

REPORT TO: AUDIT & STANDARDS COMMITTEE

DATE: 21 JUNE 2017

TITLE: AUDIT AND STANDARDS ANNUAL REPORT

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CONTRIBUTOR: CHAIR OF THE AUDIT AND STANDARDS
COMMITTEE

RECOMMENDED that:

A The Annual Report for the Audit and Standards Committee for 2016/17 be agreed.

PURPOSE

The effective operation of the Audit and Standards Committee forms a key element of the Council's assurance framework. By fulfilling its responsibilities as detailed in this annual report the Committee helps the Council to maintain a high standard of corporate governance.

EXECUTIVE SUMMARY

The Annual Report of the Audit and Standards Committee outlines the Committee's work and achievements over the year ending 31 March 2017. The Annual Report helps to demonstrate to residents and the Council's other stakeholders the vital role that is carried out by the Audit and Standards Committee and the contribution that it makes to the Council's overall governance arrangements.

At its November 2016 meeting, the Committee undertook a review of its own effectiveness through a self-assessment. The results of the self-assessment show that the Council is able to demonstrate compliance with recommended best practice for an effective audit committee, with some areas of minor improvement required. This is the reason why this is the first time that the Committee has produced an annual report.

BACKGROUND

The Audit and Standards Committee was established at the Annual Council meeting on 24 May 2012. Its role is two-fold:

1. Audit - The Committee oversees the Council's internal audit and risk functions; receives and approves external audit reports; scrutinises the Annual Statement of Accounts; makes reports and recommendations to the Cabinet, Committees and the Council as a whole on the adequacy of its corporate

governance and risk management arrangements and the associated control environment.

2. Standards - The Committee deals with a range of matters including issues concerning Councillors' conduct, provides advice and guidance to the Council, the Cabinet and individual Councillors and advises on the application and review of the Constitution.

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.

The key benefits of an effective audit committee are to:

- increase awareness regarding the effectiveness and continued development of the Council's governance arrangements;
- provide additional assurance on the robustness of the Council's governance arrangements through a process of independent and objective review;
- reduce the risks of illegal or improper acts;
- increase public confidence in the objectivity and fairness of financial and other reporting;
- contribute to performance improvements in assurance levels and awareness of the need for strong internal control including the implementation of audit recommendations; and
- reinforce the importance and independence of internal and external audit and similar review processes.

ASSURANCE ACTIVITY 2016/17

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 Head of Finance as Section 151 Officer. Internal Audit is a key source of assurance for both Councillors 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.

The Committee considered and agreed reports regarding the Internal Audit Strategy, Terms of Reference and Annual Plan 2016/17, and progress by management in implementing audit recommendations. It also received regular progress reports on the 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.

The Committee also kept under review the joint working arrangement with Broxbourne Borough and Epping Forest Councils, including audit resources to deliver the plan and benefits derived from the shared working. In February 2017 the Committee received the outcomes of the independent external quality assessment of the Internal Audit shared service against the Public Sector Internal Audit Standards (PSIAS). The overall conclusion was Internal Audit complies with the PSIAS and continues to provide an effective and efficient service to each Council (Harlow, Broxbourne and Epping Forest).

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 Heads of Service 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 2015/16 which identified governance issues requiring further ongoing improvement relating to:

- Planning for the Council's financial sustainability through its Medium Term Financial Strategy and agreement with the DCLG (Department for Communities and Local Government) on a four year local government funding settlement.
- Oversight during the set up of a Local Authority Trading Company (Harlow Trading Services)
- Review of the Council's anti-fraud arrangements
- Migration of the Council's service planning, risk and performance management into a single system (InPhase), and
- Service resilience and resource planning

The assurance framework and the Council's Code of Corporate Governance remained unchanged during 2016/17, although the Code is currently being updated to reflect the revised guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in April 2016 entitled 'Delivering Good Governance in Local Government'. The Committee was able to be satisfied 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 Internal Audit Manager's annual opinion.

Anti-Fraud and Corruption

Countering fraud and corruption is the responsibility of every Councillor 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 including the work of the Corporate Fraud Group.

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 fraud and corruption being highlighted by management or Internal Audit, the Committee concludes that there is a sound anti-fraud framework in place. The Council's Anti-Fraud Strategy was revised and approved by the Committee in November 2016.

Risk Management

The Committee receives and debate the regular reports it receives on risk management. Work continues to enhance monitoring and reporting mechanisms to ensure there is adequate scrutiny and challenge of risk across the Council and alignment with the service planning process. At each Committee, Councillors are presented with the corporate strategic risk register with a rolling review of individual risks contained within it.

Statement of Accounts and External Auditors

At its September meeting the Committee reviewed the Council's draft Statement of Accounts for 2015/16 before recommending for adoption by the Council.

During the year the Committee received a number of reports from the External Auditors (EY) who attend most meetings. These reports include the Annual Governance Report 15/16, Annual Audit Letter 15/16, Audit Plan 16/17, Planning Letter 17/18 and Grant Claims and Returns of Certification for the year ending March 2016. When reviewing the reports the Committee considered audit risks highlighted by the External Auditors.

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 four times in 2016/17. 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 a review of the effectiveness of the Audit and Standards Committee, and a review of the terms of reference.

Training sessions have been held and the agreed work programme enables the Committee to provide an independent assurance to the Council as to the adequacy of the risk management framework and the associated control environment.

Members of the Committee have a wide range of both experience and professional knowledge. The Committee has the benefit of being well supported by Council officers. This included the Head of Finance, who is also the Section 151 Officer, Head of Governance, who is also the Monitoring Officer, and the Internal Audit Manager as well as the Council's external auditors.

To help ensure the effectiveness of the Committee, there is a training programme, comprising of formal training sessions as well as the committee reports. This supplemented the corporate induction packs and training programme provided, particularly for new members to the Council. Ongoing training requirements are kept under review and opportunities for joint training with Broxbourne and Epping Forest District Councils have been taken up.

In November 2016, with assistance from the Chief Internal Auditor, the Committee undertook its own effectiveness review concluding the Committee was able to demonstrate compliance with recommended best practice for an effective audit committee. This was coupled in March 2017 with a review of the Audit and Standards Committee Terms of Reference against the 2013 the Chartered Institute of Public Finance and Accountancy (CIPFA) model terms of reference, benchmarking with Broxbourne's and Epping Forest Terms of Reference, minor changes to its terms of reference was agreed to bring them in line with the CIPFA guidance.

No major breakdowns in internal control, governance and risk management that have led to a significant loss in one form or another, have been recorded or reported. Nor has any major weakness in the governance systems that has exposed, or continues to expose, the Council to an unacceptable level of risk.

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 AGS.

OUTCOMES AND 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 to increase 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 from management and both 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.

LOOKING FORWARD

The Committee has continued to work well and has considered a wide range of different topics relating to the Council's governance framework. It has continued to establish and develop its role, particularly in respect of ensuring that there are good risk assessment / management arrangements and good governance procedures in place.

Stricter internal control and the establishment of a Committee can never eliminate the risks of serious fraud, misconduct or misrepresentation of the financial position. However, the Committee will continue to raise awareness of the need for internal control and the implementation of audit recommendations as well as to maintain a watching brief on the areas highlighted in the Annual Governance Statement. In addition, through a process of independent and objective reviews, the Committee is best placed to provide an additional assurance on the adequacy of the Council's overall governance arrangements.

The Committee has performed its duties as required under its terms of reference, contributing to an effective control framework. 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.
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IMPLICATIONS

Place (includes Sustainability)

None specific.

Author: **Graeme Bloomer, Head of Place**

Finance (includes ICT)

There are no financial implications and no direct risk management implications arising from the recommendations.

Author: **Simon Freeman, Head of Finance**

Housing

None specific.

Author: **Andrew Murray, Head of Housing**

Community Wellbeing (includes Regeneration, Equalities and Social Inclusion)

None specific.

Author: **Jane Greer, Head of Community Wellbeing**

Governance (includes HR)

The effective operation of the Audit and Standards Committee forms a key element of the Council's assurance framework. By fulfilling its responsibilities as detailed in its annual report the Audit Committee helps the Council to maintain a high standard of corporate governance.

Audit Committees in local authorities are necessary to satisfy the wider requirements for sound financial management, internal controls and risk as set out in the Accounts and Audit (England) Regulations 2015.

Author: **Brian Keane, Head of Governance**

BACKGROUND PAPERS

Audit Committees: Practical Guidance for Local Authorities and Police (2013 Edition)

Glossary:

AGS – Annual Governance Statement

CIPFA – Chartered Institute of Public Finance and Accountancy

SOLACE – Society of Local Authority Chief Executives