

Audit and Standards Committee Annual Report 2023/24



Report to: Audit and Standards Committee

Date: 26 June 2024

Lead Officer: Sarah Marsh, Head of Internal Audit (01279) 446884

Executive Summary

A This annual report of the Audit and Standards Committee confirms the positive contribution the Committee makes in providing independent assurance to internal and external stakeholders as to the adequacy of the Council's governance, risk management and internal control arrangements.

Recommended that:

- A** The Annual Report of the Audit Committee for 2023/24 be agreed and recommended to Council for approval.
- B** The Committee's Terms of Reference be agreed.

Reason for decision

- A** The effective operation of the Audit Committee forms a key element of the Council's assurance framework. By fulfilling its responsibilities as detailed in this annual report the Committee supports the Council to maintain a high standard of corporate governance
- B** CIPFA (the Chartered Institute of Public Finance and Accountancy) advocates in discharging its responsibilities effectively an Audit Committee should report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. This annual public report demonstrates how the committee has discharged its responsibilities and demonstrates its compliance with CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022.
- C** This report also reviews the Audit and Standards Committee Terms of Reference and its compliance with guidance issued by the CIPFA.

Other Options

- A Not produce an annual report as one is not required by law, but it is considered good practice to do so.

Background

1. The Audit and Standards Committee role is two-fold:
 - i. Audit - To oversee the Council's internal audit and risk functions; receive and approve external audit reports; scrutinises the Annual Statement of Accounts; make 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.
 - ii. Standards - To deal with a range of matters including issues concerning Councillors' conduct, provide advice and guidance to the Council, the Cabinet and individual Councillors and advise on the application and review of the Constitution.
2. 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.
3. 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;
 - 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.

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4. 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

5. The Accounts and Audit (England) Regulations 2015 require the Council to maintain an adequate and effective Internal Audit function which is discharged by the Council's Section 151 Officer. Internal Audit is a key source of independent 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.
6. The Committee considered and agreed reports regarding the Internal Audit Strategy, Internal Audit Charter and Annual Audit Plan. It has also monitored progress made by management in implementing audit recommendations and 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, risk management and internal control in place.
7. In line with the Public Sector Internal Audit Standards (PSIAS) an external assessment of the Internal Audit function needs to be undertaken at least once every five years by a qualified independent assessor from outside the Council. At its November 2023 meeting the Committee noted the report from the independent assessor confirming the Internal Audit shared service fully conforms to the requirements of the PSIAS

Assurance Framework and Annual Governance Statement

8. The Committee's terms of reference include advising on the effectiveness of the Council's internal controls and assurance framework including the production of the Annual Governance Statement.
9. During the year, the Committee has received reports on the control framework and how the annual review and assurance process is undertaken. Members are provided with progress made on the issues raised in respect of the Annual Governance Statement and of the annual service assurance process. The assurance framework is compiled from various sources of assurance, for instance Directors, Assistant Directors and other key officers.
10. The Head of Internal Audit provides an annual report and opinion regarding the Council's control, governance and risk management framework. This opinion is considered by the Committee alongside other sources of assurance.

11. The Committee reviewed the Annual Governance Statement (AGS) for 2022/23 which identified governance issues requiring further ongoing improvement or monitoring relating to:
 - Economic issues due to economic volatility, both nationally and globally economic situation;
 - Statement of Accounts due to the nationally on-going issue with councils unable to get their final accounts audited; including Harlow;
 - Financial Management Code Review and a need for an assessment to ensure the Council can demonstrate compliance against the Chartered Institute of Public Finance and Accountancy (CIPFA);
 - Better alignment of risk management and business/service planning processes; and
 - Corporate approach to project management processes.
12. The assurance framework remained unchanged during 2023/24. The Council's Code of Corporate Governance was reviewed by the Committee in November 2023. The only change to the Code being the reference to the Audit and Standards Committee having an independent person on the Committee.

Anti-Fraud and Corruption

13. 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 including the work of the Corporate Fraud Group.
14. 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) and the outcomes of Internal Audit's investigations.
15. 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.
16. 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 and corruption framework in place. The Council's Anti-Fraud and Corruption Strategy was reviewed and approved by the Committee in November 2023.

Risk Management

17. The Committee receives and discusses reports relating to risk management. Work continues to refine monitoring and reporting mechanisms to ensure there is adequate

scrutiny and challenge of risk across the Council and aligning this with the service planning process.

18. Committee members are regularly presented with the corporate strategic risk register, risk appetites and their respective thresholds and asked their views on these, which are fed back into the risk management process. The Committee approved the updated Risk Management Strategy at its March 2024 meeting.

Statement of Accounts and External Auditors

19. The Committee should review and formally approve the Council's annual Statement of Accounts. This would normally take place at the June/July meeting. However, due to resource issues within the external audit partnership (BDO) this has not been the case for Harlow (and many other local councils) as reported above in the Assurance Framework and Annual Governance Statement section. The Committee has been kept abreast of the situation.
20. The Committee has been informed that the Government has put in place proposals to clear the backlog of outstanding local audit, which will allow the External Auditor to issue a disclaimer to the 2020/21, 2021/22 and 2022/23 accounts. The Council's new External Auditors, KPMG, were present at the March 2024 meeting and introduced to the Committee. KPMG will be responsible for auditing the 2023/24 accounts.
21. It should be noted, since 2018 the Audit and Standards Committee has delegated authority to each year approve the Annual Governance Statement and the Annual Statement of Accounts. In addition, the Chair of the Audit and Standards Committee, rather than the Leader of the Council, has the authority to sign both of these key documents off.

Committee Effectiveness

22. On 22 March 2023 the Committee, through an in-person workshop, undertook its own effectiveness review facilitated by the Head of Internal Audit. The conclusions of this work were reported to the July 2023 meeting.
23. The results showed that the Council could demonstrate compliance with recommended best practice for an effective Audit Committee. An action plan was approved of minor improvements that could be made. At its November 2023 meeting the Committee noted that the majority of the action plan had been completed. The plan is to repeat the effectiveness exercise on an annual basis.

Committee Working Arrangements

24. The Committee has a rolling and flexible programme of work for its main areas of activity which is flexible and can be amended throughout the year to reflect changes in policies, priorities and risks. The agreed work programme enables the Committee to provide an

independent assurance to the Council as to the adequacy of the risk management framework, governance arrangements and the associated control environment. The Committee met three times in 2023/24.

25. In addition to the standing items on the agenda, the Committee considered items which are presented annually, such as the Annual Governance Statement, and audit plans; as well as other items including updates on risk, the Anti-Fraud and Corruption Strategy and the Code of Corporate Governance.
26. Training sessions or briefings are held often before Committee meetings, and open to all Councillors. For 2023/24 this included assurance frameworks, the role of the Audit Committee and Internal Audit.

Terms of Reference Review

27. The role of the Audit Committee has three main functions:
 - Maintenance of governance, risk and control arrangements;
 - Accountability and public reporting; and
 - Assurance and audit arrangements.
28. These are described as detailed in the CIPFA Audit Committees Practical Guidance for Local Authorities and Police, which was updated in June 2022. The guidance includes a model Terms of Reference for a local authority Audit Committee.
29. The Committee's review of its Terms of Reference is an annual process. The Committee last reviewed its Terms of Reference at its July 2023 meeting where the Terms of Reference had been reconfigured and updated to bring them in line with CIPFA guidance. The current Terms of Reference (Appendix A) remain fit for purpose and no changes are required.

Outcomes

30. The Audit and Standards Committee's main outcome is in the assurance provided on the robustness of the Council's arrangements regarding corporate governance, risk management and internal controls.
31. The Committee has added value through its activity and in particular it has:
 - continued to place importance on governance issues, particularly risk management, anti-fraud and the assurances sought that key risks are being mitigated; and

- continued to raise the profile of internal control issues across the Council and to seek to ensure that audit recommendations are implemented.
32. 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.
33. The Committee has received and commented on reports from Finance and Internal Audit and sought assurances from External Audit for completion of their work.

Proposals

34. By fulfilling its responsibilities as detailed in its annual report the Audit and Standards Committee helps the Council to maintain a high standard of corporate governance. There is no legal or constitutional requirement for the Committee to report to the Council on its work, however, it is considered good practice to do so.

Implications

Equalities and Diversity

None specific.

Climate Change

None specific.

Finance

The Audit and Standards 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.

Author: Jacqueline Van Mellaerts, Assistant Director – Finance (Deputy Section 151 Officer)

Governance

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 review 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

- 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.

Author: Julie Galvin, Legal Services Manager and Monitoring Officer

Appendices

Appendix A –Terms of Reference for the Audit and Standards Committee

Background Papers

CIPFA Audit Committees Practical Guidance for Local Authorities and Police (edition 2022)

Glossary of terms/abbreviations used

AGS – Annual Governance Statement

CIPFA – The Chartered Institute of Public Finance and Accountancy