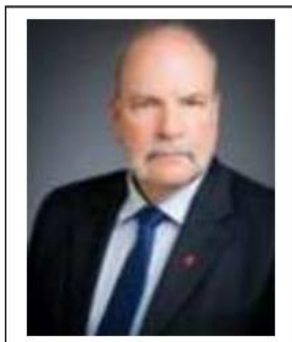


# **Audit, Governance and Standards Committee**

## **Annual Report 2022/23**

## Foreward by the Chairman of the Committee



I present to you this annual report which provides an overview of the Audit, Governance and Standards Committee's activity and achievements during the financial year 2022/23. In line with the Chartered Institute of Public Finance and Accountancy's Practical Guidance for Audit Committees (2018 edition), it serves to demonstrate how the Committee has discharged its responsibilities.

I was appointed Chairman of the Audit Governance and Standards Committee by the Council on 14 July 2020. I chaired all meetings that took place during the period referenced in this report.

This report highlights the important work of the Committee in providing an independent overview of the Council's governance arrangements. This role includes detailed consideration of the work of external audit, internal audit and counter fraud, plus robust scrutiny and challenge of the Council's financial performance and, through our Standards role, the approach the Council takes in upholding standards and investigating any complaints made about Members.

During 2022/23 the Audit, Governance and Standards Committee met six times, and the Standards Sub Committee were not required to meet. I would particularly like to draw your attention to the challenges that we have faced, and continue to face, in obtaining sign-off from the external auditor on the council's financial statements for 2020/21 and 2021/22, despite the external auditor acknowledging that the Accounts and supporting working papers were produced to a high standard and that officers have cooperated and assisted fully throughout. This is leading to problems and continuing costs for the council which is unable to archive records as quickly as it would like

I would like to highlight the effectiveness review which was an enjoyable and informative session which improved the Committee's overall awareness of its role and promises to lead to innovation in how the committee seeks assurance.

I would like to express my thanks to those officers and members who, throughout this most difficult and challenging of years, have supported the work and achievements of the Committee.

*Councillor Anthony Hedley,  
Chairman of Audit, Governance and Governance Committee*

*June 2023*

## **Introduction**

The committee reports annually to Council as an important way of keeping all councillors informed about the work of the committee in keeping things safe.

## **Membership**

During the 2022/23 financial year the Committee comprised of ten elected Members. Membership was made up of seven Conservative Members, one Labour, one Liberal Democrats, one non-aligned, and one independent. Committee members were as follows:

- Councillor Hedley (Conservative), Chairman
- Councillor McQuiggan (Conservative), Vice Chairman
- Councillor Siddall (Conservative), Vice Chairman
- Councillor Shaw (Conservative), Committee Member
- Councillor Barker (Conservative), Committee Member
- Councillor Mackenzie (Conservative), Committee Member
- Councillor Platt (Conservative), Committee Member
- Councillor McGurran (Labour), Committee Member
- Councillor King (Liberal Democrats), Committee Member
- Councillor Hoy (Non-aligned Group/Rochford District Residents), Committee Member (resigned in autumn 2022).
- Atta Ul Haque, Independent Committee Member

## **Terms of Reference and Purpose**

The terms of reference for the Committee are included in the Council's Constitution and extracted in full at Appendix 2.

The Committee is a key component of the authority's governance framework. It provides independent assurance, to Members and the public, on the adequacy of the Council's risk management framework, internal control environment and the integrity of the financial reporting and governance processes. By overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

The Committee monitors internal and external audit activity, reviews and comments on the effectiveness of the Council's regulatory framework, and reviews and approves the Council's annual statements of accounts.

Section 151 of the Local Government Act 1972 requires the Council to "make arrangements for the proper administration of its financial affairs". The Council's Section 151 Officer is key to discharging these requirements but to be truly effective, she requires an effective audit, governance and standards committee to provide support and challenge, as well as an adequate and effective internal audit.

The Committee brings many benefits:

- ✓ Demonstrates how good governance supports the authority in achieving its corporate objectives
- ✓ Reinforces the importance and independence of internal and external audit and supports an effective relationship between the two
- ✓ Provides additional assurance through the process of independent review and challenge
- ✓ Increases emphasis and awareness of internal control, governance and risk management
- ✓ Promotes anti-fraud and anti-corruption arrangements
- ✓ Promotes, develops and upholds high standards and ethics for Members

## **The Work of the Committee**

The Committee has a Work Plan designed to cover its responsibilities, appropriately timed, over the financial year. Agendas for the meetings are published on the Council's website a week or so before each meeting. Meetings are now livestreamed and can be attended by the public.

All the Committee agenda papers, minutes and audio recordings are available on the Council's [website](#).

During the course of the year, the Committee has undertaken work covering the full range of its responsibilities. A full list of reports considered is at Appendix 2 with key activities outlined below.

## ***Financial Statements and Accounts***

The Committee has responsibility for approving, on behalf of the Council, the Council's Annual Statement of Accounts (including the financial statements for the Council and the Essex Pension Fund). They have responsibility for considering whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

Despite receiving the draft Statement of Accounts for the 2020/21 financial year in June 2021 and those for the 2021/22 financial year in July 2022 (both in compliance with the respective statutory deadlines for each financial year), the Committee has been unable to formally approve the accounts for either year yet. This is because the Committee must consider the outcome of the external audit of the accounts before it can approve them. For reasons beyond the Council's control, the external audits for 2020/21 and 2021/22 are still ongoing.

The external auditor has been clear throughout that the Council's Accounts (including those for the Essex Pension Fund) and associated working papers have been produced to a high standard and that officers have cooperated and assisted fully. The audit delays have resulted from the auditor's own lack of capacity.

The Council's external auditor reported in March 2022 that the 2020/21 audit was largely complete, and that the auditor expected to issue an unmodified opinion, subject to the satisfactory resolution of a national and technical issue related to accounting for infrastructure (highways) assets. The government has subsequently amended statutory regulations and an update was made to the CIPFA Code of Practice on Local Authority Accounting in order to pave the way for resolution of this issue. Since these updates were published, the Council has completed extensive analysis to support its accounting approach, which was submitted to the external auditor at the beginning of March 2023. The external auditor's consideration of this work is still pending, although the external auditor has indicated that he anticipates being able to bring the 2020/21 audit to conclusion in time to present the audit completion report to the Audit, Governance and Standards Committee on 3 July 2023.

In terms of the 2021/22 accounts, the external auditor commenced the audit work in November 2022, but recently paused the work in order to prioritise the 2022/23 external audits of NHS bodies. The timeline for completion of the 2021/22 audit therefore currently remains unclear.

Given the significant delays to completion of the 2020/21 and 2021/22 audits, it is appears highly unlikely that the external auditor will even commence the 2022/23 audit ahead of the statutory deadline of 30 September 2023 for publication of audited accounts.

These delays are extremely concerning but are not unique to the Council - similar delays are being experienced across the sector. It is now difficult to see how auditors can clear the severe backlog of outstanding accounts and value for money audits without system wide changes to the local audit framework.

### **External Audit**

The Committee is responsible for receiving external audit plans, reports about the effectiveness of the Council's financial and operational arrangements and for considering the Annual Audit and Inspection Letter. They are further responsible for reviewing, commenting on and monitoring these and providing advice to the Cabinet and Council where the Committee believes appropriate.

#### ***The Committee's Activity in 2022/23:***

- Providing robust challenge to the external auditors in respect of the status of the 2020/21 and 2021/22 audits, and on the updates the Auditor has provided to the Committee during the year.
- Considering, monitoring and seeking to influence national developments to improve timeliness of local auditor reporting.

### **Internal Audit and Counter Fraud**

The Committee is responsible for receiving reports from the Council's Internal Auditors on the outcome of audit reviews and investigations and the implementation of recommendations, including the annual report and Opinion of the Chief Audit Executive.

### ***The Committee's Activity in 2022/23:***

- Considering and agreeing changes made during the 2022/23 financial year to the audit plan.
- Monitoring the delivery of the Internal Audit and Counter Fraud Plan via quarterly update including outcomes of individual audits.
- Receiving updates from Directors where a Limited Assurance opinion was given, in particular from Technology Services (Disaster Recovery)
- Monitoring implementation of major and critical internal audit recommendations.
- Considering the Annual Report from the Head of Assurance, in her role as Chief Audit Executive giving a 'Satisfactory Assurance' annual audit opinion for 2021/22 (reported at the meeting in June 2022).
- Monitoring counter fraud activity and the progress / outcomes of investigations.
- Agreeing the updated Internal Audit Charter.
- Reviewing and commenting on the Internal Audit and Counter Fraud Plan for 2023/24 prior to endorsing the Plan for delivery.

### ***Governance and Risk Management***

The Committee is responsible for considering the Council's arrangements for corporate governance and risk management and advise on any action necessary to ensure compliance with best practice.

#### ***Committee Activity 2022/23***

- Reviewing the Risk Management update report in order to assure themselves that effective risk management in place across the Council.
- Considering the Councils Strategic Risk Register
- Reviewing activity under the Regulation of Investigatory Powers Act 2000 to ensure that members have oversight of how the Council is exercising its statutory powers to carry out some surveillance activity for law enforcement purposes. At present the Council does not use these powers, but the Code of Practice requires members to have oversight of this area.
- Reviewing the register of gifts and hospitality.
- Approving the Councils policies on Money Laundering, Anti-Bribery and Corruption and Counter-Fraud

### **Committee Effectiveness**

The Chartered Institute of Public Finance and Accountancy (CIPFA) states that it is best practice for the Committee to regularly review its performance and effectiveness.

Accordingly, the Committee undertook a review of their effectiveness in March 2023 and as a result agreed to make additions to the work plan including receiving an annual report on standards complaints and scoping items on procurement and

contract management. Members also agreed that an AGS Committee Effectiveness Review is to be undertaken every two years. The full report on the outcomes can be found [here](#).

### ***Independent Member***

The Committee's independent member was appointed for a four year term in November 2020. The independent member has a background in accountancy and has received full induction training.

### **Members' Professional Development**

Continual professional development is key to the effective operation of the Committee. Being effective means having well informed Members able to confirm to the Council that the right processes are in place to give confidence that the authority's financial stewardship and overall governance arrangements can be relied upon.

In October 2022 and January 2023 members undertook training sessions led by the Local Government Association covering all aspects of Audit Committee membership including questioning techniques and committee responsibilities. Committee Members also attended a briefing on Accounting for infrastructure assets in October 22. Three members of the committee attended CIPFA's Introduction To The Knowledge And Skills Of The Audit Cttee in June 2022.

In addition, members kept up to date via CIPFA newsletters and ad hoc updates from officers on matters of interest. Members attend a range of internal briefings through the financial year to keep informed about ECC services.

### Audit, Governance Standards Committee - Terms of Reference

#### ***As per Article 8 of The Council's Constitution:***

Membership: Ten Members of the Council and one non-voting co-opted Member.

The co-opted Member shall be appointed the committee for a term of not exceeding four years and shall be selected by the Committee following public advertisement. At the expiry of the term of appointment the vacancy shall be advertised and a further selection process undertaken. The sitting member shall be eligible for reappointment.

No member of the Cabinet may be appointed to the Committee or any of its Sub-Committees.

#### **Purpose**

1. To review the Council's Annual Statement of Accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
2. To receive and approve the Council's Annual Governance Statement ensuring that it reflects the Council's governance arrangements.
3. To receive and approve the Final Accounts, Memorandum and the Report to those charged with Governance from the External Auditors.
4. To consider the Annual Audit and Inspection Letter from the External Auditors and to provide such advice and comments on the Letter to the Cabinet and Council as the Committee believes appropriate.
5. To receive the internal and external audit plans and comment on these plans, including the extent to which they provide value for money.
6. To ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit is actively promoted.
7. To receive reports from the Council's Internal Auditor on the outcome of audit reviews and investigations and the implementation of recommendations, including the Annual Report of the Head of Internal Audit.
8. To receive any reports from the External Auditor about the effectiveness of the Council's financial and operational arrangements and monitor Management's response to the issues raised by External Audit.
9. To monitor the effectiveness of the Council's Financial Regulations, and Procurement Procedure Rules and recommend changes to Council.



10. To approve and monitor the effectiveness of strategies for anti-fraud and corruption, whistle blowing and any legislation relating to the regulation of investigatory powers.
11. To consider the Council's arrangements for corporate governance and risk management, and advise on any action necessary to ensure compliance with best practice.
12. To advise the Council on the local Code of Conduct for members and to promote, develop and maintain high standards of conduct by members and co-opted members of the Council.
13. To keep the Code of Member Conduct under review and recommend changes to the Code or the Constitution to support high standards of Conduct.
14. To grant dispensations under Section 33 of the Localism Act 2011 and under the Code of Member Conduct to councillors and co-opted members.
15. To approve processes for considering complaints that any Councillor or Co-opted Member has failed to comply with the Code of Conduct.
16. To create one or more sub-committees as required to receive and consider allegations of misconduct of elected members, to take further oral and written evidence, adjudicate and make recommendations to the Leader of the Council and others.
17. To make arrangements for the appointment of Independent Persons under the provisions of the Localism Act 2011.
18. To make arrangements for training of Members relating to standards issues.

### **Standards Sub-Committee – Terms of Reference**

Membership: Between 3 and 5 members of the Council appointed by the Monitoring Officer in consultation with the Chairman of the Audit, Governance and Standards Committee and the Leaders of relevant political groups in accordance with the political balance rules.

1. To exercise any of the Committee's powers with respect to decisions about individual complaints about breaches of the Code of Member Conduct.

### Key Reports Considered by the Committee during 2021/22

#### Financial Statements and Accounts

- Update on the external audit of the Council's 2020/21 and 2021/22 Statement of Accounts
- Council's draft Statement of Accounts for 2021/22
- External auditor's Audit Completion Reports for 2020/21 for both ECC and Essex Pension Fund
- Provisional External Audit Plans for ECC and Essex Pension Fund for 2021/22
- External Auditor's Annual Letter
- Closure of Accounts 2022/23

#### Governance

- Annual Governance Statement for 2021/22
- Members' gifts and hospitality for April 2021 to March 2022
- Risk Management Update reports
- Regulation of Investigatory Powers Act 2000: Review of Activity
- Financial Regulations & Scheme of Delegation for Financial Management
- Counter Fraud & Corruption Strategy 2022
- Anti-Bribery & Corruption Policy 2022
- Anti Money Laundering Policy 2022

#### Standards

- Consultation on proposed Local Government Association Code of Member Conduct
- LGA Model Code of Conduct Standards: Best Practice Recommendations
- AGS Committee Effectiveness review proposals for 2023
- LGA Debate not Hate Campaign

#### Internal Audit

- Chief Audit Executive's Annual Report and Opinion for 2021/22
- Quarterly Progress Reports on IA activity
- Quarterly progress reports on Recommendation Tracking
- Specific updates from Heads of Service on Internal Audit reviews receiving Limited or No Assurance
- Draft Annual Internal Audit Plan for 2023/24
- Updated Internal Audit Charter

#### Counter Fraud

- Draft Annual Counter Fraud Plan for 2023/24
- Quarterly progress reports on counter fraud activity