

EPPING FOREST DISTRICT COUNCIL

ANNUAL REPORT

OF THE

AUDIT AND GOVERNANCE COMMITTEE

2011/12

1. INTRODUCTION

- 1.1 This is the fifth Annual Report of Epping Forest District Council's Audit and Governance Committee, covering the municipal year 2011/12.
- 1.2 Membership of the Committee comprises three District Councillors and two independent members. During 2011/12 the Councillors were Antony Watts (Chairman), Sylvia Watson and Colin Finn; Melanie Peddle (Vice Chairman) and Robert Thompson were the independent members.
- 1.3 During the year, after consultation between the Committee and the Constitution and Members Services Scrutiny Standing Panel, it was agreed that there should be no conflict of interest in appointing Portfolio Holder Assistants to the Committee, with the exception of those involved in the Finance Portfolio. Councillor Sylvia Watson is Portfolio Holder Assistant for Housing.

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 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.

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.
- 3.4 A Corporate Governance Group, consisting of senior Council officers, chaired by the Acting 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 receive its 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 Through the year, the Committee kept under review the effectiveness of the Council's arrangements for risk management, which are also monitored by the Corporate Governance Group. These comprise the Risk Management Strategy, Risk Management Policy Statement, Corporate Risk Register and terms of reference for the Officer Risk Management Group. The Committee believed that these provided appropriate and cohesive arrangements for risk management.
- 4.2 In the past, to seek assurance that the Council followed appropriate Audit Commission recommended best practices, the Committee reviewed executive summaries and recommendations from relevant Audit Commission National Local Government Studies. This year, as its activities were being wound down, the Audit Commission produced few reports. One which the Committee considered was "Protecting the Public Purse", dealing with four key areas where local authorities are at risk of fraud: housing tenancy; Council Tax; procurement; and Housing & Council Tax Benefit. The report included a checklist for those responsible for governance. The Committee was satisfied that the Council substantially met most of the requirements, but identified certain areas where further work should be carried out. These areas will be reviewed as part of the 2012/13 Internal Audit Plan.
- 4.3 The Committee monitored and reviewed the Council's timely implementation of measures to control risks associated with the Bribery Act 2010, which came into force on 1 July 2011. The Committee was satisfied that adequate and appropriate due diligence procedures were introduced, taking a proportionate and risk-based approach, to mitigate the risk of bribery.
- 4.4 For the 2010/11 year, the Council's was required to introduce International Financial Reporting Standards (IFRS) as the basis for preparing the annual financial statements. The Committee was kept advised of progress in the transition to IFRS and monitored the risks involved. IFRS was implemented successfully and on time.
- 4.5 The Committee reviewed quarterly reports on treasury management investment strategy and prudential indicators, to confirm that adequate governance arrangements and control procedures were in place and to monitor potential financial risks to the Council. Particular attention was paid to the impact of the Council's estimated borrowing requirement pursuant to the Government's announcement it would reform financing of local authority housing through the Localism Bill. The Committee felt that the proposed borrowing level represented a considerable risk which should be recognised in the Corporate Risk Register.

- 4.6 The Committee considered the Government's consultation paper "The Future of Local Public Audit", which contained proposals on the future structure and terms of reference of Audit Committees. The Committee broadly supported the consensus view of the Finance & Performance Management Cabinet Committee and its Scrutiny Panel, which formed the basis of the Council's consultation response.
- 4.7 The Committee considered a report on the legacy benefits of the 2012 Olympic and Paralympic Games, to assess the risk that the District might not gain legacy benefits. The report detailed a range of initiatives that the Council, along with its partners, were engaged in to ensure that the legacy benefits of the Games for the District were optimised. These included construction and procurement opportunities, employment and training, economic development and regeneration and opportunities to benefit the local economy through future events at the White Water Centre.
- 4.8 Recently, the Committee considered whether any changes were needed to its constitution and structure to ensure its continued effectiveness and independence. Their review encompassed:
- (a) the number of members;
 - (b) how the Councillor members are appointed
 - (c) the arrangements for appointment of the Chairman and Vice Chairman;
 - (d) the terms of office for independent members;
 - (e) introduction of attendance and performance standards; and
 - (f) whether there is a case for having separate Audit and Governance Committees.

The Committee has passed its views on these matters to the Constitution & Member Services Standing Scrutiny Panel which will take the review forward in the next municipal year. The Committee will continue to be consulted on any proposals to change its constitution.

- 4.9 Each year, the Council is required to publish an Annual Governance Statement. The Committee reviewed and approved the Council's statement for 2010/11 for inclusion in the Council's Statutory Statement of Accounts.

Effectiveness of the System of Internal Audit

- 4.10 The Committee received quarterly reports on the performance of the Council's Internal Audit Unit and 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, and monitored progress in implementation of internal audit recommendations.
- 4.11 The Committee reviewed and approved the Internal Audit Annual Report for 2010/11, 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

- 4.12 As required by its terms of reference, the Committee considered the draft Annual Statutory Statement of Accounts for 2010/11. In recommending that the Statutory Statement of Accounts for 2010/11 be submitted to the Council for adoption, the Committee noted key elements of the accounts relating to the requirements of International Financial Reporting Standards (IFRS); the reduction in the value of the Council's dwellings and garages due to a change in the basis of calculation; and the Council's liability to the Local Government Pension scheme. Two unusual transactions related to a Value Added Tax refund, and the transfer of assets not related to the Council's landlord function from the Housing Revenue Account to the General Fund.

External Audit Reports

- 4.13 The Council's external auditors (PKF (UK) LLP) presented their annual plan and proposed fees for 2011/12 to the Committee for approval.
- 4.14 As well as the statutory audit of the financial statements, the external auditors are required to assess the Council's performance in use of resources and achieving value for money, according to Audit Commission criteria. The auditors presented their assessment, which concluded that adequate arrangements were in place to secure value for money for the year ended 31 March 2011.
- 4.15 At the Committee's February 2012 meeting, the external auditors introduced their audit plan and proposed fees for 2011/12. Their plan identified the significant systems requiring audit review and these have been included in the Council's Internal Audit Plan.

5. CONCLUSION

- 5.1 During the year, the Committee continued to consider a wide range of governance issues and offer guidance on improvements in internal control. It is pleasing to note that the number of internal audits given limited assurance has reduced considerably, as has the number of high priority recommendations arising from the audits. The Committee believes this is evidence of a continuing improvement in the Council's internal control environment.
- 5.2 The financial climate and challenges to local government finance have not abated. The Committee must be vigilant to ensure that emerging risks are promptly identified and mitigated, whilst ensuring that 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.