

Audit, Governance and Standards Committee

DRAFT

Annual Report 2019/20

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 2019/20. 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.

Councillor Terry Cutmore was Chairman of the Committee from 12 October 2017 until he passed away on 1 April 2020. I was the Vice Chairman for the entirety of the period referenced to in this report. I was appointed

Chairman by the Council on 14 July 2020. On behalf of all Members of the committee I would like to pay tribute to the work of Councillor Cutmore for his leadership, friendship and the encouragement he gave to all of us who had the opportunity to work with him

This report demonstrates the continued good 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 2019/20 the Committee met four times (and once in March 2020 for a "virtual conversation" due to Covid-19) and it is pleasing to note that, among the highlights, were unmodified financial accounts and use of resources opinions from our external auditors for both the Council and Essex Pension Fund; and a positive conclusion on the Council's internal control, governance and risk management arrangements from our Internal Auditors.

I would like to express my thanks to those officers and Members who have supported the achievements of the Committee during the year.

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

November 2020

Introduction

The Council established the Audit, Governance and Standards Committee (the Committee) in October 2017; its functions incorporate those undertaken by the former Audit Committee as well as the responsibilities of the previous Standards Committee.

In January 2020 the Committee undertook its first Effectiveness Review, in line with recognised best practice. As part of that process the Committee committed to provide an annual report to Full Council outlining how it has discharged its responsibilities during the preceding financial year and to provide assurance to the Council that it is fulfilling its key objectives. This is the first such report.

Membership

During the 2019/20 financial year the Committee comprised of ten elected Members. Membership was made up of seven Conservative Members, one Labour, one Liberal Democrat and one independent. Committee members were as follows:

- Councillor Cutmore (Conservative), Chairman (until April 2020)
- Councillor Hedley (Conservative), Vice Chairman 2019/20, now Chair
- Councillor Channer (Conservative), Committee Member
- Councillor Davies (Labour), Committee Member
- Councillor Erskine (Conservative), Committee Member
- Councillor Mitchell, (Conservative), Committee Member
- Councillor Moore (Conservative), Committee Member
- Councillor Platt (Conservative), Committee Member 2019/20, now Vice Chairman
- Councillor Smith (Non-aligned Group), Committee Member
- Councillor Turrell (Liberal Democrats), 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 no later than 5 working days before each meeting. All Committee meetings are open to the public and are audio broadcast.

During 2019/20, the Committee met four times (and once in March 2020 for a “virtual conversation” due to Covid-19)

All the Committee agenda papers, minutes and audio recordings are available on the Council's website:

https://cmis.essex.gov.uk/essexcmis5/Committees/tabid/161/ctl/ViewCMIS_CommitteeDetails/mid/679/id/161/Default.aspx

In addition, the Standards Sub Committee met once during the year on 24 July 2019, with elected Members Councillor Channer and Councillor Turrell in attendance. The agenda papers and minutes are available on the Council's website: [Standards Sub Committee Meeting July 2019](#)

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 are outlined below.

Financial Statements and Accounts

The Committee has responsibility for reviewing, on behalf of the Council, the Council's Annual Statement of Accounts. They have specific responsibility to consider 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.

The Committee's Activity in 2019/20:

- Considering a report from the Section 151 Officer and the Chief Accountant on the process for compiling the Council's and the Essex Pension Fund's financial statements for the year ended 31 March 2019, prior to the Committee's approval of the financial statements at the meeting in July 2019.
- Considering and approving the Annual Governance Statement (a statutory document that explains the processes and procedures in place to enable the Council to carry out its functions effectively). The statement (and action plan to address any significant governance issues identified) is produced following a comprehensive review of the Council's governance arrangements, including an annual self-assessment by each Executive Director.

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 2019/20:

- Considering the audit plan presented by the external auditors.
- Reviewing and scrutinising the Audit Completion Report and Annual Letter that provided an unmodified opinion on the Group and the Council's Financial Statements and on the Essex Pension Fund's.
- Considered the unqualified use of resources conclusion (a positive opinion on the Council's arrangements for securing economy, efficiency and effectiveness).
- Providing effective challenge to the external auditors as appropriate and gained assurance from the reports and updates provided during the year.

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 2019/20:

- Reviewing and commenting on the Internal Audit and Counter Fraud Plan for 2019/20 prior to endorsing the Plan for delivery.
- Monitoring the delivery of the Internal Audit and Counter Fraud Plan via quarterly update including outcomes of individual audits
- 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 2018/19 (reported at the meeting in June 2019).

- Monitoring counter fraud activity and the progress / outcomes of investigations.
- Agreeing the updated Internal Audit Charter.

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.

The Committee's Activity 2019/20

- Approving the revised Risk Management Strategy in order to promote effective risk management as a key component of good corporate governance. Committee were pleased to note that the new strategy is simpler and more focussed and reflects a risk maturity assessment undertaken by PwC. The Committee ensured that the strategy was fit for purpose and in line with current best practice.
- 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.

Effectiveness Review

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. At the January 2020 committee meeting it was resolved that an effectiveness review be carried out supported by CIPFA.

Accordingly, a CIPFA facilitator sent a questionnaire to all committee members and interviewed the Chair, a member of the committee and a number of ECC officers, including the Executive Director for Corporate and Customer Services, the Section 151 Officer, the Monitoring Officer and the Head of Assurance. He also listened to audio recordings of the committee's meetings.

On 9 March 2020 a workshop took place facilitated by CIPFA and eight members attended. An Action Plan was produced of agreed actions for adoption at the next committee meeting. Given the number of actions in the Plan and that the implementation of some of them will need detailed consideration by the Committee, it was proposed to phase in the actions over the next year or so.

Key items in the Action Plan include:

- A pre-meeting before every Committee meeting so that Members can plan lines of enquiry
- Briefings before each meeting on subjects of importance and interest to the Committee

- Each covering report on the Committee's agenda to include a summary of key points
- An annual skills audit to be undertaken by the Committee
- The addition of a co-opted independent member of the Committee
- An effectiveness review to be undertaken annually
- Short term working groups to look at particular topics in detail
- Production of an annual report on the Committee's activities to Full Council
- Services which receive a 'No Assurance' Internal Audit opinion to be automatically invited to attend Committee and services which receive a 'Limited Assurance' audit will be considered for invitation by the Chairman.

Members' Professional Development

Continued 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. Briefings enable members of the Committee to be kept up to date on the latest developments in the areas of governance, risk and internal control as well as other activities of the Council. During 2019/20 members were kept up to date via CIPFA newsletters and adhoc updates from officers on matters of interest. As part of the Effectiveness Review a formal briefings will take place before meetings of the committee .

Audit, Governance Standards Committee - Terms of Reference

As per Article 8 of The Council's Constitution:

Membership: Ten Members

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.

Financial Statements and Accounts

- Council's Statement of Accounts for 2018/19
- External auditor's Audit Completion Reports for 2018/19 for both ECC and Essex Pension Fund
- A report on two recent consultations relating to the external audit framework
- External Audit Plans for ECC and Essex Pension Fund for 2019/20

Governance

- Reviewed the Council's Annual Governance Statement for 2018/19
- Members' gifts and hospitality for April 2018 to March 2019
- Approved Revised Risk Management Strategy
- Regulation of Investigatory Powers Act 2000: Review of Activity

Standards

- Approved the revised Procedure for the Investigation and Hearing of Complaints against Members
- Considered an issue of potential non-compliance with the ECC Code of Conduct for Members (sub-committee meeting)

Internal Audit

- Annual Internal Audit Plan for 2020/21
- Adopted the updated Internal Audit Charter
- Reviewed the Chief Audit Executive's Annual Report and Opinion for 2018/19
- Quarterly Progress Reports on IA activity
- Quarterly progress reports on Recommendation Tracking
- Received specific updates from Heads of Service on Internal Audit reviews receiving Limited or No Assurance

Counter Fraud

- Annual Counter Fraud Plan for 2020/21
- Quarterly progress reports on counter fraud activity
- Adopted the updated Counter Fraud and Anti Bribery Strategy
- Adopted the Anti Bribery Policy
- Adopted the Anti-Money Laundering Policy
- Received a presentation on cyber fraud
- Adopted the Prosecution and Sanctions Policy