

ANNUAL REPORT OF THE AUDIT COMMITTEE 2016/17

1. CHAIR'S INTRODUCTION

- 1.1 The Audit Committee became a full committee of the Council in May 2016 and held its first meeting in June 2016. Over the year, the Committee has worked hard to ensure we have strong, well-embedded internal control and governance arrangements as the foundation both for the Council's service improvement programme and, as important, for our credibility in the eyes of the public.
- 1.2 Our approach has been based on a continuous review of the Council's past performance, current risks and future prospects. First, we have looked at our past operations to ensure that the Council has complied with statutory requirements and good practice. Second, we have reviewed the Council's current performance, concentrating on assessment of the Council's readiness to cope with the corporate and service risks and opportunities it currently faces. Third, we have looked forward, by reviewing the Council's capacity and plans to cope with future challenges.
- 1.3 In all three areas, we have been satisfied with the Council's performance and its compliance. We were especially pleased with the rapid reporting of the previous financial year results (completed within 6 months of the year end) and with the system of reviewing current service risks. We also received very positive reports about the management of the Council's funds and the results of oversight by the internal audit team. In the case of the Anti Fraud Service, we can point to savings in the region of £4m as a direct result of the work of the anti fraud teams. In terms of future planning, the external auditors reassured us that our plans to cope with the Council's expected level of revenue reductions are soundly based.
- 1.4 However, given an ever more challenging financial environment, we want to strengthen our approach in all three areas. To improve our capacity to review past compliance and correct any issues, the Council's final accounts will be turned around by July, just four months after year end. We are also aiming to improve our assessment of current performance, by creating a small range of high level 'health' indicators of the Council's service and financial performance. This will help provide both us as Councillors, and the public to have a sense of how the Council is performing overall and give an early warning of any problems. Another initiative to reassure the Council about our ability to cope with current threats and opportunities, is our quarterly review of progress in the areas of high risk identified in our service reviews.
- 1.5 In terms of the very significant challenges we face over the next few years, it is crucial that the Council has the plans and the robust organisation necessary to meet the forecast reductions in Government financial support. As well as having credible cost reduction plans in place, we must also be able to develop the capacity to take a leading role in developing the Borough. The Mayor has already taken some important initiatives in this area, setting up cross Cabinet Boards to lead key development projects. This broad-based approach will be essential if the Borough is to make the best use of its assets for the benefit of residents. There will be a corresponding challenge for the Committee to ensure there is adequate oversight of the risks attached to these projects.

- 1.6 The Committee receives very full and regular reports on management of our revenue budgets. However, as the Borough's population grows and as the Council takes a bigger role in development of the Borough, the management of the Council's capital spending programme is becoming critically important. We will therefore be receiving reports on the management of the capital programme, both from the individual services and cross-service project Boards.
- 1.7 Looking back over the past year, the Council has continued to suffer severe financial constraints as a result of the Government's austerity measures and as a consequence, we have been under unprecedented pressure to show we are efficiently delivering services which meet our residents needs and expectations. I have been delighted that our External Auditors, KPMG, confirm from their work, that despite these financial pressures, we have seen improvements in services and positive feedback from our residents.
- 1.8 A key responsibility of the Audit Committee is oversight of the Council's Treasury Management function. Throughout the year, we have reviewed the corporate policy and received regular monitoring reports demonstrating sound management of the Council's funds. As a Committee, we received training on the Council's treasury management policies and its approach to day-to-day treasury management. Over the next period there is likely to be some financial turmoil as a result of Brexit and likely changes in interest rates and it will be important to ensure this key function continues to perform strongly.
- 1.9 I have pointed out that one of our most important roles is oversight of the Council's management of risks and through the year, the Committee has considered each directorate's risk register and reviewed the corporate risk register twice. I am delighted to see that risk management is embedded as a normal management function helping services achieve their objectives. For their part, Committee members had training sessions on how the Council manages its risks as well as a special CIPFA workshop on the role of elected members. This year also saw the Council successfully complete a particularly high-risk project with Hackney Homes' return to the Council as a department within the Neighbourhoods & Housing Directorate, together with its Internal Audit function. I would like to thank everyone involved for ensuring this was a smooth and successful transition.
- 1.10 Another key area for the Committee is the monitoring and approval of planned audit and anti-fraud activity. The Committee has made clear that it expects audit recommendations to have been addressed by the time they are summarised at our meetings. I am pleased to say that we have only had to pursue managers for non-compliance with recommendations on a gratifyingly few occasions.
- 1.11 Finally, I would like to thank both my fellow Committee Members and the staff in the Finance and Corporate Resources Directorate for their commitment and support in this crucial but sometimes overlooked area of the Council's work. Audit is a vital part of the oversight of the Council's activities and an essential foundation for the public's confidence in our work.

2. COMMITTEE MEMBERSHIP & ATTENDANCE

2.1 The following Councillors were members of the Audit Committee during the 2016/17 municipal year –

Cllr Nick Sharman (Chair)	Cllr Michelle Gregory
Cllr Brian Bell (Vice Chair)	Cllr Carole Williams
Cllr Rob Chapman	Cllr Sem Moema
Cllr Geoff Taylor (until May only)	
Cllr Jessica Webb (until May only)	
Cllr Susan Fajana-Thomas (until May only)	
(Conservative Group vacancy)	

2.2 The table below outlines members' attendance at committee meetings during the 2016/17 municipal year. As ever, members had a significant number of alternative commitments such as other public meetings and ward commitments and surgeries, and were therefore not always available to attend meetings.

Members	Meeting Dates			
	14/04/16*	09/06/16	21/09/16	18/01/17
Cllr Nick Sharman	P	P	P	P
Cllr Brian Bell	P	P	P	A
Cllr Robert Chapman	N/A	A	P	P
Cllr Michelle Gregory	P	A	P	P
Cllr Sem Moema	N/A	A	A	P
Cllr Carole Williams	P	P	A	L
Cllr Geoff Taylor	P	N/A	N/A	N/A
Cllr Jessica Webb	P	N/A	N/A	N/A
Cllr Susan Fajana-Thomas	A	N/A	N/A	N/A

* Audit Sub-Committee Meeting

Key: P = Present A = Absent L = Late

3. WORK UNDERTAKEN IN THE 2016/17 MUNICIPAL YEAR

3.1 The Audit Committee operates in accordance with the CIPFA publication *Audit Committees, Practical Guidance for Local Authorities and Police*, 2013 Edition. The guidance defines the purpose of an Audit Committee as follows:

“To provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.”

3.2 Internal Control

3.2.1 The Committee plays a key role in developing and improving the Council's internal control and assurance framework.

3.2.2 The Accounts and Audit Regulations 2015 require the Council to conduct annual reviews of the system of internal control and publish an Annual Governance Statement (AGS) within its annual financial statements.

- 3.2.3 The AGS process in 2016/17 has been updated to reflect the new requirements as set out in the Framework/Guidance issued by CIPFA/SOLACE in 2016. Each department will continue to produce a local statement which will be used to support the corporate AGS. As part of the assurance process Internal Audit review the local AGS's and verified that any actions identified in the previous year AGS have been actioned. The 2016/17 corporate AGS will be included in the final accounts and will be reviewed by the Committee with future actions for improvement noted.
- 3.2.4 The Committee contributed to the process of providing assurance of the Council's internal control and governance framework by receiving and reviewing regularly, progress reports on Internal Audit and Risk Management including service performance information.

3.3 Internal Audit

- 3.3.1 In accordance with the Accounts and Audit Regulations 2015 the Committee continuously reviewed the effectiveness of the Internal Audit service. This comprised of: -
- Review and approval of the Internal Audit Annual Plan 2015/16 which includes Internal Audit's key performance measures and outlines audit work for the Council and Associated Bodies for which the Council has a lead responsibility.
 - Review of quarterly progress reports of the Director Audit and Anti Fraud detailing the performance and progress of the Internal Audit Service against the Internal Audit Plan and performance targets.
 - Review of the Internal Audit Service Annual Report by the Corporate Director of Finance and Corporate Resources.
- 3.3.2 The Committee noted that the Internal Audit Service expects to complete or have in progress at the end of the financial year 90% of the audits included in the annual plan during the year. The slight deviation from target was a result of significant structural changes to the Council's directorates and services across the authority which impacted on the services ability to schedule audits.
- 3.3.3 During the year the Internal Audit Service underwent an external assessment of its compliance to the Public Sector International Internal Audit Standards (PSIIAS). The Committee noted the positive rating for the service of 'generally conforms'. An action plan to address the recommendations was presented to the Committee which had largely been implemented at the time of reporting.

3.4 Risk Management

- 3.4.1 A robust risk management framework is an essential element of good management and enables the Council to effectively manage strategic decision-making, service planning and delivery to safeguard the wellbeing of its stakeholders and increase the likelihood of achieving objectives. It is an essential element of good management and a sound internal control system and is necessary for the Council to demonstrate that it has sound systems of corporate governance. The Committee contributed to this by: -
- Reviewing and endorsing the Risk Management Annual Report 2015/16 detailing arrangements for the management of risk in place during 2016/17.
 - Reviewing the Risk Management Policy.

- Proposing measures for developing the Council's approach to managing its risks to assist future improvement.
- Reviewing of progress reports of the Group Director Finance and Corporate Resources summarising the latest corporate position in implementing risk management across the Council and also highlighting the successes that have been achieved and a summary of the new initiatives that are currently in planning or underway.
- During the reporting year the Committee reviewed the risk registers for each of the Council's departments as well as reviewing the corporate risk register on two occasions.

3.5 Treasury Management

3.5.1 Ensuring treasury management is governed effectively is an essential element of the work of the Audit Committee. A regular cycle of reports is presented to the Committee to enable them to comment upon and monitor treasury action throughout the year.

3.5.2 The Committee considered the following reports during the Year:-

- Reviewed and endorsed the Strategy & Annual Report and reviewed a draft Treasury Management Strategy for 2015/16.
- Review of quarterly and half-yearly updates on treasury management detailing performance.

3.6 External Audit

3.6.1 The Council's external auditor, KPMG, attended some of the Committee's meetings at which they present an external audit progress report for review and comment. There have been no additional reviews undertaken by the external auditors.

3.6.2 The Committee has considered the following reports from KPMG: -

- Annual Audit and Inspection Letter 2016 – KPMG issued an unqualified opinion on the Council's accounts, Pension Fund and Value for Money conclusion.
- Annual Governance Report 2015/16 – No significant issues in terms of the internal control environment were identified and there are adequate arrangements in place to secure economy, efficiency and effectiveness in the use of resources.
- Annual Grant Claim Report and Certificate of Grants & returns 2015/16 - two grants were issued unqualified certificates, the remaining one had qualifications. The report made no specific recommendations concerning improvements required for the following year.

3.7 Anti Fraud and Corruption Arrangements

3.7.1 The Committee reviewed the Council's Anti Fraud and Corruption Policy noting the revisions to the Council's response to allegations of fraud and irregularity as a contribution to strengthening the system of internal control.

3.7.2 During the year up to 31 January 2017 the following savings were made as a direct result of the work of the anti fraud teams:

Outcome	Outcomes 2016/17 to date	Savings Realised
Council service or discount cancelled	49	(1) £16,356 per week - £852,848 per year
Blue Badges recovered	33	(2) £3,300
Other fraudulent parking permits recovered	16	
Parking misuse warnings issued	29	
Penalty Charge Notice (PCN) issued	30	(3) £780
Vehicle removed for parking fraud	18	(4) £4,770
Recovery of tenancy	89	(5) £1,602,000
Housing application cancelled or downgraded	43	(6) £172,000 - £774,000
Right to Buy application withdrawn or cancelled	15	(7) £1,125,000 - £1,540,500

1. Overstaying Families Intervention Team (OFIT) savings – 47 support packages cancelled, average saving £348 per week
2. Calculated using Audit Commission figure of £100 per badge recovered
3. 12 x £65 – Cases when car was not removed
4. £265 per removal
5. Calculated using Audit Commission figure of £18,000
6. Calculated using Audit Commission estimated values of either £4,000 or 18,000
7. Calculation based on possible discounts ranging from £75,000 - £102,700

3.7.2 The corporate responsibility for the Regulation of Investigatory Powers Act (RIPA) and Proceeds of Crime Act (POCA) rests with the Director, Audit & Anti Fraud. During the year the Committee was provided with quarterly monitoring information on the activities undertaken by the Council.

3.8 Whistleblowing Arrangements

During the year the Committee received quarterly updates on whistleblowing referrals regarding fraud/irregularity.

3.9 Financial Reporting

The Committee scrutinised and approved the 2015/16 Statement of Accounts prior to the completion of the audit by KPMG. The Committee also considered KPMG's Governance Report regarding the audit of the accounts and significant issues arising during the audit of the accounts.

4. PROPOSED WORK PROGRAMME FOR 2017/18

4.1 Over the past year a programme of development sessions have been held for members of the Committee; this included training in the final account process, treasury management and risk management.

4.2 The Committee will continue to receive regular performance reports from the Internal Audit Service, the Anti Fraud Teams, Treasury Management, directorate and corporate risk registers. As well as reviewing corporate policies and strategies relating to these services.

- 4.2 The Chair will continue to act as Risk Management Champion taking responsibility for advocating the embedding of risk management throughout the Council. The Committee is keen to take a pro-active approach to overseeing the Council's management of risks and will work closely with the Corporate Risk Advisor and senior managers for continual improvement in our corporate risk management processes.

5. SUMMARY OF ACHIEVEMENTS OF AUDIT COMMITTEE

- 5.1 The Audit Committee has contributed to the Council's overall internal control process in 2016/17 through the challenge and monitoring it has performed on governance, internal audit, anti-fraud, risk management, treasury and financial management processes.
- 5.2 Risk management at corporate and strategic service levels continues to support business processes.
- 5.3 Internal Audit has continued to develop and strengthen with support from the Committee. It received positive assurance from KPMG in its annual review and from the independent review of the Council's compliance with the Public Sector Internal Audit Standards (PSIAS).
- 5.4 The Committee has played a significant role in raising the profile of the importance of implementing Internal Audit recommendations to agreed timeframes.
- 5.5 The Committee also undertook the role of oversight of the Council's use of Regulation of Investigatory Powers Act (RIPA).