

EPPING FOREST DISTRICT COUNCIL

ANNUAL REPORT

OF THE

AUDIT AND GOVERNANCE COMMITTEE

2010/11

1. INTRODUCTION

- 1.1 Epping Forest District Council's Audit and Governance Committee was established in 2007. This is the Committee's fourth Annual Report, covering the municipal year 2010/11.
- 1.2 Membership of the Committee comprises of three District Councillors: during 2010/11 these were Councillors Andrew Green (Chairman), Antony Watts and Jon Whitehouse; and two independent members: Melanie Peddle (Vice Chairman) and Robert Thompson.

2. TERMS OF REFERENCE

- 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 oversight of the financial reporting process.
- 2.2 The full terms of reference are set out in Appendix 1.

3. MEETINGS

- 3.1 The Committee met five times during the municipal year.
- 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.
- 3.3 In addition the Committee invites senior officers to attend its meetings, to aid the Committee's understanding of relevant issues and to explain delays in implementing audit recommendations, especially high priority recommendations. The process of monitoring priority one recommendations has been reviewed during the year and monitoring by the Corporate Governance Group in the first instance, followed by Committee Members being asked which Officers should attend, should speed up the process and ensure that Officers do not attend unnecessarily.
- 3.4 The Corporate Governance Group, consisting of senior Council Officers, chaired by the Acting Chief Executive, meets monthly to consider governance issues across the whole of the Council's operations. Its minutes are circulated to the Committee for information and review.

4. THE YEAR IN REVIEW

Control Environment and Risk Management Arrangements

- 4.1 Through the year, the Committee kept under review the effectiveness of the Council's arrangements for risk management. These comprise the Risk Management Strategy, Risk Management Policy Statement, Corporate Risk Register and terms of reference for the Officer Risk Management Group, which are regularly monitored by the Corporate Governance Group. The Committee had queried whether the District would suffer any large-scale disruption during the 2012 Olympic Games. The Committee were informed that the main issue was the Olympic Delivery Authority encouraging spectators to use public transport to travel to venues. Essex Police and the Olympic Delivery Authority were aware of the potential problems and discussions had begun to minimise the disruption to the local travel network and the delivery of Council services. The Committee were pleased that work was being undertaken to link the Risk Register with individual Service Plans.
- 4.2 To assist it in seeking assurance that the Council was following appropriate and relevant Audit Commission recommended best practices, the Committee have continued to review the executive summaries and recommendations from several Audit Commission National Local Government Studies. Topics covered included local finances in the recession, collaborative procurement across the public sector, managing local strategic partnerships; strategic asset management; local government pensions, re-engaging young people in education, employment or training, strategic financial management in Councils and protecting against fraud in Local Government.
- 4.3 The Committee received a report from the Audit Commission on the Benefits Service Inspection and following discussion recommended amendment to the action plan and requested further reports if there were any problems in implementing the recommendations in the action plan.
- 4.4 Following changes to the Chartered Institute of Public Finance & Accountancy (CIPFA) Treasury Management Code of Practice and Prudential Code in which a key change was that "The Council will be expected to name a committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and Policies." It was proposed to add that responsibility to the terms of reference of the Committee as soon as due process permits.

Subsequent Treasury Management reports on Investment Strategies and Prudential Indicators were considered by the Committee, during which it was identified that it was the responsibility of the Committee to ensure that adequate governance arrangements and control procedures were in place for the Treasury Management Strategy and to monitor the potential financial risks to the Council from its application.

- 4.5 Following a Limited Assurance Internal Audit report the Director of Environment & Street Scene presented a report upon the Waste Management stock take and the level of risk to the Council. The reason for this had been a departure from Financial Standing Orders which required a stock take at the end of each financial year. The Committee had requested a report confirming that a satisfactory full stock reconciliation had been performed and details of the level of financial risk faced by the Council for not performing the procedures properly.

The Director felt that the risks to the Council were best managed under the current arrangements, particularly for the larger items such as wheeled bins whose stock levels were checked prior to being wrapped and stored for the winter. It was recognised that a stock take at the end of the financial year was essential to assist in the process of closing down the Council's accounts for the year and it was proposed that a preliminary count of the stacks should be made in March to check for any gross errors. Should a major discrepancy be discovered then a further full stock take would be undertaken.

- 4.6 The Committee considered a report from the Food Standards Agency on a Food Law Enforcement audit carried out at the Council which identified procedural shortcomings. The Committee felt that the Safer Cleaner Greener Scrutiny Panel would be the more appropriate Committee for the on-going monitoring of the Action Plan. This Committee agreed that it was only primarily concerned with the Action Plan items being implemented in a timely fashion to reduce the Council's risk.
- 4.7 Each year, the Council is required to publish an Annual Governance Statement. The Committee reviewed and approved the Council's statement for 2009/10 for inclusion in the Council's Statutory Statement of Accounts.

Effectiveness of the System of Internal Audit

- 4.8 The Committee reviewed and approved the Council's Annual Internal Audit Plan for 2011/12, which set out the programme of internal audits for the new year. The plan was drawn up following analysis of the risks to the Council, as identified by the Audit Commission, External Audit and the Council's Corporate Risk Register. Precedence has been given to the review of significant income streams, asset management, the prevention and detection of fraud and data security.
- 4.9 The Committee received quarterly monitoring reports on the performance of the Council's Internal Audit Unit, its findings and recommendations. The Committee considered the reports in the context of the adequacy of the Council's governance arrangements and internal control framework. The Committee has kept under review progress in implementing Internal Audit priority one recommendations and procedural changes have been made to ensure more prompt review and reporting of their implementation.
- 4.10 The Committee agreed revised priority ratings for audit report recommendations, and the revised definitions for each assurance level – full, substantial, limited and no assurance.

The Committee considered whether or not it was a requirement for Directors to attend meetings of the Committee in respect of limited assurance audit reports. It was felt that Directors should be required to attend in order to answer any questions that the Committee might have, and that any delay in dealing with a limited assurance audit report could increase the Council's exposure to risk. In addition, the relevant Portfolio Holder should also be requested to attend as well, and a written report submitted by the Director on the scale of the problem and the steps being taken to correct the issue. Procedures have been put in place to address these issues.

Statutory Statements of Account

- 4.11 As required by its terms of reference, the Committee considered the draft Statements of Account for 2009/10. The Director of Finance and ICT brought to the attention of the Committee key elements within the accounts specifically relating to property valuation and the Local Government Pension scheme and two unusual transactions that were reflected in the Accounts. The Committee questioned the Director on various aspects of the Accounts and, having received satisfactory answers, recommended the Accounts to the Council for adoption.

External Audit Reports

- 4.12 The Council's external auditors (PKF (UK) LLP) presented to the Committee their annual plan and proposed fees for 2010/11, for noting and approval. The Committee also noted changes to the Use of Resources assessment methodology and two risks which, while not significant, merited audit emphasis.
- 4.13 As well as undertaking the statutory audit of the Council's financial statements, the external auditors are required to assess the Council's performance in use of resources and achieving value for money, according to criteria set by the Audit Commission. The auditors presented their assessment to the Committee; and concluded that "adequate arrangements are in place to secure value for money and have provided an unqualified value for money conclusion for the year ended 31 March 2010."
- 4.14 At the Committee's February 2011 meeting, the External Auditors introduced their audit plan and proposed fees for 2011/12 in which the significant systems requiring audit review were identified, these systems have been included in the Annual Internal Audit Plan.

5. CONCLUSION

- 5.1 During the year under review, the Committee has considered a wide range of governance issues and given guidance on improvements in internal control. In the current financial climate and challenges to Local Government finance the Committee will need to ensure that any new risks are identified and action taken to mitigate any effects whilst also ensuring that governance and risk management arrangements are 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.