

SOUTH LAKELAND DISTRICT COUNCIL

AUDIT COMMITTEE

ANNUAL REPORT 2016/17

Chairman's Foreword

This is the tenth annual report of the Audit Committee and the ninth under my Chairmanship.

The Committee's role is to provide the Council and the public with independent assurance that it is operating securely and effectively within a sound governance framework. The Committee's brief covers risk management, performance management, governance and constitutional arrangements as well as traditional finance activities. Our role is to oversee the management of those processes to ensure that robust procedures are in place without being involved in the detailed operation.

Audit Committee Members take their role seriously and are committed to their work. We set out a full annual work programme that is monitored at each meeting and revised as necessary. We have been trained on a range of relevant subjects and understand the nature of local government audit.

The Audit Committee was established in October 2006 to provide the Council with effective leadership on governance, financial reporting and audit issues. The Council also had an Accounts Committee to approve the draft and audited Statement of Accounts. From May 2012 the responsibility for the functions of the Accounts Committee transferred to the Audit Committee.

The Committee's terms of reference allow it to meet privately with External and Internal Audit (without council officers); earlier this year we had the eighth annual session with the two organisations to discuss topical issues.

The Committee receives valuable support from both External and Internal Auditors, and enjoys a good working relationship with the respective Audit Managers. All of their reports are presented to the Committee which pursues identified weaknesses in control systems to make sure that they are corrected. In our experience, Council officers are receptive to the necessary changes and seek improvements wherever possible.

I am pleased to present this report on behalf of the Committee. It confirms the progress that we have made and that we continue to be an effective independent element of the Council's governance arrangements. We know that Local Government doesn't stand still and the Committee will continue to develop so that it is always able to anticipate and deal with new aspects of finance and governance.

Councillor Stephen Coleman
Chairman of the Audit Committee
April 2017

Purpose of the Report

This report summarises the work carried out by the Audit Committee during 2016/17. It demonstrates to Council and stakeholders the effectiveness of the Committee in assessing and maintaining the organisation's internal control environment and governance arrangements.

Background

The Audit Committee was established in October 2006 to provide the Council with effective leadership on governance, financial reporting and audit issues. The Council also had an Accounts Committee to approve the draft and audited Statement of Accounts. As a result of the changes introduced by the Account and Audit Regulations 2011 which no longer required member approval of the draft Statement of Accounts, the Accounts Committee was discontinued with effect from the Annual General Meeting of Council in May 2012 and from that date the responsibility for the remaining functions of the Accounts Committee transferred to the Audit Committee

The Terms of Reference for the Committee have been modelled on CIPFAⁱ guidance and hence represent best practice. A fully functioning Audit Committee needs to provide effective challenge across the Council's activities together with independent assurance on the risk management framework and associated internal control environment to Members and the public and to demonstrate the impact of its work. The Terms of Reference are reviewed annually with no changes required in 2016/17 to the amendments approved by Council on 11 December 2014.

This is the tenth Annual Report of the Committee, covering the period from May 2016 to April 2017. This reporting timescale matches both the Council year and the external auditing cycle. The Committee structures and plans its work around four main functional areas: external audit, internal audit, accounts and regulatory framework. This report follows the same format in its summary of the year's activities.

The Committee

Following the expansion of the duties of the Audit Committee to include the functions of the Accounts Committee the Committee has increased in size from five Councillors to seven. All Councillors are independent of the Council's Cabinet and the Committee membership is politically balanced. Councillor Stephen Coleman has served as Chairman May 2008. The Committee met on four occasions in 2016/17.

The External and Internal Auditors, Chief Finance Officer and Monitoring Officer are invited to all Committee meetings. In addition its Members meet periodically with both Audit Managers to discuss topical issues without officers being present. The Committee has the ability to seek attendance from any officer or Member of the Council and has exercised this right on several occasions.

Training is an essential element for an Audit Committee. The Committee receive annual training, have been updated on statutory accounting requirements and are alert to the possibility of areas in which their knowledge could be extended.

The Committee has developed a structured work programme which maps out its activities on an annual basis. This programme is supplemented by new requirements as they are identified. Progress against the programme is monitored at each Committee meeting.

External Audit

The Government changed the arrangements for the delivery of external audit for local government following the announcement of the abolition of the Audit Commission. The external audit contract for the North West was awarded to Grant Thornton from September 2012 for five years.

The Audit Committee receives and approves the external auditor's Annual Audit Plan. It comments on the fee rates and work programme consultation carried out by Grant Thornton based on fees set by Public Sector Audit Appointments Ltd, the independent company set up by the Local Government Association with delegated statutory functions to set audit fees and make arrangements for certain audits. Audit Committee receives the Annual Findings Report and the annual Grant Certification Report and monitors actions against the recommendations within these reports. The Government have dropped the requirement of auditors to prepare a full Use of Resources assessment: instead a judgement is included in the Annual Governance Report indicating whether the Council has adequate arrangements to secure Value for Money in the use of resources. The Annual Audit Letter summarised the auditor's work for the year and opinion on the Council's financial statements and value for money arrangements, as summarised later in this report.

Internal Audit

The Committee oversees the work of Internal Audit. The internal audit service is currently provided by TIAA Ltd following a tendering exercise and prior to 1 April 2016 was provided by the Internal Audit Shared Service of Cumbria County Council (which incorporates the Internal Audit functions for Cumbria County Council, Carlisle City Council, Copeland Borough Council and Cumbria Police) The internal auditors terms of reference are formally reviewed each year to ensure they continue to meet professional standards and good practice.

At the beginning of the year the Committee approves the internal audit plan which sets out the individual audits to be carried out: coverage of the Council's activities is informed by a risk-based audit needs assessment. This process, introduced from April 2015, now focusses internal audit resources at areas of known or perceived risk within the Council, thereby increasing the possibility of lower levels of assurance.

Performance against the plan is monitored by formal progress reports to each Committee meeting, supplemented as necessary by verbal updates from the Internal Audit Manager. The Committee closely monitors the implementation of recommendations made by both External and Internal Audit.

All individual audit reports are presented to the Committee. During the 2016/17 year, 12 reports were considered, including 4 brought-forward from 2015/16, which recorded the following assurance levels:ⁱⁱ

Assurance Level	2016/17	2015/16	2014/15	2013/14
Substantial	0	2	3	0
Reasonable	9	8	11	6
Limited (previously Partial)	3	1	3	1
None (previously Limited)	0	0	0	0
Total	12	11	17	7

Four reports were at draft stage at the end of the year and work was in progress on a further two audits. The final audit for 2016/17, electoral registration, has been deferred until 2017/18 due to organisational changes.

The Committee concentrates its attention on high priority recommendationsⁱⁱⁱ made in reports. Where a report carries partial or limited assurance, the Committee has adopted the practice of requiring the relevant Assistant Director or Operational Manager to attend its next meeting where appropriate to demonstrate that progress is being made in implementing its recommendations. If necessary, Members have requested subsequent update reports.

The Internal Audit Manager presented her Annual Report for 2015/16 to the Committee in July 2016. This summarised the results of her work during the year and contains her opinion of the overall adequacy and effectiveness of the Council's internal control environment. That opinion concludes that, for the systems reviewed, the Council has reasonable assurance, although there are weaknesses that put some system objectives at risk. In the Internal Audit Manager's experience, this profile of assurance is comparable with other local authorities. The 2016/17 Annual Internal Audit Report will be prepared for the July 2017 Committee meeting.

In September 2016 the Committee considered a review of the effectiveness of the system of Internal Audit by reference to Public Sector Internal Audit Standards (PSIAS) and associated Local Government Application Note (LGAN). This showed that TIAA Ltd fully complied with the relevant standards and concluded it was operating effectively.

The Council's Internal Auditors operate within a broad framework set by the contract between the two organisations. It is a requirement of the mandatory Public Sector Internal Audit Standards that the Council has an audit charter in place, which has been approved by senior management and the Audit Committee. Key elements of the Charter are:

- Reference to the mandatory nature of the Public Sector Internal Audit Standards.
- The functional reporting line of internal audit to the Audit Committee to maintain audit independence.
- The requirement for internal audit to provide an annual opinion on the Council's arrangements for governance, risk management and internal control.
- Internal Audit's right of access to all activities, premises, records, personnel, cash and stores as required to undertake agreed internal audit assignments.
- The responsibility of the Head of Internal audit (the Group Audit Manager) to prepare an annual risk based audit plan for approval by senior management and the Audit Committee.
- Certain specific responsibilities of the Head of Internal audit

The Internal Audit Charter will be reviewed annually and submitted for approval to the Audit Committee alongside the annual audit plan.

Accounts

Each year CIPFA updates the accounting requirements for statutory accounts by issuing a revised Code of Practice. The Committee is informed of these changes by means of an informal training session and approves the resulting amendments to the Council's Accounting Policies. In April 2016 the Committee noted a draft set of Accounting Policies that would be applicable for the preparation of the 2015/16 Statement of Accounts.

Changes to the Accounts and Audit Regulations no longer require member approval of the draft Statement of Accounts prior to its submission for audit. Instead the Council's Chief Finance Officer, the Assistant Director (Resources) approved the draft Statement by the statutory deadline of 30 June 2016.

In September 2016 the Audit Committee received the Audit Findings Report from Grant Thornton, incorporating their draft opinion on the 2015/16 accounts, and approved the audited Statement of Accounts. The auditors reported their intention to provide an unqualified opinion on the financial statements. Their key message was that the Council produced good quality financial statements that were free from material error and supported by comprehensive working papers. Only disclosure amendments were required to the accounts and there were no major issues identified.

In respect of the Authority's arrangements for securing value for money, Grant Thornton reported proper arrangements were in place to secure economy, efficiency and effectiveness. The Council is prioritising its resources within tighter budgets and is

challenging the way it delivers its services to ensure cost reductions are achieved, whilst maintaining service delivery.

The Annual Audit Letter, reported to Audit Committee in December 2016 confirmed the audit conclusions in relation to 2015/16 were:

- an unqualified opinion on the accounts which give a true and fair view of the Council's financial position as at 31 March 2016 and its income and expenditure for the year
- an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Due to changes in the statutory requirements the Council will be required to produce the 2017/18 accounts by the end of May 2018 and the audit must be completed by the end of July 2018: both these deadlines are one month shorter than the current arrangements. The Council has undertaken to produce the 2016/17 accounts to the new timetable and the external audit has been arranged for June and July 2017 with the expectation that the external audit report will be considered by Audit Committee in July 2017.

Regulatory Framework

Corporate Governance

Following drafting work by the Audit Committee using a framework produced by CIPFA and SOLACE^{IV}, Council approved a Local Code of Governance in May 2008. The Committee reviews this Code annually. CIPFA published a revised version of their governance framework in 2016 which applied from 1 April 2016. Audit Committee considered and approved a re-written Local Code of Governance in December 2016 which was approved by Council later in December 2016.

The Council is required to formally review its governance arrangements annually and the Committee carries out this work on its behalf. This is achieved by the production of an Annual Governance Statement (AGS) which is a far-reaching review of the effectiveness of the Council's governance, including departmental assurance statements and Internal Audit's annual opinion report.

Members of the Audit Committee sat on a Panel which examined and approved the 2015/16 AGS before its adoption by the Leader and Chief Executive and inclusion in the Statement of Accounts. The final Statement provides a thorough review of governance arrangements. Audit Committee members will revisit the subject when they review the 2016/17 AGS.

The Audit Committee conducts an annual review of the Constitution. During 2015/16 substantial changes were made to improve the financial management and contract management processes of the Council including changes to reflect statutory changes in the Public Contracts Regulations 2015. Only minor changes were required in 2016/17 and these were approved by Audit Committee in December 2017 and Council in March 2017.

Fraud Prevention and Whistleblowing

The promotion of fraud awareness is important to Audit Committee Members who encourage officers in their efforts; as a visible demonstration of this commitment, the Committee has introduced an annual report of anti-fraud activity, the first being presented in 2009. The Committee received a review in December 2016 of activity up to that date. Following the move to Universal Credit a Single Fraud Investigation Service (SFIS) has been set up and fraud investigation staff from this Council transferred to the SFIS in July 2015. The Council retained one member of the counter-fraud team as a Corporate Anti-Fraud Officer who works closely with both the Revenues and Benefits Team and the Finance Team in tackling fraud. The Corporate Anti-Fraud Officer has also be involved in raising the profile of anti-fraud and corruption in the authority. This has included attending team meetings, briefing

Operational managers and reviewing policies and practices related to Interviews under Caution across the Council to ensure consistency of practice. During 2016 the Corporate Anti-Fraud Officer has carried out fraud risk assessments with Operational Managers. This helps to direct her activity to key risk areas and has helped change procedures to reduce opportunity for fraud. Recently compulsory fraud awareness training has been introduced for all new staff. Investigations have included the submission of false invoices for flood grant claims, claims for business rate flood relief for properties which were not flooded and a review of council tax exemptions. The Council is also working with South Lakes Housing to review all applications for Right-to-Buy as this has been identified nationally as an area of high risk and high value.

During the year, the Committee reviewed the Anti-Fraud and Corruption Policy to ensure robust reporting and investigation arrangements where a fraudulent act is suspected and concluded no amendments were required. *Risk Management*

The Committee receives annual progress reports on the Council's risk management arrangements. The Committee maintains a risk register relating to its own activities and reviews this periodically. The experience gained from the years of the Committee's existence has enabled it to manage its risks effectively within its agreed risk appetite.

Performance Management

The Committee receives an annual progress report on the Council's performance management arrangements. The Committee received the annual review of the Performance Management Framework in April 2017. The framework describes how the Council monitors its performance and is intended to support the Council in developing and embedding a high performance culture to further enhance the quality of services for the people of South Lakeland.

Effectiveness of the Audit Committee

Officers from the Council used a checklist to test the effectiveness of the Committee produced by CIPFA as part of its Practical Guidance for Local Authority and Police Audit Committees in 2013. The conclusion was that the Committee has been established in accordance with best practice and is operating effectively in all material respects. The Guidance includes suggested terms of reference for audit committees: these were approved by Council in December 2014. No amendments were required for 2016/17. Minor weaknesses identified in past reviews have been recognised and addressed, including the introduction of separate meetings with the Internal and External Audit Managers; however Members need to be continually aware of areas in which they should be challenging the performance of the Cabinet and Council generally.

Conclusions

This Annual Report has summarised the work of the Committee over the last twelve months, indicating that it is functioning in accordance with best practice and providing independent assurance of the Council's governance arrangements. Committee Members believe that it is carrying out this role effectively, an opinion supported by the officer review.

The Committee will continue to develop its role and impact through ongoing Member training and refinement of its work programme in order to meet future challenges.

ⁱ The Chartered Institute of Public Finance and Accountancy, which sets standards for local government accounting and audit.

ii Internal Audit terminology for assurance levels given to individual audits have changed for 2016/17 onwards. The current terms used by Internal Audit are:

- Substantial: There is a sound system of internal control designed to achieve the system objectives and this minimises risk.
- Reasonable: There is a reasonable system of internal control in place which should ensure that system objectives are generally achieved, but some issues have been raised which may result in a degree of risk exposure beyond that which is considered acceptable.
- Limited: The system of internal control designed to achieve the system objectives is not sufficient. Some areas are satisfactory but there are an unacceptable number of weaknesses which have been identified and the level of non-compliance and / or weaknesses in the system of internal control puts the system objectives at risk. This was previously known as partial assurance.
- None: Fundamental weaknesses have been identified in the system of internal control resulting in the control environment being unacceptably weak and expose the system objectives to a high degree of risk. This was previously known as limited assurance

iii Internal Audit report recommendations are prioritised as:

1	Urgent	Fundamental control issue on which action should be taken immediately
2	Important	Control issue on which action should be taken at the earliest opportunity.
3	Routine	Control issue on which action should be taken.

Recommendations are also made to improve operational effectiveness.

- High: Significant risk exposure identified arising from a fundamental weakness in the system of internal control;
- Medium: Some risk exposure identified from a weakness in the system of internal control;
- Advisory: Minor risk exposure/suggested improvement to enhance the system of control.

iv The Society of Local Authority Chief Executives and Senior Managers.