

EPPING FOREST DISTRICT COUNCIL

**FIRST ANNUAL REPORT
OF THE
AUDIT AND GOVERNANCE COMMITTEE
2007/08**

1. INTRODUCTION

This is the first Annual Report of Epping Forest District Council's Audit and Governance Committee covering the municipal year 2007/08. The aim of this report is to describe some of the issues that have arisen during the year, in the context of the terms of reference for the Committee and its primary objective to provide independent assurance on the adequacy of the Council's control environment and risk management arrangements.

Current membership of the Committee comprises:

- Three District Councillors; during 2007/08 these were Councillors John Knapman (Chairman), Ann Haigh and Antony Watts
- Two independent members – Melanie Rickman and Nick Purkis;

The Audit and Governance Committee is supported by Bob Palmer (Director of Finance and ICT) and Joe Akerman (Chief Internal Auditor), together with administrative support from Research and Democratic Services officers.

2. Establishment of the Committee

- 2.1 At its meeting in February 2007, Epping Forest District Council resolved to establish an Audit and Governance Committee in line with recommended good practice, following proposals made by the Finance and Performance Management Cabinet Committee in consultation with the Constitution and Members Services Scrutiny Standing Panel. Five meetings of the Audit and Governance Committee were subsequently placed in the municipal calendar for 2007/08 to enable the business of the new Committee to be transacted.

3. Terms of Reference

- 3.1 The Terms of Reference of the Audit and Governance Committee were approved by the Council in February 2007 and 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 anti-corruption 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 Statement on Internal Control (Governance Statement from 2007/08), 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.

4. Training of Committee Members

- 4.1 Members of the Committee received a full day of induction training in June 2007, prior to the first meeting of the Committee, in order to provide an overview of the role and function of the Committee, and training in technical aspects of the work of the Committee so that effective and robust challenge could be made in respect of the issues to be reviewed. This was particularly important as the first meeting of the Committee was due to consider a wide range of reports covering statutory financial reporting and External and Internal Audit reporting, and would have to 'hit the ground running'.
- 4.2 An experienced trainer from the Chartered Institute of Public Finance and Accountancy (CIPFA) delivered the training, supported by the Head of Finance and the Senior Auditor.

- 4.3 A further training session on the principles of risk management was arranged for September 2007, to provide members of the Committee with an awareness of this key issue within the Committee's terms of reference.

5. The Year in Review

- 5.1 This Section of the report outlines the main activities of the Committee over the last Council year (2007/08), each section reflecting the main terms of reference.

Review of Control Environment and Risk Management Arrangements

- 5.2 The Committee reviewed the Council's Annual Statement on Internal Control for 2006/07 and noted that Chief Internal Auditor had stated that satisfactory assurance could be given in respect of the adequacy of the Council's control systems during the year. In addition, all Heads of Service had provided assurance statements that appropriate controls were in place during 2006/07.
- 5.3 The Committee also received a number of reports from officers on the new governance framework for local authorities produced by CIPFA (Chartered Institute of Public Finance and Accountancy) and SOLACE (Society of Local Authority Chief Executives). The scope of the new Governance Statement for 2007/08 would be far wider than the former Statement on Internal Control, as this had focused on corporate and service issues related to internal control and risk management.
- 5.4 The corporate governance framework had been revised due to the development and reform of local government, and had addressed some areas not previously covered. The new framework aimed to reflect the dimensions of the local government role, namely:
- (i) to provide leadership for and with the community, and engage in effective partnerships;
 - (ii) to ensure the delivery of high quality local services whether directly, in partnership, or by commissioning;
 - (iii) to perform a stewardship role that protected the interests of local people and made the best use of resources; and
 - (iv) to develop local democracy and citizenship.
- 5.5 The Committee had previously noted that the Council already had effective processes to deal with many elements of the governance framework, including Financial Regulations, Staff and Member Codes of Conduct, Human Resources policies, financial strategies and the performance management framework. Each element is subject to continuous or periodic review and updated as appropriate. A 'Business and Governance Assurance Framework' had been developed to link these elements and provide evidence that the Council had effective controls in place, as well as providing a mechanism for the continuous review of the Council's governance arrangements. This work culminated in the Committee's endorsement of a revised Code of Governance for the Council and a recommendation to Council for its adoption.

- 5.6 To assist the Committee's understanding of the issues under review, and to resolve any delays in implementing Audit recommendations, the Committee agreed at its first meeting that Senior Officers should attend meetings of the Committee if requested, particularly if high priority recommendations from Internal Audit Reports were not implemented in a timely manner. During the year a number of Service Directors and Senior Managers assisted the Committee by attending its meetings to clarify issues under consideration.
- 5.7 The Committee receives regular reports from Internal Audit on matters relating to the Council's internal control and risk management framework. A specific report was received on a lapse in the Council's systems regarding a land sale, which led to a review into the way the Council could approach specific disposals in the future.
- 5.8 At the meeting in November 2007 the Committee also noted a self-assessment of the way that the Council managed its fraud risk, as the Audit Commission had identified this as a 'Use of Resources' Key Line of Enquiry. The Committee were informed that the Council's main area of activity in relation to fraud involved Housing Benefit and Council Tax benefit, however the Council had experienced other types of actual or attempted fraud, from both within and outside the Council. The results of the self-assessment had indicated that the Council's current arrangements were largely effective in most areas. Appropriate arrangements were in place and monitored regularly, which helped to maintain a relatively low level of fraud. The only issue of concern noted by the Committee was that the Council did not currently have a formal process to work together with its stakeholders to counter fraud and corruption, although some reassurance was provided, since grant-aided organisations do have to comply with conditions allowing the Council access to documents if necessary.
- 5.9 In January 2008 the Committee considered a report on the effectiveness of the Authority's arrangements for risk management. It was noted that all services are required to include a section on risk in their business plans, with action plans for dealing with risks that are above a tolerance line. A corporate Risk Management Group meets quarterly to discuss risk management issues and to recommend alterations to the corporate risk register to the officer Corporate Governance Group. At Member level, the Finance and Performance Management Cabinet Committee advises on risk management issues and approves updates to the corporate risk register. Having considered these issues the Audit and Governance Committee considered that the Authority's arrangements for risk management were effective.

Monitoring of Internal Audit Performance and Work Plans

- 5.10 During the year the Committee noted the Internal Audit Unit Annual Report for 2006/07 and received regular quarterly monitoring reports dealing with the management of the Internal Audit Unit, and key control issues arising from the audit work undertaken. In considering these reports the Committee was mindful of the need to consider these reports in the context of the adequacy or otherwise of the Council's governance arrangements and the effectiveness of the work of Internal Audit. At its final meeting of the municipal year, in March 2008, the Committee approved the Annual Audit Plan for 2008/09. It was noted that the Plan had been consulted upon with the External Auditors, to ensure that the respective work plans were complementary and prevented any unnecessary duplication of work.

- 5.11 The Committee was made aware of management issues arising during the year, in particular ongoing sickness issues within the Audit Unit, and noted the way in which the work plan was monitored during the year to meet the overriding requirement to complete the audits of the Council's main financial systems to the satisfaction of the External Auditors.
- 5.12 The Committee noted at the meeting in January 2008, that the majority of planned audits, including all of the key audits of financial systems, were due to be completed by 31 March 2008, although some audits would slip to 2008/09, due primarily to operational factors and the Audit Team's sickness levels referred to earlier. The prioritisation of Audits had been based on a risk evaluation. The percentage of audits completed in 2007/08 was predicted to be 85%, in line with the target for the year, compared to 82%, 86%, and 86% in the preceding three years respectively.
- 5.13 The Committee noted the review of the effectiveness of the System of Internal Audit undertaken by the Corporate Governance Group for 2006/07, in the context of the Council's Statement on Internal Control. The Committee agreed to undertake this review for 2007/08 and agreed a process leading to consideration of a report in June 2008.

Relationships between Internal and External Audit

- 5.14 At its first meeting the Committee received a presentation by the Audit Commission on the combined Annual Audit and Inspection Plan for the Council for 2007/08. The Key Audit Risk Areas were outlined to the Committee, including compliance with the Statement Of Recommended Practice (SORP) 2007 for the Council's financial statements for the year ending 31 March 2008, and a mid-year implementation of the Council's new Revenues and Benefits ICT system. The External Audit coverage for 2007/08 would also include a review of the core financial systems used to prepare the Council's accounts to 31 March 2008. In the latter context the Committee noted that the 2007/08 audit had also been planned on the basis that PKF would be able to place full reliance upon the work of the Internal Audit Unit.
- 5.15 The Committee questioned the increase in the External Audit fee for 2007/08 and noted that the Inspection fees had been increased by more than £8,000 due to the inclusion of an inspection of the Council's Environmental Service following the letting of a new waste management contract in November 2007. The Committee requested early notification of any changes to both the plan and fees in the future.
- 5.16 Mr P King explained that he had been appointed by the Audit Commission to be the relationship manager for the Council. Mr King had also been the Council's External Auditor until 2006-07, however PKF (UK) LLP had been appointed to that role from 2007-08 onwards. Mr R Bint, a partner with PKF, was introduced to the Committee as the Council's new External Auditor.
- 5.17 The Committee subsequently received a presentation from PKF's Audit Manager on the role and responsibilities of External Audit.

Review of Financial Statements

- 5.18 At its first meeting, the Committee received a report on the Statutory Statement of Accounts for 2006/07. The Committee were reminded that the Accounts and Audit Regulations required the Council to adopt the Statutory Statement of Accounts before 30 June each year. This task was reserved for the Council, however it was important that the Accounts were subjected to robust member scrutiny. This task was now included in the terms of reference for the Audit and Governance Committee. Following the postponement of the first meeting of the Audit and Governance Committee scheduled for 25 June 2007, the Council had already considered and approved the Statutory Statement of Accounts at its meeting held on 28 June 2007. However, the Committee was still able to ask a number of pertinent questions on the Statement of Accounts at the rearranged meeting held on 9 July 2007.

Review of External Audit Reports

- 5.19 At its second meeting in September 2007 the Committee received a report from the Audit Commission on the 2006/07 Annual Governance Report for Epping Forest District Council. The report had been prepared for presentation to the Committee in accordance with the requirements of International Standards on Auditing 260 – Communication of Audit Matters to those Charged with Governance – and related to the audit of the financial statements. The Committee were informed that, although the work on pension costs, related disclosure notes and the Whole of Government Accounts return were not yet complete, it was intended to issue an unqualified audit opinion in respect of the financial statements by the statutory deadline of 30 September 2007. It was felt by the External Auditors that the Statement on Internal Control had been prepared in accordance with the guidelines issued by CIPFA and was consistent with the findings of the audit. In addition, an unqualified conclusion on the Council's use of resources would be issued prior to the statutory deadline of 30 September 2007.
- 5.20 The Committee also received the Audit Commission's Systems and Accounts Audit Memorandum, the objective of which was to provide an opinion as to whether the Council's financial statements present fairly the Council's financial position and have been prepared in accordance with CIPFA's Statement of Recommended Practice (SORP). It was noted that an unqualified opinion had been given on the Accounts, and that only one non-material issue had been raised, in respect of the VAT treatment on a land sale. Some specific system weaknesses had been identified in areas including compliance with Financial Regulations, system reconciliations, and the administration of staff leaving the Council's employment. The Committee requested the Chief Internal Auditor to monitor the Action Plan resulting from the Audit Commission's recommendations, and report progress as part of the quarterly Internal Audit monitoring report.
- 5.21 At the meeting in January 2008 the Committee noted the Council's results in respect of the External Auditor's annual Use of Resources Assessment for 2007, including the key findings and conclusions, and the improvement opportunities identified in the Auditor's report. It was noted that the Authority's overall score had risen to 3, from the score of 2 in both of the preceding two years. The Committee was advised that the Council takes account of the Auditor's feedback in relation to its use of resources, to inform service development and improvement, and future plans and priorities.

Review of Performance

- 5.22 As part of the Audit monitoring process the Committee became aware that not all Service business plans are available by 1st April each year. The possible reasons for this were explained, and included delays caused by the finalisation of the budget. The Committee felt that it was good business practice to have a finished business plan in place for all Services by the start of each financial year, and that the relevant Portfolio Holder should sign them off. The Committee therefore requested an Audit report on any plans that had not been completed within the required timescale in the future.
- 5.23 The Committee also considered a report concerning a toolkit and self-assessment checklist for the operation of the Audit and Governance Committee, in order to demonstrate that the Committee itself was compliant with best practice. The Chief Internal Auditor had undertaken a self-assessment against the checklist included in the guidance issued by CIPFA for local authority Audit Committees. Following evaluation of the results, the operation of the Committee and its structures had compared favourably with the criteria within the toolkit, and it was felt that improvements could mostly be achieved through the routine business of the Committee. Any items that had not met the criteria had been highlighted in the report along with the actions in progress or planned to make the Committee fully compliant. In particular the Committee felt that it would be beneficial for separate periodic meetings to be held with the External Auditor, and the Chief Internal Auditor, in accordance with the Committee's Terms of Reference, and that the assessment of the External Auditor's performance be further considered, possibly at the private meeting. The Committee subsequently held a private briefing meeting with the External Auditor, prior to the formal meeting of the Committee in March 2008. A separate meeting with the Chief Auditor will be held at a later date.

6. Concluding Comments

In the past, responsibility for audit and governance matters has tended to be viewed in a finance or audit context, and Members or officers without such an involvement may not have seen a clear link with their day to day activities. The Council's revised Local Code of Governance defines good governance in the context of a set of principles, which focus on the systems and processes for the direction and control of the Council, and the way in which it accounts to, engages with and leads the community. The term 'governance' therefore spans the whole range of the Council's activities, in particular the delivery of high quality services, the maintenance of values and ethical standards, and effective use of human, financial and environmental resources.

It is therefore emphasised that any Member or officer of the Council who has concerns about audit and governance issues, are welcome to approach the Director of Finance and ICT, Chief Internal Auditor, or any member of the Audit and Governance Committee, who can offer advice related to any aspect of the Committee's work.