

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



**Epping Forest  
District Council**

**Date of meeting**

9 December 2020  
AGC-016-2020/21

**Ref:**

**Portfolio:** Leader of the Council

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

**Responsible Officer:** Sarah Marsh (01992 564446)

**Democratic Services Officer:** Laura Kirman (01192 564273)

## **Recommendations/Decisions Required:**

- (1) The Committee agrees no changes are required to its Terms of Reference and
- (2) The Committee considers the results of the review of effectiveness of the Audit Committee and notes progress against last year's action plan

## **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 as they adequately reflect the remit of the Committee and an action plan has been developed to address minor weaknesses identified from the effectiveness review.

## **Reasons for Proposed Decision:**

To ensure, as a key component of the Council's governance framework, 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), in its 2018 guidance, *Audit Committees: Practical Guidance for Local Authorities and Police*. 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 November 2019.
3. 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**

4. 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 make recommendations for any significant changes to the Council.
5. The Committee last reviewed its terms of reference in November 2019 and amendments approved by Council in July 2020 via the Constitutional Working Group. Since the 2019 review the Audit and Governance Committee has strengthened its role with regards to risk management and its remit in this area is adequately reflected in its current Terms of Reference.
6. Internal Audit has carried out a comparison of the Committee's current terms of reference (Appendix A) 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. On this basis the current terms of reference are still fit for purpose and no changes are required.

### **Membership Review**

7. 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.
8. The terms of reference for the Committee provide for two independent (co-opted) members. The Council is in the process of recruiting to both positions which are currently vacant.

## Approach to the Effectiveness Review

9. The effective operation of the Audit and Governance 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 performance.
10. 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). The checklists provided by CIPFA support an assessment against recommended practice to inform and support the Audit and Governance Committee.
11. The Committee's effectiveness reviews have been undertaken previously with the last review being in November 2019. The results of the 2019 self-assessment confirmed that the Council was able to demonstrate compliance with recommended best practice for an effective Audit Committee. Some minor areas for improvement were identified as listed in the Action Plan below:

Area	Description and Proposed Actions (November 2019)
Skills and knowledge analysis	Consider repeating the skills and knowledge analysis which was last undertaken in September 2017.
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> <p>It should be noted the Committee's Terms of Reference entitles the Committee to require any Member, Director, their representatives or any other officer to attend their meetings in order to discuss any matters under discussion and has exercised this right in the past.</p>

## Results of the 2020 Effectiveness Review

12. The results of the self-assessment (appendix B) show that the Council can demonstrate compliance with recommended best practice for an effective audit committee.
13. There are no new areas that the Committee requires improvement on. Committee members are currently completing a questionnaire to ascertain the level and range of skills and knowledge the Committee has collectively.

**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 C to the report.