

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



**Epping Forest  
District Council**

**Report reference:** **AGC-009-2018/19**  
**Date of meeting:** **26 November 2018**

**Portfolio:** Technology and Support Services (Councillor A. Lion)

**Subject:** Audit & Governance Committee - Review of Terms of Reference & Effectiveness

**Responsible Officer:** S. Marsh (01992 564446)

**Democratic Services Officer:** S. Tautz (01992 564180)

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## **Recommendations/Decisions Required:**

- (1) **The Committee endorse its current terms of reference; and**
- (2) **The Committee consider the results of the review of the effectiveness of the Audit and Governance Committee and agree the proposed action plan for improvements**

## **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.

No changes to the Committee's Terms of Reference are proposed and an action plan has been developed to address minor weaknesses identified from the effectiveness review.

## **Reasons for Proposed Decision:**

To ensure 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), following the issue of updated CIPFA guidance in 2018. 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 2016. The review for 2017 review was deferred until 2018, to await the issue of new guidance by CIPFA. Such guidance, entitled 'Audit Committee: Practical Guidance for Local Authorities and Police', was published in Spring 2018 and replaces the 2013 edition of the guidance. The 2018 edition updates the core functions of the audit committee in relation to governance, risk management, internal control and audit. This includes new legislation affecting audit committees in combined authorities and updates to regulations and statutory guidance. The updates to the Public Sector Internal Audit Standards, and Delivering Good Governance in Local Government Framework and associated guidance, are also considered for their impact on the work of the audit committee.
3. There are changes to the core functions of the committee in relation to external audit, reflecting the new arrangements for auditor appointment and new guidance on ethical standards for auditors issued by the Financial Reporting Council. The role of the audit committee in relation to counter-fraud has also been updated to reflect the Code of Practice on Managing the Risk of Fraud and Corruption.
4. The CIPFA guidance also provides practical support to those wishing to evaluate their existing committee and plan improvements. The checklists provided in the guidance have been used in the review of the effectiveness of the Audit and Governance Committee and are attached to this report.

### **Terms of Reference Review**

5. 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, which is in line with good practice. The Committee should ensure the terms of reference remain current and up to date and make recommendations for any significant changes to the Council.
6. The Committee last reviewed its terms of reference in November 2016 and proposed no changes at that time, as they remained fit for purpose. The Chief Internal Auditor has carried out a comparison of the Committee's current terms of reference with the 2018 CIPFA model terms of reference and has undertaken benchmarking with the terms of reference of the audit committees operated by Broxbourne Borough Council and Harlow District Council.
7. On this basis, there are no proposed changes to the current terms of reference for the Committee (Appendix 1), as they are considered to remain fit for purpose.

### **Membership Review**

8. 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.
9. The Council's Audit and Governance Committee currently has two independent (co-opted) members, who were appointed on the basis of their professional expertise, experience and background as relevant to the role and responsibilities of the Audit Committee.

10. The current terms of reference for the Committee provide that co-opted members shall serve for a period of three years from appointment and may serve for a total of two such terms as of right, but may be considered for two further three-year terms, provided they are successful after open competition following public advertisement.
11. Both current co-opted members are in their second three-year term of membership of the Committee. Mr. T. Jarvis was first appointed in October 2013, so could be considered for two further three-year terms of membership in October 2019, subject to open competition. The Committee will therefore need to consider arrangements for public advertisement of Mr. Jarvis' position in early 2019. Ms. N. Nanayakkara (Vice-Chairman) was first appointed to membership of the Committee in April 2015.
12. There is no consistency in the local government sector on the size of the audit committee. CIPFA's 2016 survey of audit committees found that the size of a committee ranged from five to fifteen or more members, although 47% had between six and eight members, with 2% having fewer and 50% having more. This Council has five councillor members on its Committee. Both Broxbourne Borough Council and Harlow District Council have ten councillor members each on their Audit and Standards Committee. Neither have independent members on their committee, although Broxbourne Borough Council had an independent Chairman until recently

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

13. The effective operation of the audit 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 business.
14. Using the recommended practice in the CIPFA audit committee guidance will help the Committee achieve a good standard of performance. The checklists provided by CIPFA support an assessment against recommended practice to inform and support the Audit and Governance Committee. This should not be seen as tick-box activity.
15. 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).

### **Previous Results**

16. The review of the effectiveness of the Audit and Governance Committee was last undertaken in November 2016. This identified the following three minor areas for improvement, all of which have been completed:
  - (a) undertake a skills and knowledge analysis; which has subsequently been used to determine the work and training programme for the Committee;
  - (b) ensure the Committee has oversight of the Council's strategy for counter-fraud; and
  - (c) As part of the Annual Governance Statement (AGS) the Committee considers the coverage of assurances that underpin the AGS to make sure partnerships are adequately covered.

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

17. The results of the self-assessment show that the Council is able to demonstrate compliance with recommended best practice for an effective audit committee.

18. Resulting from the attached checklists (Appendices 2 and 3), two minor areas for improvement have been identified and are listed in the Action Plan below:

Area	Description and Proposed Actions
Skills and knowledge analysis	A skills and knowledge analysis was last undertaken in September 2017 and should be repeated as membership of the Committee has since changed.
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>

19. The Committee is requested to endorse its current terms of reference and consider the results of the review of its effectiveness, and to agree the proposed action plan for improvements.

**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 4 to the report.