

EPPING FOREST DISTRICT COUNCIL

ANNUAL REPORT

OF THE

AUDIT AND GOVERNANCE COMMITTEE

2019/20

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; and
- reinforcing the importance and independence of internal and external audit and similar review processes.

1. ASSURANCE ACTIVITY 2019/20

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 2019/20 was delivered.

The Committee considered and agreed reports regarding the Internal Audit Strategy, Internal Audit Charter and Annual Plan 2019/20, and progress by management in implementing audit recommendations. It also 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. The Assurance Framework is compiled from various sources of assurance, for instance Directors 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 2018/19 which identified governance issues requiring further ongoing improvement relating to:

- Business Continuity Planning
- Economic Climate, and in particular the then uncertainty over Brexit;
- The compliance of the Council's statutory posts with relevant legislation
- The close down of the Council's accounts

The assurance framework remained unchanged during 2019/20, except around the restructure of the senior management team through the permanent appointments of two strategic directors and a Chief Operating Officer.

The Council's Code of Corporate Governance was reviewed by the committee in January 2020 to ensure it remains compliant with the CIPFA/SOLACE Framework - Delivering Good Governance in Local Government. 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, coupled with no major incidences of internal fraud and corruption being highlighted by management, the Corporate Fraud Team or Internal Audit, the Committee concludes that there is a sound anti-fraud and corruption framework in place. The Council's anti-fraud strategy was approved by Council, following approval by the Audit and Governance Committee in November 2019.

Risk Management

During the year formal responsibility for oversight of the Council's risk management framework moved from the Finance and Performance Cabinet Committee to the Audit and Governance Committee. The Committee's Terms of Reference are being updated to reflect this. As part of its new role, the Committee agreed a new (and easy to understand) format for the corporate risk register.

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

At its September 2019 meeting the Committee reviewed the Annual Governance Statement, which was noted by not approved as further consideration was required by Officers regarding staff capacity (business resilience) issues.

In the same meeting the Committee considered the draft External Audit Report 2018/19 and draft Statement of Accounts for 2018/19. As further work was required to complete these it was agreed the Chairman of the Audit and Governance Committee was delegated to make any final adjustments to the figures and text of the final accounts, on the advice of the Council's Section 151 Officer, and report all such changes to the Audit and Governance Committee.

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 three times in 2019/20, with the March 2020 meeting being postponed due to Covid-19. The Committee considered items which are presented annually, such as audit results, the statement of accounts, the annual governance statement, and audit plans; as well as a number of other items including treasury management as this falls under the committee's remit.

The Committee's work plan is supplemented with periodic bespoke training which is open to all councillors. Risk management training was provided in January 2020. The Committee has an annual in-camera (private) session with the External and Internal Auditors.

Members of the Committee have a wide range of both experience and professional knowledge which, coupled with it having two co-opted persons, has continued to help demonstrate its independence. The Council was in the process of recruiting two new co-opted persons, but this has been put on hold following the outbreak of Covid-19 and subsequent lockdown rules.

In November 2019 the Committee undertook its own effectiveness review and reviewed its Terms of Reference, the results of which concluded its Terms of Reference needed updating to reflect its new role regarding risk management and the Council was able to demonstrate compliance with recommended best practice for an effective Audit Committee.

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. This includes the period to the end of March 2020 after the government announced on the 23 March 2020 a full-scale lock down of the country due to Covid-19.

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); and
- 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