

Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report Reference: AGC-008-2019/20
Date of meeting: 25 November 2019

Portfolio: Leader of the Council

Subject: Audit and Governance Committee - Review of Terms of Reference and Effectiveness

Responsible Officer: Sarah Marsh (01992 564446).

Democratic Services: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

- (1) That the Committee reviews and approves the changes to its current terms of reference and refers this to Council for approval via the Constitution Working Group; and**
- (2) That the Committee considers the results of the review of the effectiveness of the Audit and Governance Committee.**

Executive Summary:

An effective Audit Committee brings many benefits to an organisation. To ensure the Council continues to provide an effective Audit and Governance Committee, a review of the Committee's effectiveness and its Terms of Reference has been undertaken.

Minor changes to the Committee's Terms of Reference are proposed to reflect the remit of the Committee and an action plan has been developed to address minor weaknesses identified from the effectiveness review.

Reasons for Proposed Decision:

To ensure, as a key component of the Council's governance framework, the Audit and Governance Committee continues to be effective and to follow good practice within the sector.

Other Options for Action:

None.

Report:

Background

1. The purpose of this report is to review the terms of reference of the Audit and Governance Committee to ensure it satisfies the core functions of an audit committee as prescribed by the Chartered Institute of Public Finance and Accountancy (CIPFA), in its 2018 guidance, Audit Committees: Practical Guidance for Local Authorities and Police. The report also

seeks to ensure that the Committee remains effective, as it is a key component of the Council's governance framework.

2. The Audit and Governance Committee reviews its terms of reference and effectiveness on an annual basis. This was last undertaken in 2018.
3. The CIPFA guidance also provides practical support to those wishing to evaluate their existing committee and plan improvements. The checklists provided in the guidance have been used in the review of the effectiveness of the Audit and Governance Committee and are attached to this report.

Terms of Reference Review

4. An effective Audit Committee brings many benefits to an organisation. To ensure that the Council continues to provide an effective Audit and Governance Committee, its terms of reference should be considered on an annual basis, which is in line with good practice. The Committee should ensure the terms of reference remain current and up to date and make recommendations for any significant changes to the Council.
5. The Committee last reviewed its terms of reference in November 2018 and proposed no changes at that time, as they remained fit for purpose. The Chief Internal Auditor has carried out a comparison of the Committee's current terms of reference with the 2018 CIPFA model terms of reference and has undertaken benchmarking with the terms of reference of the audit committees operated by Broxbourne Borough Council and Harlow District Council.
6. Two additions to the current terms of reference for the Committee are proposed (shown underlined in bold in Appendix 1) to reflect its remit as the Council works more collaboratively.
7. The terms of reference for the Committee are enshrined within the Constitution, so any changes would be required to be agreed by the full Council. This would normally be on the recommendation of the Constitution Working Group.

Membership Review

8. A good audit committee is characterised by a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. It is important to achieve the right mix of apolitical expertise. CIPFA endorses the approach of mandating the inclusion of a lay or independent member and recommends that councils actively explore the appointment of an independent member to the Committee.
9. The Council's Audit and Governance Committee currently has one independent (co-opted) member, who was appointed based on their professional expertise, experience and background as relevant to the role and responsibilities of the Audit Committee.
10. The current terms of reference for the Committee provide that co-opted members shall serve for a period of three years from appointment and may serve for a total of two such terms as of right, but may be considered for two further three-year terms, provided they are successful after open competition following public advertisement.
11. The co-opted member is in their second three-year term of membership of the Committee. Ms. N. Nanayakkara (Vice-Chairman) was first appointed to membership of the Committee in April 2015. Mr. T. Jarvis's second term of membership ended in October 2019 and the

Council is in the process of recruiting to the vacancy.

Effectiveness Review

12. The effective operation of the Audit and Governance Committee forms a key element of the Council's assurance framework. An audit committee's effectiveness should be judged by the contribution it makes to, and the beneficial impact it has on, the Council's performance.
13. Using the recommended practice in the CIPFA audit committee guidance will help the Committee achieve a good standard of performance. The checklists provided by CIPFA support an assessment against recommended practice to inform and support the Audit and Governance Committee.
14. This review was performed by the Chief Internal Auditor and is based on guidance issued in the Chartered Institute of Public Finance and Accountancy (CIPFA) Audit Committees Practical Guidance for Local Authorities and Police (2018 edition).
15. The review of the effectiveness of the Audit and Governance Committee was last undertaken in November 2018 and identified two minor areas for improvement.

Results of the Effectiveness Review

16. The results of the self-assessment show that the Council can demonstrate compliance with recommended best practice for an effective audit committee.
17. Resulting from the attached checklists (Appendices 2 and 3), the two minor areas for improvement remain the same as last year as per the Action Plan below:

Area	Description and Proposed Actions
Skills and knowledge analysis	Consider repeating the skills and knowledge analysis which was last undertaken in September 2017.
Committee engagement	<p>The Audit Committee is most effective in supporting internal accountability when it discusses governance, risk or control issues with the responsible managers directly. CIPFA gives the following examples on how this can be achieved:</p> <ul style="list-style-type: none"> • The committee focus on a significant risk area from the risk register and invite the head of service to attend to discuss risks and explain how the risk is mitigated. • When reviewing an audit report with significant weaknesses or disputed recommendations then the responsible head of service should be present to answer questions directly. • If other action plans are monitored by committee then again involve responsible heads. • Invite other members on other committees such as scrutiny if the agenda covers areas of interest to them. <p>It should be noted the Committee's Terms of Reference entitles the Committee to require any Member, Director, their representatives or any other officer to attend their meetings in order to discuss any matters under discussion and has exercised this right in the past.</p>

Resource Implications:

None

Legal and Governance Implications:

To comply with CIPFA guidelines and as part of the process for gathering evidence for the production of the Annual Governance Statement, the Council is required to review the effectiveness of its Audit Committee. This effectiveness review and review of its Terms of Reference ensures that the Council fulfils the requirements of the Accounts and Audit (England) Regulations 2015.

The Accounts and Audit (England Regulations) 2015 requires that a relevant authority must ensure that it has a sound system of internal control which:

- facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- ensures that the financial and operational management of the authority is effective; and
- includes effective arrangements for the management of risk.

The Accounts and Audit Regulations do not specify that these requirements must be met by an audit committee. However, where the audit committee undertakes or reviews the specified task, the audit committee must meet the requirements of the regulations and take them into account in agreeing their terms of reference.

Safer, Cleaner and Greener Implications:

None

Consultation Undertaken:

Corporate Governance Group

Background Papers:

Audit Committees – Practical Guidance for Local Authorities 2018

Audit and Governance Committee Terms of Reference

Risk Management:

The Audit and Governance Committee has a pivotal role in how the Council delivers good governance. The purpose of the Committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance process and reviewing the effectiveness of these arrangements.

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.