

# **Report to the Audit and Governance Committee**

**Date of meeting: 22 November 2021**



**Epping Forest  
District Council**

**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 Officer:** Laura Kirman (01992 564243)

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## **Recommendations/Decisions Required:**

- (1) The Committee agrees the changes required to its Terms of Reference and**
- (2) The Committee considers the results of the review of effectiveness of the Audit Committee and notes progress against last year's action plan**

## **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.

The Committee's Terms of Reference has been amended to give the Audit and Governance Committee delegated authority to approve the Council's annual Statement of Accounts, with effect from the 2020/21 financial year as approved by Council.

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 December 2020.
3. The CIPFA guidance also provides practical support to those wishing to evaluate their existing committee and plan improvements. The checklist provided in the guidance have been used in the review of the effectiveness of the Audit and Governance Committee and is 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, in line with good practice.
5. The terms of reference (Appendix A) have been amended to delegate authority to the Audit and Governance Committee to adopt the annual Statement of Accounts yearly, as approved by Council on 28 October 2021. Streamlining the process will help the Council achieve the legislative timetable for approval of the annual Statement of Accounts and delegating approval to the Audit and Governance Committee (a common practice at many comparable councils) will not reduce the robustness of the scrutiny and approval process.
6. Internal Audit has carried out a comparison of the Committee's current Terms of Reference with the 2018 CIPFA model terms of reference and benchmarking against Broxbourne Borough Council and Harlow District Council. On this basis the current terms of reference are fit for purpose and no other changes are required.

### **Membership Review**

7. 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.
8. The terms of reference for the Committee provide for two independent (co-opted) members. An independent member was appointed in October 2020. The Council is in the process of recruiting to the other position which is currently vacant.

### **Approach to the Effectiveness Review**

9. 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.
10. 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). The checklists provided by CIPFA support an assessment against recommended practice to inform and support the Audit and Governance Committee.

11. The Committee's effectiveness reviews have been undertaken previously with the last review being in December 2020. The results of the 2020 self-assessment confirmed that the Council was able to demonstrate compliance with recommended best practice for an effective Audit Committee. One minor area for improvement was identified as listed in the Action Plan below, with the status of this as at November 2021:

Area	Description and Proposed Actions	Progress as at November 2021
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"> <li>• 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.</li> <li>• When reviewing an audit report with significant weaknesses or disputed recommendations then the responsible head of service should be present to answer questions directly.</li> <li>• If other action plans are monitored by committee then again involve responsible heads.</li> <li>• Invite other members on other committees such as scrutiny if the agenda covers areas of interest to them.</li> </ul> <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>	The Committee is aware of these options available to them.

## **Results of the 2021 Effectiveness Review**

12. The results of the self-assessment (appendix B) show that the Council can demonstrate compliance with recommended best practice for an effective audit committee. There are no areas that the Committee requires improvement.
13. Skills and knowledge questionnaires were completed by Committee members in October 2020 and the results reported in January 2021. This confirmed that, collectively, the committee has a wide range of knowledge and experiences, including both public and private sector. There was no one area that lacked collective knowledge or experience.
14. The results have helped inform a training programme for the Committee, which will be open to all councillors. Typically, these take place just ahead of each Audit and Governance Committee meeting and are facilitated by the Chief Internal Auditor. A proposed training programme is detailed below:
  - November 2021 – Fraud Awareness
  - January 2022 – Risk Management
  - March 2022 – The Role of the Audit Committee and Internal Audit
  - June 2022 – Information Governance

### **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. The equality information is provided at Appendix C to the report.