

EPPING FOREST DISTRICT COUNCIL

ANNUAL REPORT

OF THE

AUDIT AND GOVERNANCE COMMITTEE

2013/14

1. INTRODUCTION

- 1.1 This Annual Report of Epping Forest District Council's Audit and Governance Committee covers the municipal year 2013/14.
- 1.2 Membership of the Committee comprises three District Councillors and two co-opted independent members.
- 1.3 At the beginning of 2013/14 Committee membership comprised Councillors Antony Watts (Chairman), Sylvia Watson and Colin Finn; and co-opted members Melanie Peddle (Vice Chairman) and Robert Thompson.
- 1.4 Cllr Kane replaced Cllr Watson from the start of the municipal year. Cllr Finn passed away on 3 September 2013 and Cllr Lance Leonard was appointed as his replacement. When her term of office expired Ms Peddle did not seek re-appointment and Anthony Jarvis was appointed as a co-opted member with effect from 26 September 2013.
- 1.5 From then to the end of the year the Committee members were Councillors Antony Watts (Chairman), Helen Kane and Lance Leonard; and co-opted members Robert Thompson (Vice Chairman) and Anthony Jarvis.

2. TERMS OF REFERENCE

- 2.1 In summary, the purpose of the Committee is to provide assurance that:
 - 2.1.1 governance arrangements are adequate and operating effectively in practice; and
 - 2.1.2 where reviews of the governance arrangements have revealed gaps, action is planned that will ensure effective governance in future.
- 2.2 Full details of the Committee's roles and functions are set out in the terms of reference in Appendix 1.

3. MEETINGS

- 3.1 The Committee met five times during the year, as scheduled.
- 3.2 The Committee was supported by the Director of Finance and ICT and the Chief Internal Auditor, who attended the Committee meetings.
- 3.3 The Council's external auditors (BDO) 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.
- 3.4 A Corporate Governance Group (CGG), consisting of senior Council officers, chaired by the Chief Executive, meets regularly to consider governance issues across all of the Council's operations. This includes monitoring progress in

- implementation of high priority audit recommendations. The Committee reviews the CGG minutes, to ensure effective overview of governance arrangements and to maintain awareness of topics discussed and any actions required.
- 3.5 When it considers necessary, the Committee requests senior officers to attend its meetings, to aid the Committee's understanding of relevant issues and explain delays in implementing audit recommendations, especially high priority ones.

4. THE YEAR IN REVIEW

4.1 Effectiveness of governance and risk management arrangements

- 4.1.1 Each year the Committee reviews the effectiveness of the Council's arrangements for risk management. At its June 2013 meeting the Committee considered a report on this topic and, after receiving satisfactory answers to a number of questions, concluded that the arrangements in force were effective.
- 4.1.2 At its April 2014 meeting the Committee was presented with a further report on the same subject, detailing a change in the process used to assess, record and monitor risks. The Committee raised some questions about the new process, the answers to which will be considered when the Committee conducts its next annual review at the first meeting of the 2014/15 municipal year.
- 4.1.3 The Committee approve the Annual Governance Statement ("AGS") which is included in the Council's Annual report and Statement of Accounts. At its June 2013 meeting the Committee reviewed the AGS for the year 2012/13. This was approved subject to inclusion of a statement that the Council had relied on information provided by external bodies in respect of its key partnerships.
- 4.1.4 In addition the considering the foregoing routine matters, the Committee asked to review a number of ad-hoc matters which it felt might raise governance issues.
- 4.1.5 The Committee was asked by the Council to conduct a process review concerning the approval of Officer delegation. Details of the process and possible options for changing it were presented to the Committee at its June 2013 meeting. Having considered the current process and options for change, the Committee recommended that the Council retain the current process.
- 4.1.6 In the proposed restructuring of the Council's directorates, it was planned that the reporting line for Chief Internal Auditor would be changed. The Committee had asked for reassurance that this would not compromise the independence of the Internal Audit function. The Chief Executive attended the Committee's November 2013 meeting to participate in the discussion. He emphasised that Internal Audit was, and would remain, a critical part of the Council's system of governance and internal control. The proposed change reflected the Chief Executive's view that the Chief Internal Auditor did not need to report directly to him to maintain the independence necessary for Internal Audit to perform its function. The Committee was satisfied that the changes would not diminish the independence of Internal Audit.

- 4.1.7 At its November 2013 meeting, the Committee was asked to comment on proposed changes to the operation of the Overview & Scrutiny function. The Committee endorsed the proposed changes.
- 4.1.8 The Committee had asked the Chief Internal Auditor to report on the effectiveness of the due diligence process as conducted by the Council before it entered into contracts with third parties. The report was considered at the November 2013 meeting. the Committee concluded that the due diligence process appeared to be robust and was working effectively.

4.2 Effectiveness of Internal Audit

- 4.2.1 At its June 2013 meeting the Committee approved the draft Internal Audit Plan for 2013/14. At the same meeting, having considered a report on the Corporate Governance Group's review of the matter, the Committee confirmed its satisfaction with the effectiveness of the system for internal audit.
- 4.2.2 The Committee receives quarterly reports from the Chief Internal Auditor on reviews undertaken by the internal audit team. These detail any internal control weaknesses identified and recommendations to correct them. Where a weakness is significant the recommendation may be assigned high priority (Priority 1). The timely implementation of Priority 1 recommendations is overseen by the Corporate Governance Group and monitored by the Committee.
- 4.2.3 The Committee received internal audit reports at its meetings in June 2013, September 2013, November 2013 and February 2014. The Committee noted that the number of internal audit reviews giving cause for material concern continued to be encouragingly low through the year.
- 4.2.4 Given the importance of effective internal audit to maintenance of effective governance, at its September 2013 meeting the Committee reviewed the business continuity plan for the Internal Audit Department, to be assured that it was robust enough to ensure that the internal audit function would continue to be effective following an event which caused the Council severe business disruption.

4.3 Statement of Accounts

- 4.3.1 At its September 2013 meeting, as required by its terms of reference, the Committee reviewed the Council's draft Statement of Accounts for 2012/13. The draft accounts were accompanied by the Director of Finance & ICT's detailed report explaining relevant matters. Having considered the draft accounts and accompanying report, and having offered a number of suggestions to enhance the information in the accounts, the Committee recommended the draft Statutory Statement of Accounts 2012/13 for adoption by the Council.

4.4 Treasury Management

- 4.4.1 In accordance with its terms of reference, the Committee reviewed the Council's Treasury Management Strategy and considered progress reports on the treasury management function and performance against prudential indicators. The Committee received the annual outturn report for 2012/13 at its September 2013 meeting and a mid-year report for 2013/14 at the meeting in November 2013. A report on the Council's treasury management strategy statement and its investment strategy for 2014/15 to 2016/17 was presented to the February 2014 committee meeting. The Committee considered that the arrangements for dealing with the risks associated with treasury management activity were adequate.

4.5 Relationship with External Auditors

- 4.5.1 During the year the Committee received a number of reports from the external auditors (BDO) who attended all five meetings:
- Audit Plan 2012/13;
 - Planning Letter for 2013/14;
 - Audit Letter for 2012/13;
 - Fee Outturn Summary 2012/13;
 - Grants Claim & Returns Certification 2112/13;
 - Audit Plan 2013/14;
 - Planning Letter 2014/15.

In reviewing these with BDO the Committee considered the audit risks noted by the external auditors and material errors in the preparation of the Council's annual Statement of Accounts. The Committee noted the issues raised by the external auditors and accepted assurances from the Director of Finance & ICT that they were being dealt with.

- 4.5.2 The Committee believed that the relationship between BDO and the Council was effective.

4.6 Other external reports

- 4.6.1 To further inform its work, the Committee also looks at relevant reports from other external bodies.
- 4.6.2 During the year the Committee considered the Council's governance performance against national indicators contained in Grant Thornton's Local Governance review 2013 and was comfortable that the Council compared favourably with the report's indicators.
- 4.6.3 The Committee also considered a report "Protecting the Public Purse 2013", which was the result of the Audit Commission's annual fraud survey of all UK councils. The Committee was assured that the Council's fraud prevention and detection measures were adequate, although there would always be more that could be done, subject to cost.

5. CONCLUSION

- 5.1 As explained above, during the year the Committee considered a range of governance issues and offered guidance on improvements in internal control. The number of internal audits given limited assurance had remained low, which the Committee believes is evidence of sustained improvement in the Council's internal control environment.
- 5.2 The importance of an effective Audit and Governance Committee remains critical, given the continued financial pressures facing local government. The Committee must continue to ensure that the control environment, governance and risk management arrangements remain robust.
- 5.3 Overall, the Committee believes that it has fully and properly met its terms of reference during the municipal year 2013/14.

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.

(n) To be responsible for the scrutiny of the Council's Treasury Management Strategy, including consideration of mid financial year and outturn reports.