally demonstrate that they have exercised adequate oversight of management's processes for identifying and reporting the risk of fraud and possible breaches of internal control. For the past few years similar reports have been produced for the Audit Committee to enable it to demonstrate that it has taken the appropriate overview of the entire governance framework of the Council and have therefore exercised the necessary oversight to meet the requirements of the IAS.

6.4.2 In April 2016, the Committee confirmed that it had an overview of the Council's systems of internal control so it was assured that it was fulfilling the requirements of 'those charged with governance' under the IAS.

7. FOLLOW UP REPORTS

7.1 KPMG Report on Adult Social Care

7.1.1 Two update reports were considered by the Committee in July 2015 and January 2016 arising from the KPMG report "Adult Social Care – Financial Grip" to provide assurance that the issues within the report were being appropriately addressed within the Finance Service. The reports also provided an update on the Finance input into a number of other initiatives which would support and facilitate better financial management within the Communities Portfolio and across the Council as a whole.

7.1.2 The Committee noted that progress would be dealt with through the business as usual Internal Audit monitoring process.

7.2 Adult Social Care

- 7.2.1 Further to the report on the Adult Social Care Management Review regarding the overspend position of the Communities Portfolio in July 2014, the Committee received a number of progress reports.
- 7.2.2 The final update report in January 2016 provided an overview of the completed and ongoing management improvement actions in Adult Social Care and gave details of a management update regarding the interventions and change processes that had been undertaken throughout the Communities and Resources Portfolios and further actions that were planned.
- 7.2.3 The Committee agreed that as it was sufficiently appraised of management action in relation to Adult Social Care it would accept the report as the final progress report and to return to the business as usual Internal Audit monitoring process.

8. EXTERNAL AUDITOR ARRANGEMENTS

- 8.1 In January 2016, the Committee were briefed by KPMG on considerations for the local government sector in appointing their external auditor. This resulted from the closure by the Government of the Audit Commission on 31 March 2015 who were previously responsible for appointing external auditors to local government. The existing contract for external audit appointments has been extended by one year to include the audit of the 2017/18 financial year and the new external auditor had to be appointed by December 2017.
- 8.2 The new Audit and Standards Committee supported joining the Public Sector Audit Appointments Limited (PSAA) for the procurement of audit contracts from 2018/19. The meeting of Full Council on 4 January 2017 accepted PSAA's invitation to 'opt in' to the sector led option for the appointment of external auditors for 5 financial years commencing 1 April 2018.

9. INDEPENDENT CO-OPTED MEMBERS

- 9.1 The term of office for one of the independent members expired in May 2016 and recruitment for two new co-opted members should be completed early in 2017.

10. TRAINING AND DEVELOPMENT

- 10.1 As in previous years, a briefing session was held with an external facilitator to assist members in advance of consideration of the Statement of Accounts and External Auditor's Report (ISA 260).
- 10.2 One of the Co-opted members of the Committee was due to attend a Development Day for Local Authority Audit Committees but the event was subsequently cancelled by the organiser due to the low number of potential delegates.

11. **OUTCOMES**

11.1 The Audit Committee aims to add value through its activity and, in particular, it has:-

- Approved the Statement of Accounts.
- Accepted the Report to Those Charged with Governance (ISA 260)
- Continued to monitor implementation of the recommendations and actions arising from audit reports with a high opinion.
- Endorsed the programme of Internal Audit work in 2016/17.
- Confirmed that it had an overview of the Council's systems of internal control so it was assured that it was fulfilling the requirements of 'those charged with governance' under the International Auditing Standards.

12. **MERGER WITH THE STANDARDS COMMITTEE**

12.1 The Council Meeting on 6 July 2016 approved the merger of the Audit and Standards Committees with effect from 1 September 2016.

12.2 It was the view of the Section 151 Officer and the Monitoring Officer, as well as the Chairs of the two Committees, that the relatively low volume of Standards-related business could be accommodated within the work programme and frequency of meetings of the Audit Committee. A single committee, meeting on a regular basis, would more readily facilitate the consideration of the low level of standards-related business, than has been the case with the stand alone Standards Committee meeting on an ad-hoc basis.

12.3 Future Annual Reports will cover both audit and standards items.

13. **RECOMMENDATION**

13.1 That Council receives this report on the work of the former Audit Committee in 2015/16.

Appendix A – Committee Membership

From May 2015 to May 2016

- Councillor Steve Jones (Chair)
- Councillor Joe Otten (Deputy Chair)
- Councillor John Campbell
- Councillor Tony Damms
- Councillor Rob Frost
- Councillor Dianne Hurst
- Councillor Sioned-Mair Richards (replaced by Councillor Josie Paszek from 4 November 2015)
- Rick Plews - Independent non-voting co-opted member (term ended 17 May 2016)
- Liz Stanley - Independent non-voting co-opted member

From 18 May to 31 August 2016

- Councillor Josie Paszek (Chair)
- Councillor Penny Baker
- Councillor David Barker
- Councillor Dianne Hurst
- Councillor Bob Johnson
- Councillor Paul Scriven
- Liz Stanley - Independent non-voting co-opted member

Appendix B - Items Considered During the Year

21 July 2015

- Annual Governance Statement 2014/15
- Summary of the 2014/15 Statement of Accounts
- Certification of Claims and Returns Annual Report 2013/14 and Completed Action Plan
- Progress on High Opinion Audit Reports
- Update on the Finance Service Actions Arising from the KPMG Report on Adult Social Care
- Update on the Adult Social Care Change Programme
- Work Programme

24 September 2015

- Information Commissioner's Office Consensual Audit
- Internal Audit Annual Report 2014/15
- Markets High Opinion Audit Report Follow Up
- 2014/15 Statement of Accounts and External Auditor's Report to Those Charged with Governance (ISA 260)
- Adult Social Care Progress Report
- Work Programme

12 November 2015

- Annual Audit Letter 2014/15
- Proposed Audit Work Programme and Scale of Fees for 2016/17
- Summary of Internal Audit Output by Opinion 2014/15
- Strategic Risk Management
- Work Programme

14 January 2016

- Update on the Adult Social Care Programme
- Update on the Finance Service Actions Arising from the KPMG Report on Adult Social Care
- Progress Against High Opinion Audit Reports
- Summary of the key Recommendations Made in the Medium-High Opinion Audit Reports from 2014/15
- External Auditor Arrangements from 2018/19
- Work Programme

14 April 2016

- Update on the Information Commissioner's Office consensual Audit
- Certification of Claims and Returns Annual Report 2014/15
- External Audit Plan 2015/16
- Internal Audit Plan 2016/17
- Internal Audit Annual Fraud Report
- Public Sector Internal Auditing Standards External Assessment Process 2016/17
- Compliance with International Auditing Standards
- Revised Terms of Reference

- Work Programme

14 July 2016

- Annual Governance Statement 2015/16
- Summary of the Statement of Accounts 2015/16
- Progress on High Opinion Audit Reports
- Work Programme

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