

**EPPING FOREST DISTRICT COUNCIL**

**ANNUAL REPORT**

**OF THE**

**AUDIT AND GOVERNANCE COMMITTEE**

**2012/13**

## **1. INTRODUCTION**

- 1.1 This Annual Report of Epping Forest District Council's Audit and Governance Committee covers the municipal year 2012/13.
- 1.2 Membership of the Committee comprises three District Councillors and two co-opted independent members. During 2012/13 the Councillors were Antony Watts (Chairman), Sylvia Watson and Colin Finn; Melanie Peddle (Vice Chairman) and Robert Thompson were the co-opted members.

## **2. TERMS OF REFERENCE & CONSTITUTION**

- 2.1 In summary, the purpose of the Committee is to provide:
  - 2.1.1 independent assurance on the adequacy of the Council's risk management framework and the associated control environment;
  - 2.1.2 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;
  - 2.1.3 independent scrutiny of treasury management strategy and outcomes;
  - 2.1.4 oversight of the financial reporting process.
- 2.2 The full terms of reference are set out in Appendix 1.
- 2.3 During the year, the Committee reviewed its constitution and recommended some changes in respect of co-opted members, which were subsequently ratified by the Council. The agreed changes were:
  - (a) introduction of three-year terms of office;
  - (b) a limit of two terms of office as of right;
  - (c) an opportunity for up to two further terms of office, but only after a competitive selection process;
  - (d) a requirement that re-appointment be conditional upon satisfactory attendance; and
  - (e) the creation of overlapping terms of office so that the terms for both Co-Opted members did not expire at the same time.

## **3. MEETINGS**

- 3.1 The Committee was scheduled to meet five times during the municipal year with four meetings taking place.
- 3.2 The Committee is supported by the Director of Finance and ICT and the Chief Internal Auditor, who attend the Committee meetings.
- 3.3 The Council's external auditors are invited to attend meetings of the Committee and may, when they consider it appropriate, request a private meeting with the Committee, with other parties excluded.

- 3.4 A Corporate Governance Group (CGG), consisting of senior Council officers, chaired by the Chief Executive, meets regularly to consider governance issues across all of the Council's operations. This includes monitoring progress in implementation of high priority audit recommendations. The Committee is notified of the CGG minutes for information and review.
- 3.5 When it considers it necessary, the Committee requests senior officers to attend its meetings, to aid the Committee's understanding of relevant issues and explain delays in implementing audit recommendations, especially high priority ones.

## **4. THE YEAR IN REVIEW**

### **Control Environment and Risk Management Arrangements**

- 4.1 The Committee reviewed minutes of the Corporate Governance Group to ensure effective overview of governance arrangements and to maintain awareness of topics discussed and any actions required.
- 4.2 The Committee considered an Audit Commission report on the National Fraud Initiative 2010/11. The Initiative is part of a statutory audit process for health, local government and other public sector bodies. It involves matching data from various sources to detect a range of frauds against the public sector. Despite the Council gaining less immediate benefit from its participation than might have been expected, the Committee supported continuation in the initiative as a useful component of the Council's fraud prevention and detection strategy.
- 4.3 The Committee reviewed regular reports on treasury management including performance against prudential indicators. It was satisfied that control procedures were effective and potential financial risks to the Council were adequately monitored. Particular attention was paid to the impact of the Council's borrowing requirement as a result of Government reform of financing local authority housing.
- 4.4 The Committee approved the Council's Annual Governance Statement for 2011/12 for inclusion in the Council's statutory Statement of Accounts.

### **Effectiveness of the System of Internal Audit**

- 4.5 The Committee received quarterly reports on the performance of the Council's Internal Audit Unit and its findings and recommendations. The reports were considered in the context of the adequacy of the Council's governance arrangements and internal control framework. The Committee monitored progress in implementation of internal audit recommendations, particularly high priority ones and those arising from audits given a limited assurance.
- 4.6 The Committee approved the Internal Audit Annual Report for 2011/12, together with a review of the effectiveness of the system of Internal Audit. The work

undertaken by Internal Audit during the year supported the opinion that the Council's internal control environment was adequate.

## **Statutory Statement of Accounts**

- 4.7 The Committee considered the draft annual Statutory Statement of Accounts for 2011/12. In recommending that the Statement of Accounts be submitted to the Council for adoption, the Committee noted the significance to the Council's financial position of the debt incurred as a result of Government reform of financing local authority housing, and the Pension Fund deficit.

## **External Audit Reports**

- 4.8 The Committee received the Council's external auditor's annual audit letter for 2011/12, which summarised the key issues arising from their audit work during the year. The external auditor reported that:
- The financial statements had given a true and fair view of the Council's financial affairs and were properly prepared in accordance with the 2011 Code of Practice on Local Authority Accounting.
  - The Annual Governance Statement was not misleading or inconsistent with other information available.
  - The significant financial systems were generally adequate for preparing the financial statements.
  - The work of Internal Audit could be relied upon.
  - The Council had put into place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## **5. CONCLUSION**

- 5.1 During the year, the Committee considered a range of governance issues and offered guidance on improvements in internal control. It is pleasing to note that the number of internal audits given limited assurance continued to reduce, as did the number of high priority recommendations arising from the audits. The Committee believes this evidences a sustained improvement in the Council's internal control environment.
- 5.2 The importance of an effective Audit and Governance Committee remains critical, given the continued financial pressures facing local government. The Committee must continue to ensure that the control environment, governance and risk management arrangements remain robust.

## **Background Information**

Further information on the Audit and Governance Committee can be obtained from the Local Democracy / Committees / Audit and Governance Committee area of the Council's web site.

**Terms of Reference**

The Terms of Reference of the Audit and Governance Committee incorporate the following roles and functions for the Committee:

(a) To consider the effectiveness of the Council's risk management arrangements, control environment and associated anti-fraud and anticorruption measures.

(b) To seek assurances that action is being taken on risk related issues, identified by Auditors and Inspectors.

(c) To be satisfied that the Council's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.

(d) To approve the Council's Internal Audit Strategy Plan, Annual Audit Plan and monitor performance against all associated plans.

(e) To review summary Internal Audit reports and the main issues arising and seek assurance that action has been taken where necessary.

(f) To receive an Annual Report from the Chief Internal Auditor.

(g) To ensure that there are effective relationships between External and Internal Audit, Inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.

(h) To review financial statements, including the Council's Statement of Accounts, External Auditor's opinion and reports to Members, and monitor management action in response to the issues raised by External Audit.

(i) Review, and challenge where necessary, the actions and judgements of Management, in relation to the Council's Statement of Accounts, paying particular attention to:

(i) critical accounting policies and practices, and any changes to them;

(ii) decisions requiring a major element of judgement;

(iii) the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;

(iv) significant adjustments resulting from the audit; and

(v) any material weakness in internal control reported by the Internal or External Auditor.

(j) Consider other reports of External Audit and inspection agencies which are relevant to the functions of the Committee.

(k) For the Committee to meet privately and separately at least once a year with the External Auditor and Chief Internal Auditor.

(l) To have the right to call any Members or officers of the Council as required.

(m) To consider performance and best value issues to the extent that they relate to the audit and control environment and risk management issues of the Council.

(n) To be responsible for the scrutiny of the Council's Treasury Management Strategy, including consideration of mid financial year and outturn reports.