

Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report reference: **AGC-002-2017/18**

Date of meeting: **26 June 2017**

Portfolio: Technology and Support Services

Subject: Audit and Governance Committee Annual Report 2016/17

Responsible Officer: Sarah Marsh (01992 564446).

Democratic Services: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

(1) That the Annual Report for the Audit and Governance Committee for 2016/17 be agreed and the report be referred to the Council.

Executive Summary:

The Annual Report of the Audit and Governance Committee outlines the Committee's work and achievements over the year ending 31 March 2017. The Annual Report helps to demonstrate to residents and the Council's other stakeholders the vital role that is carried out by the Audit and Governance Committee and the contribution that it makes to the Council's overall governance arrangements.

Reasons for Proposed Decision:

To present the Audit and Governance Committee Annual Report for 2016/17 and to recommend that the report be referred to the Council.

Other Options for Action:

None.

Report:

1. The Committee is invited to comment on the report, in particular, whether the remit of the Committee is adequately reflected in this report. It is suggested that if any substantive changes are required these are agreed with the Chairman and Vice Chairman prior to the submission of the report to Council.

Resource Implications:

These have been included in the individual reports to the Committee throughout the year.

Legal and Governance Implications:

The effective operation of the Audit and Governance Committee forms a key element of the Council's assurance framework. By fulfilling its responsibilities as detailed in its annual report the Audit Committee helps the Council to maintain a high standard of corporate governance.

There is no legal or constitutional requirement for the Committee to report to the Council on its work, however, it is considered good practice to do so.

Safer, Cleaner and Greener Implications:

No specific implications.

Consultation Undertaken:

Corporate Governance Group, Chair of the Audit and Governance Committee.

Background Papers:

Minutes of Audit and Governance Committee.

Equality Analysis:

The Equality Act 2010 requires that the Public Sector Equality Duty is actively applied in decision-making. This means that the equality information provided to accompany this report is essential reading for all members involved in the consideration of this report. The equality information is provided at an Appendix to this report.

Glossary:

AGS – Annual Governance Statement

CIPFA – Chartered Institute of Public Finance and Accountancy

SOLACE – Society of Local Authority Chief Executives

EPPING FOREST DISTRICT COUNCIL

ANNUAL REPORT OF THE AUDIT AND GOVERNANCE COMMITTEE 2016/17

1. INTRODUCTION

The Audit Committee was established by the Council in July 2007. Its purpose is:

- to provide independent assurance to the Council in respect of the effectiveness of the Council's governance arrangements, risk management framework and the associated control environment; and
- independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment.

Whilst there is no statutory obligation for a local authority to establish an audit committee, they are widely recognised internationally across the public and private sectors as a key component of effective governance. Similarly, it is considered good practice for the Committee to report annually to the Council on its work.

The key benefits of an effective audit committee are:

- increasing awareness regarding the effectiveness and continued development of the Council's governance arrangements;
- providing additional assurance on the robustness of the Council's governance arrangements through a process of independent and objective review;
- reducing the risks of illegal or improper acts;
- increasing public confidence in the objectivity and fairness of financial and other reporting;
- contributing to performance improvements in assurance levels and awareness of the need for strong internal control including the implementation of audit recommendations; and
- reinforcing the importance and independence of internal and external audit and similar review processes.

2. ASSURANCE ACTIVITY 2016/17

To help the Committee draw conclusions about the effectiveness of the Council's internal control framework, governance and risk management it gained assurances from the following sources:

Internal Audit

The Accounts and Audit (England) Regulations 2015 require the Council to maintain an adequate and effective internal audit which is discharged by the Director of Resources as Section 151 Officer. Internal Audit is a key source of assurance for both Members and management on the effectiveness of the control framework. The Committee has a responsibility for ensuring that Internal Audit is effective in the provision of this assurance.

The Committee considered and agreed reports regarding the Internal Audit Strategy, Terms of Reference and Annual Plan 2016/17, and progress by management in implementing audit recommendations. It also received regular progress reports on the performance of Internal Audit. These reports have helped in ensuring that reported weaknesses have either been addressed or the identified risks adequately mitigated by management and that there is an effective system of governance and internal control in place.

The Committee also kept under review the joint working arrangements with Harlow District Council and Broxbourne Borough Council, including audit resources to deliver the plan and benefits derived from the shared working. In February 2017 the Committee received the outcomes of the independent external quality assessment of the Internal Audit shared service against the Public Sector Internal Audit Standards (PSIAS). The overall conclusion was Internal Audit complies with the PSIAS and continues to provide an effective and efficient service to each Council (Epping Forest, Harlow and Broxbourne).

Assurance Framework / Annual Governance Statement

The Committee's terms of reference include advising on the effectiveness of the Council's assurance framework including the production of the Annual Governance Statement.

During the year, the Committee has received reports on the control framework and how the annual review and assurance process is undertaken. The Assurance Framework is compiled from various sources of assurance, for instance Directors and other key officers.

The Chief Internal Auditor provides an annual report and opinion regarding the Council's control framework. This opinion is considered by the Committee alongside other sources of assurance.

The Committee reviewed the Annual Governance Statement (AGS) for 2015/16 which identified governance issues requiring further ongoing improvement relating to:

- Procurement Rules;
- Corporate Policies; and
- Project Management.

The assurance framework remained unchanged during 2016/17 and the Council's Code of Corporate Governance was updated to ensure it was aligned to the 2016 CIPFA/SOLACE Framework - Delivering Good Governance in Local Government. The Committee was able to be satisfied that there is a robust assurance framework in place to safeguard the Council's resources through reliance on the annual review of the Council's system of internal control and the Chief Internal Auditor's annual opinion.

Anti-Fraud and Corruption

Countering fraud and corruption is the responsibility of every Member and officer of the Council. The Committee's role in this area has been to monitor and support the

actions taken by officers to counter fraud, particularly with the setup of the Corporate Fraud Team, who work in tandem with Internal Audit.

The Committee receives reports and presentations on such work undertaken in the Council and proactive fraud work, for example participation in the National Fraud Initiative (NFI).

The Council continues to send out a strong message that fraud will not be tolerated and that where fraud is proven the strongest possible actions of redress will be taken.

Based on the work to date, coupled with no major incidences of fraud and corruption being highlighted by management, the Corporate Fraud Team or Internal Audit, the Committee concludes that there is a sound anti-fraud framework in place.

Risk Management

The Committee receives regular reports on risk management, including in March 2017 a report on the effectiveness of the arrangements for risk management highlighting the Council had continued its programme of risk management.

Treasury Management

In accordance with its Terms of Reference, the Committee reviewed the Council's Treasury Management Strategy and considered the risks associated with the Council's treasury activity and how these are managed. The Committee also considered progress reports on the treasury management function and performance against prudential indicators.

Statement of Accounts and External Auditors

At its September meeting the Committee reviewed the Council's draft Statement of Accounts for 2015/16 before recommending for adoption by the Council.

During the year the Committee received a number of reports from the External Auditors (BDO) who attend each meeting. These reports include the Annual Governance Report 15/16, Annual Audit Letter 15/16, Audit Plan 16/17, Planning Letter 17/18 and Grant Claims and Returns of Certification for the year ending March 2016. When reviewing the reports the Committee considered audit risks highlighted by the External Auditors.

3. COMMITTEE WORKING ARRANGEMENTS

The Committee has a rolling and flexible programme of work for its main areas of activity which is proactively reviewed and amended throughout the year to reflect changes in policies, priorities and risks. The Committee met five times in 2016/17. The Committee considered items which are presented annually, such as audit results, the statement of accounts, the annual governance statement, and audit plans; as well as a number of other items including treasury management as this falls under the committee's remit.

Training sessions have been held and the agreed work programme enables the Committee to provide an independent assurance to the Council as to the adequacy of the risk management framework and the associated control environment.

Members of the Committee have a wide range of both experience and professional knowledge which, coupled with it having two co-opted persons, has continued to help demonstrate its independence. The Committee has the benefit of being well supported by Council officers. This included the Director of Resources, who is also the Section 151 Officer, Director of Governance, who is also the Monitoring Officer, and the Chief Internal Auditor as well as the Council's external auditors.

To help ensure the effectiveness of the Committee, there is a training programme, comprising of formal training sessions, as well as the committee reports. This supplemented the corporate induction packs and training programme provided, particularly for new members to the Council. Ongoing training requirements are kept under review and opportunities for joint training with Harlow and Broxbourne Councils are actively sought.

In November 2017, with assistance from the Chief Internal Auditor, the committee undertook its own effectiveness review concluding the committee was able to demonstrate compliance with recommended best practice for an effective audit committee. This was coupled with a review of the Audit and Governance Committee Terms of Reference against the 2013 CIPFA model terms of reference, benchmarking with Broxbourne's and Harlow's Terms of Reference, and concluded they remain fit for purpose.

There have been no reported major breakdowns in internal control, governance and risk management that have led to a significant loss in one form or another, nor any major weakness in the governance systems that has exposed, or continues to expose, the Council to an unacceptable level of risk.

The purpose, strategy and work programme of the Committee mitigates against any major failure by the Council to obtain independent assurance in relation to the governance processes underpinning:

- An effective risk management framework and internal control environment including audit;
- The effectiveness of financial and non-financial performance (to the extent that it affects exposure to risk and poor internal control); and
- The compilation and consideration of the Annual Governance Statement.

Outcomes / Achievements

Through its work, the Committee's main outcome is in the additional assurance provided of the robustness of the Council's arrangements regarding corporate governance, risk management and internal controls.

The Committee has added value through its activity and in particular:

- it has continued to increase the importance placed upon governance issues, particularly risk management, anti-fraud and the assurances sought that key risks are being mitigated; and
- it has continued to raise the profile of internal control issues across the Council and to seek to ensure that audit recommendations are implemented.

Conclusions

The Committee's remit is achieved firstly through it being appropriately constituted, and secondly by the Committee being effective in ensuring internal accountability and the delivery of audit and a robust assurance framework. The Committee has received and challenged reports from management and both internal and external audit.

The agreed work programme enables the Committee to provide independent assurance to the Council as to the adequacy of the risk management framework and the associated control environment.

The Committee has continued to have a real and positive contribution to the governance arrangements of the Council. The Committee's key achievement is in the

additional assurance provided of the robustness of the Council's arrangements regarding corporate governance, risk management and the control environment.

Looking Forward

The Committee has continued to work well and has considered a wide range of different topics relating to the Council's governance framework. It has continued to establish and develop its role, particularly in respect of ensuring that there are good risk assessment / management arrangements and good governance procedures in place.

Stricter internal control and the establishment of a Committee can never eliminate the risks of serious fraud, misconduct or misrepresentation of the financial position. However, the Committee will continue to raise awareness of the need for internal control and the implementation of audit recommendations as well as to maintain a watching brief on the areas highlighted in the Annual Governance Statement. In addition, through a process of independent and objective reviews, the Committee is best placed to provide an additional assurance as the adequacy of the Council's overall governance arrangements.

The Committee has performed its duties as required under its terms of reference, contributing to an effective control framework. In order to build upon its achievements to date and to raise awareness of the work of the Committee during the coming year the Committee will focus on the following:

- Continue to review governance arrangements to ensure that the Council adopts best practice;
- Continue to support the work of audit and ensure that appropriate responses are provided to their recommendations;
- Continue to help the Council manage the risk of fraud and corruption;
- Provide effective challenge, particularly to officers, raising awareness of the importance of sound internal control arrangements and giving the appropriate assurances to the Council;
- Consider the effectiveness of the Council's risk management arrangements.
- Provide existing and new members to the Committee with relevant training, briefings etc. to help in discharging their responsibilities.