

Report to the Audit and Governance Committee



**Epping Forest
District Council**

Date of meeting: 15 February 2024

Portfolio: Leader of the Council

Subject: Audit and Governance Committee Effectiveness Update

Responsible Officer: Sarah Marsh (01992 564446).

Democratic Services Officer: Laura Kirman

Recommendations/Decisions Required:

- (1) work on the Audit and Governance Committee's action plan be noted.

Executive Summary:

The 2022/23 annual report of the Audit and Governance Committee included a review of its effectiveness, which concluded that the Council could demonstrate compliance with recommended best practice for an effective audit committee. The outcomes of the review of effectiveness resulted in an action plan being developed. This report shows that progress is being made against the action plan.

Reasons for Proposed Decision:

The effective operation of the Audit and Governance Committee forms a key element of the Council's assurance framework. Following a review of its effectiveness the Audit and Governance Committee produced an action plan in July 2023 to ensure compliance with CIPFA (Chartered Institute of Public Finance and Accountancy) guidance. This report shows progress being made against the action plan.

Other Options for Action:

None.

Report:

Background

At its 27 July 2023 meeting the Audit and Governance Committee agreed its annual report for 2022/23. The report also contained a review of its effectiveness, and the Committee noted the associated action plan as detailed in table 1.

Table 1 – Action Plan included in the 2022/23 Annual Report

Area	Description	Action owner and proposed timetable
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Skills and knowledge analysis	A skills and knowledge analysis of the Committee should be undertaken. As well as shaping the training plan, evidence of the assessment and delivery of training will support the profile of the committee – for example, by including it in the annual report.	The Chief Internal Auditor to facilitate the review now the membership of the Audit and Governance Committee has been confirmed after the May 2023 elections.
Training and awareness	The Audit and Governance Committee identified the following area where further training was required: <ul style="list-style-type: none"> • risk management and assurance frameworks. 	The Chief Internal Auditor, in conjunction with the Audit and Governance Chair, to devise a training and awareness programme for the Committee, open to all councillors where appropriate, as part of the skills and knowledge analysis described above.
Remit	Appendix C identified a number of areas where the Audit and Governance Committee's role may require clarification: <ul style="list-style-type: none"> • Council's compliance with CIPFA's Financial Management Code • Outcomes from the 2023 External Quality Assessment of Internal Audit • If additional assurances regarding performance management and value for money are required • How the Committee can support the Council's ethical framework 	The Chief Internal Auditor, using a checklist approach, determine how the Audit Committee gain their assurances against the CIPFA 2022 Audit Committee guidance to identify any gaps or weaknesses. To be reported to the 29 September 2023 meeting.
Audit	Provide opportunities for the Audit and Governance Committee to meet in private with the Internal and External Auditors	Democratic Services to arrange for the Audit and Governance Committee to meet in private with the Chief Internal Auditor and the External Audit partner ahead of Committee meetings during 2023/24.

The rest of this report sets out progress to date against the four areas detailed in the above table.

Skills and Knowledge Analysis/Training and Awareness

Internal Audit will facilitate a skills and knowledge analysis of the Audit and Governance Committee after the May 2024 elections and produce an anonymised summary of the results. In the meantime preparations are being made to recruit to the two vacant posts of independent members of the Committee. Once recruited they will be included in the skills and knowledge analysis.

The results from the skills and knowledge analysis (once completed) will help inform a training programme for the Committee, which will be open to all councillors. Typically, training events take place just ahead of each Audit and Governance Committee meeting and are facilitated by the Head of Internal Audit.

The training programme for 2023/24 is detailed below:

- November 2023 – Assurance frameworks
- January 2024 – Risk Management
- March 2024 - How the Internal Audit Plan for 2024/25 was developed, combined with a private meeting between the Committee and the Head of Internal Audit

Audit and Governance Committee’s Remit

The table below sets out the explicit areas where the Committee’s remit and assurance provision needed greater clarification.

Table 2 - Remit

Area	How the Committee gains (or will gain) assurance
Council’s compliance with CIPFA’s Financial Management Code	<p>This action forms part of the Annual Governance Statement (AGS) action plan, progress against which is periodically reported to the Committee.</p> <p>The Head of Internal Audit is working with the Interim Chief Financial Officer on an appropriate assessment tool to ensure the Council can demonstrate compliance with the Code. If there are deficiencies, an action plan will be developed to address the issues. If an action plan is required, it will be presented to the Committee for adoption.</p>
Outcomes from the 2023 External Quality Assessment of Internal Audit	<p>This was reported to the Committee on 30 November 2023 as part of the Internal Audit progress report. This confirmed the Internal Audit service fully conforms to the requirements of the Public Sector Internal Audit Standards and the CIPFA (Chartered Institute of Public Finance and Accountancy) Local Government Application Note.</p>
If additional assurances regarding performance management and value for money are required	<p>The primary focus of the Committee is on the Council’s arrangements for ensuring value for money rather than reviewing the actual performance achieved. The Committee should avoid any overlap with the scrutiny function. The Committee receives its assurance from the following sources, therefore, additional assurances are not required:</p> <ul style="list-style-type: none"> • The Internal Audit Plan includes value for money

	<p>aspects within the planned audits.</p> <ul style="list-style-type: none"> • The AGS indicates how effectively the value for money aspect of governance is operating in practice. • Output from the risk management arrangements may highlight risks to value for money. • One area where the Committee should receive assurance on the adequacy and effectiveness of value for money arrangements is from the Council's external auditors. However, there has been no value for money conclusion from the Council's External Auditors since 2020/21 due to the national backlog
How the Committee can support the Council's ethical framework	<p>There are a number of assurances in place, therefore, additional assurances are not required:</p> <ul style="list-style-type: none"> • Assurance over ethics will come from Internal Audit or from other sources of assurance, particularly for the annual review underpinning the AGS. • Awareness of the Council's key arrangements to uphold ethical standards for both councillors and staff (e.g. code of conduct). • Awareness of the Monitoring Officer's and the Standards Committee role with regards to councillors • Periodic review of the Council's whistleblowing procedure • The Head of Internal Audit's annual report summarises all whistleblowing cases and during the year these are noted in the progress reports
Provide opportunities for the Audit and Governance Committee to meet in private with the Internal and External Auditors	<p>It is proposed that the Committee meets privately with the Head of Internal Audit ahead of the March 2024 Committee meeting. A private meeting with External Audit will depend on their availability.</p>

Resource Implications:

There are 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 review of actions agreed in July ensures that the Council fulfils the requirements of the Accounts and Audit (England) Regulations 2015.

Safer, Cleaner and Greener Implications:

No specific implications.

Consultation Undertaken:

Corporate Governance Group

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.

Background Papers:

Minutes of the Audit and Governance Committee.

Equality Analysis:

The Equality Act 2010 requires that the Public Sector Equality Duty is actively applied in decision-making. There are no equality implications arising from the recommendation of this report as it is an update on the Committee's effectiveness review.

Appendix A: ANNUAL REPORT OF THE AUDIT AND GOVERNANCE COMMITTEE 2022/23

INTRODUCTION

The purpose of the Audit Committee is to:

- provide independent assurance to the Council in respect of the effectiveness of the Council's governance arrangements, risk management framework and the associated control environment; and
- 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.

Whilst there is no statutory obligation for a local authority to establish an audit committee, they are widely recognised internationally across the public and private sectors as a key component of effective governance. Similarly, it is considered good practice for the Committee to report annually to the Council on its work.

The key benefits of an effective audit committee are:

- increasing awareness regarding the effectiveness and continued development of the Council's governance arrangements.
- providing additional assurance on the robustness of the Council's governance arrangements through a process of independent and objective review.
- reducing the risks of illegal or improper acts.
- increasing public confidence in the objectivity and fairness of financial and other reporting.
- contributing to performance improvements in assurance levels and awareness of the need for strong internal control including the implementation of audit recommendations.
- reinforcing the importance and independence of internal and external audit and similar review processes.

1. ASSURANCE ACTIVITY 2022/23

To help the Committee draw conclusions about the effectiveness of the Council's internal control framework, governance, and risk management it gained assurances from the following sources:

Internal Audit

The Accounts and Audit (England) Regulations 2015 require the Council to maintain an adequate and effective internal audit which is discharged by the Section 151 Officer. Internal Audit is a key source of assurance for both Members and management on the effectiveness of the control framework. The Committee has a responsibility for ensuring that Internal Audit is effective in the provision of this assurance and has worked with the Chief Internal Auditor to ensure the agreed Audit Plan for 2022/23 was delivered.

The Committee considered and agreed reports regarding the Internal Audit Strategy, Internal Audit Charter, and Annual Plan 2022/23. It has also monitored progress

made by management in implementing audit recommendations and received regular progress reports on the work and performance of Internal Audit. These reports have helped in ensuring that reported weaknesses have either been addressed or the identified risks adequately mitigated by management and that there is an effective system of governance and internal control in place.

Assurance Framework / Annual Governance Statement

The Committee's terms of reference include advising on the effectiveness of the Council's assurance framework including the production of the Annual Governance Statement.

During the year, the Committee has received reports on the control framework and how the annual review and assurance process is undertaken. Members are provided with progress made on the issues raised in respect of the Annual Governance Statement and of the annual service assurance process. The Assurance Framework is compiled from various sources of assurance, for instance Directors, managers, and other key officers.

The Chief Internal Auditor provides an annual report and opinion regarding the Council's control framework. This opinion is considered by the Committee alongside other sources of assurance.

The Committee reviewed the Annual Governance Statement (AGS) for 2021/22 which identified governance issues requiring further ongoing improvement or oversight relating to:

- Economic issues due to national and global events leading to a volatile economic situation.
- Statement of Accounts – as nationally councils continue to have difficulties in getting their final accounts audited, including Epping Forest.
- Financial Management Code Review – need for an assessment to ensure the Council can demonstrate compliance against the CIPFA Code.
- Business Continuity – to ensure plans are in place, maintained and periodically tested.
- Financial Regulations review to ensure they remain up to date.

The assurance framework remained unchanged during 2022/23. The Council's Code of Corporate Governance was reviewed by the committee in November 2022 to ensure it remains compliant with the CIPFA/SOLACE Framework - Delivering Good Governance in Local Government. Only minor changes were proposed (and agreed) to ensure it was still up to date, in line with good practice and fit for purpose.

The Committee was able to satisfy themselves that there is a robust assurance framework in place to safeguard the Council's resources through reliance on the annual review of the Council's system of internal control and the Chief Internal Auditor's annual opinion.

Anti-Fraud and Corruption

Countering fraud and corruption is the responsibility of every Member and officer of the Council. The Committee's role in this area has been to monitor and support the actions taken by officers to counter fraud, particularly as the Council has its own in-house Corporate Fraud Team, who work in tandem with Internal Audit.

The Committee receives reports and presentations on such work undertaken in the Council and proactive fraud work, for example participation in the National Fraud Initiative (NFI).

The Council continues to send out a strong message that fraud will not be tolerated and that where fraud is proven the strongest possible actions of redress will be taken.

Based on the work to date, and the implementation of recommendations coming out of investigations undertaken by the Corporate Fraud Team and Internal Audit, the Committee concludes that there is a sound anti-fraud and corruption framework in place. The Council's anti-fraud and corruption strategy was approved by Council, following approval by the Audit and Governance Committee in November 2022.

Risk Management

The Committee receives and discusses reports relating to risk management. Work continues to enhance monitoring and reporting mechanisms to ensure there is adequate scrutiny and challenge of risk across the Council and aligning this with the service planning process.

Committee members are routinely presented with the corporate strategic risk register. A rolling review of service risks will commence in 2023/24 as the risk management framework, including the format of risk registers, was refreshed during 2022/23.

Treasury Management

In accordance with its Terms of Reference, the Committee reviewed the Council's Treasury Management Strategy and considered the risks associated with the Council's treasury activity and how these are managed. The Committee also considered progress reports on the treasury management function and performance against prudential indicators.

Statement of Accounts and External Auditors

Annually the Committee should review and formally approve the Council's Statement of Accounts for the previous financial year. This would normally take place at the June/July meetings. However, this has not been the case for Epping Forest (and many other local councils) as reported above in the Assurance Framework / Annual Governance Statement section.

However, the Committee has been kept abreast of the situation and had to opportunity to challenge the Council's External Auditors (Deloitte) when they attended the September 2022 meeting.

2. COMMITTEE WORKING ARRANGEMENTS

The Committee has a rolling and flexible programme of work for its main areas of activity which is proactively reviewed and amended throughout the year to reflect changes in policies, priorities, and risks. The Committee met five times in 2021/22. The Committee considered items which are presented annually, such as audit results, the draft statement of accounts, the annual governance statement, and audit plans; as well as a number of other items including treasury management as these fall under the committee's remit.

The Committee's work plan is supplemented with periodic bespoke training. For 2022/23, this was on the role of Audit and Governance Committee. In March 2023 the Committee undertook its own effectiveness review which is detailed later in this report.

The Committee helps demonstrate its independence by having two co-opted persons. A recruitment campaign during 2022/3 was unsuccessful to recruit to the one vacant co-opted post and will be undertaken again in 2023/24.

The Committee has the benefit of being well supported by Council officers. This includes the Section 151 Officer, the Monitoring Officer, and the Chief Internal Auditor as well as the Council's external auditors.

There have been no reported major breakdowns in internal control, governance and risk management that have led to a significant loss in one form or another, nor any major weakness in the governance systems that has exposed, or continues to expose, the Council to an unacceptable level of risk.

The purpose, strategy and work programme of the Committee mitigates against any major failure by the Council to obtain independent assurance in relation to the governance processes underpinning:

- An effective risk management framework and internal control environment including audit.
- The effectiveness of financial and non-financial performance (to the extent that it affects exposure to risk and poor internal control).
- The compilation and consideration of the Annual Governance Statement.

Outcomes / Achievements

Through its work, the Committee's main outcome is in the additional assurance provided of the robustness of the Council's arrangements regarding corporate governance, risk management and internal controls.

The Committee has added value through its activity and in particular:

- it has continued with the importance placed upon governance issues, particularly risk management, anti-fraud and the assurances sought that key risks are being mitigated; and
- it has continued to raise the profile of internal control issues across the Council and to seek to ensure that audit recommendations are implemented.

Conclusions

The Committee's remit is achieved firstly through it being appropriately constituted, and secondly by the Committee being effective in ensuring internal accountability and the delivery of audit and a robust assurance framework. The Committee has received and challenged reports including those from internal and external audit.

The agreed work programme enables the Committee to provide independent assurance to the Council as to the adequacy of the risk management framework and the associated control environment.

The Committee has continued to have a real and positive contribution to the governance arrangements of the Council. The Committee's key achievement is in the additional assurance provided of the robustness of the Council's arrangements regarding corporate governance, risk management and the control environment.

In order to build upon its achievements to date and to raise awareness of the work of the Committee during the coming year the Committee will focus on the following:

- Continue to review governance arrangements to ensure that the Council adopts best practice.

- Continue to support the work of audit and ensure that appropriate responses are provided to their recommendations.
- Continue to help the Council manage the risk of fraud and corruption.
- Provide effective challenge, particularly to officers, raising awareness of the importance of sound internal control arrangements and giving the appropriate assurances to the Council.
- Consider the effectiveness of the Council's risk management arrangements.
- Provide existing and new members to the Committee with relevant training, briefings etc. to help in discharging their responsibilities.