

EPPING FOREST DISTRICT COUNCIL

THIRD ANNUAL REPORT

OF THE

AUDIT AND GOVERNANCE COMMITTEE

2009/10

1. INTRODUCTION

- 1.1 Epping Forest District Council's Audit and Governance Committee was established in 2007. This is the Committee's third Annual Report, covering the municipal year 2009/10.
- 1.2 Membership of the Committee comprises three District Councillors: during 2009/10 these were Councillors Andrew Green (Chairman), Ann Haigh and Antony Watts; and two independent members: Melanie Peddle (Vice Chairman) and Robert Thompson.

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 oversight of the financial reporting process.
- 2.2 The full terms of reference are set out in Appendix 1.
- 2.3 Following the collapse of the Icelandic banks national reports were published by the Audit Commission in March 2009 and by the Communities and Local Government Select Committee in June 2009. In November 2009, acting on recommendations in both reports for improvements to treasury management controls, the Chartered Institute of Public Finance & Accountancy (CIPFA) revised its Treasury Management Code of Practice and its Prudential Code.
- 2.4 A key change to the Codes was that "The Council will be expected to name a committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and Policies." Consequently, it is proposed to add that responsibility to the terms of reference of the Committee as soon as due process permits.

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 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.

- 3.3 In addition the Committee invites senior officers to attend its meetings, to aid the Committee's understanding of relevant issues and to explain delays in implementing audit recommendations, especially high priority recommendations.
- 3.4 A Corporate Governance Group, consisting of senior Council officers, chaired by the Chief Executive, meets monthly to consider governance issues across the whole of the Council's operations. Its minutes are circulated to the Committee for information and review.

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. 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, taken together, these represented appropriate and cohesive risk management arrangements. Additionally, the Committee was concerned to know that the Council's management showed a good level of risk awareness in its routine operations.
- 4.2 To assist it in seeking assurance that the Council was following appropriate and relevant Audit Commission recommended best practices, the Committee reviewed the executive summaries and recommendations from several Audit Commission National Local Government Studies. Topics covered included Icelandic banks; managing local strategic partnerships; strategic asset management; responding to the recession; fighting fraud; and data security.
- 4.3 At the Committee's request, it received six-monthly reports on material insurance claims, to allow it to consider if any claims might have resulted from internal control failures that required to be addressed.
- 4.4 Following adverse audit reports, the Committee received a presentation on performance improvement in the Building Maintenance Works Unit. The Committee was advised of progress in implementing improvements and sought assurance that outstanding issues would be dealt with by target dates. The Committee reminded the responsible officer of its concerns over the poor results achieved by the audits of each stock-take and asked to be kept updated on progress.
- 4.5 The Committee received a report of an internal investigation into a breach of the Data Protection Act in respect of certain personal data for taxi driver licensing. The Committee was satisfied that corrective measures being put in place should be sufficient to avoid a recurrence of the internal control failure that gave rise to the breach. The Committee had asked that the level of risk for loss of data be reviewed in the Corporate Risk Register. An increased risk level was duly agreed.

- 4.6 Each year, the Council is required to publish an Annual Governance Statement. The Committee reviewed and approved the Council's statement for 2008/09 and the associated action plan identifying future improvements to the process for compilation and publication of the statement.

Effectiveness of the System of Internal Audit

- 4.7 The Committee reviewed and approved the Council's Annual Internal Audit Plan for 2009/10, which set out the programme of internal audits for the year. The Committee was concerned to ensure that due precedence was given to departments and processes where there were higher levels of risk, especially with regard to financial loss and potential for loss of data.
- 4.8 The Committee received quarterly monitoring reports on the performance and audit results of the Council's Internal Audit Unit. The Committee considered the reports in the context of the adequacy of the Council's governance arrangements and internal control framework. The Committee keeps under review progress in implementing Internal Audit recommendations for improvements.

Statutory Statements of Account

- 4.9 As required by its terms of reference, the Committee considered the draft Statements of Account for 2008/09. The Director of Finance and ICT explained changes to critical accounting policies and practices and two unusual transactions that were reflected in the Accounts. The Committee questioned the Director on various aspects of the Accounts and, having received satisfactory answers, recommended the Accounts to the Council for adoption.

External Audit Reports

- 4.10 Early in the year, the Council's external auditors (PKF (UK) LLP) presented to the Committee their annual plan and proposed fees for 2009/10, for noting and approval. The Committee also noted a number of risks highlighted by the Auditors which, while not significant, merited audit emphasis.
- 4.11 As well as undertaking the statutory audit of the Council's financial statements, the external auditors are required to assess the Council's performance in use of resources and achieving value for money, according to criteria set by the Audit Commission. The auditors presented their assessments to the Committee; the Council was rated as performing adequately in managing finances, governing the business and managing resources.
- 4.12 At the Committee's final meeting of the year, the auditors introduced their audit plan and proposed fees for 2010/11. A number of emerging external audit issues had been identified and the Committee noted that similar risks had been also identified in the Internal Audit Plan.

5. CONCLUSION

- 5.1 During the year under review, the Committee further extended its understanding of, and influence over, the Council's governance and risk management arrangements . However, the Council's is not a static business and to continue to be effective, the Committee must remain vigilant for new and different risks that will no doubt continue to emerge.

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.