

## ***Report to the Council***

**Committee: Audit & Governance**

**Date: 26 July 2016**

**Subject: Annual Report 2015/16**

**Chairman: Councillor J Knapman**

---

### **Recommending:**

**(1) That the Annual Report of the Audit & Governance Committee for 2015/16 be noted.**

---

### **Report:**

1. The Annual Report of the Audit and Governance Committee outlines the Committee's work and achievements over the year ending 31 March 2016. 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.

2. The Annual Report is attached as an Appendix to this report, and we recommend as set out at the commencement of this report.

# Due Regard Record

This page shows which groups of people are affected by the subject of this report. It sets out how they are affected and how any unlawful discrimination they experience can be eliminated. It also includes information about how access to the service(s) subject to this report can be improved for the different groups of people; and how they can be assisted to understand each other better as a result of the subject of this report. S149 Equality Act 2010 requires that due regard must be paid to this information when considering the subject of this report.

<b>Date / Name</b>	<b>Summary of equality analysis</b>
27 June 2016 Chief Internal Auditor	The report is a summary of the work reviewed in the year by the Audit and Governance Committee and has no equality implications.

**EPPING FOREST DISTRICT COUNCIL**

**ANNUAL REPORT**

**OF THE**

**AUDIT AND GOVERNANCE COMMITTEE**

**2015/16**

## **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 2015/16**

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 2015/16, 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 recent joint working arrangement with Harlow District Council and Broxbourne Borough Council, including audit resources to deliver the plan and benefits derived from the shared working.

### **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 2014/15 which identified governance issues requiring further ongoing improvement relating to:

- Parking income;
- Housing rent reconciliations;
- Contract Standing Orders; and
- Sundry debtors

The assurance framework and the Council's Code of Corporate Governance remained unchanged during 2015/16. 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 Head of Internal Audit'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 2016 a report on the effectiveness of the arrangements for risk management highlighting the Council had continued its programme of risk management.

### **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 2015/16. 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.

During the year the committee considered the benefits of combining the committee with the Standards Committee. It was agreed that keeping the two committees separate was a current strength of the Council but the situation would be reviewed in two years' time.

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.

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 AGS.

### **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 AGS. In addition, through a process of independent and objective reviews, the Committee is best placed to provide an additional assurance as to 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.
- Consider the potential role of the Committee in appointing the Council's External Auditors.