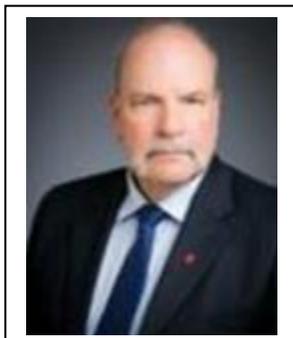


# **Audit, Governance and Standards Committee**

# **Annual Report 2021/22**

## 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 2021/22. 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. Prior to this I was the Vice Chairman and due to the untimely death of the previous Chairman 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 2021/22 the Audit, Governance and Standards Committee met five 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, 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. I would also like to highlight the improvement that the council has made in the areas of Disaster Recovery and Cyber Security and the continued satisfactory opinion 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, throughout this most difficult and challenging of years, have supported the work and achievements of the Committee.

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

*June 2022*

## 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

The Committee Membership was renewed in May 2021 after the Local Elections took place. During the 2021/22 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 Platt (Conservative), Vice Chairman
- Councillor Siddall (Conservative), Committee Member
- Councillor Shaw (Conservative), Committee Member
- Councillor Barber (Conservative), Committee Member
- Councillor Mackenzie (Conservative), Committee Member
- Councillor McQuiggan (Conservative), Committee Member
- Councillor McGurran (Labour), Committee Member
- Councillor King (Liberal Democrats), Committee Member
- Councillor Hoy (Non-aligned Group/Rochford District Residents), Committee Member
- Atta Ul Haque, Independent Committee Member, appointed November 2020

## 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 (ahead of the statutory deadline for publication), the Committee has been unable to formally approve the accounts 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 audit for 2020/21 is 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 were 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 external auditor finally presented drafts of their Audit Completion Reports to the Committee on 21 March 2022. The external auditor commented that, whilst the 2020/21 audit is substantially complete, their internal quality control reviews and work on the Council's value for money arrangements remained in progress. At the time of writing this report, this work remains outstanding.

In the report to the Committee in March 2022, the external auditor also referred to a highly technical issue relating to the carrying value of, and accounting for infrastructure assets. This has been accepted as a national issue and is being resolved at a national level. This is also now delaying audit sign off, pending a national solution.

With a caveat relating to the conclusion of the infrastructure issue, BDO have reported that they would otherwise anticipate issuing an unmodified audit opinion on the consolidated Group financial statements and the Council's single entity financial statements.

### ***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 2021/22:***

- Considering the audit plans presented by the external auditors for their audit of the Council and Essex Pension Fund for the 2020/21 financial year.
- Reviewing and scrutinising the draft Audit Completion Reports for the Council and Essex Pension Fund.
- Providing robust challenge to the external auditors in respect of the updates they provided during the year.
- Considering whether to recommend to full Council that the Council should opt into the national appointing scheme for external audit contracts due to start from 1 April 2023.
- Considering and monitoring national developments to improve timeliness of local audit.

### ***Financial Regulations and Scheme of Delegation for Financial Management***

The Committee is responsible for monitoring the effectiveness of the Council's Financial Regulations, and Procurement Procedure Rules and for recommending changes to Council. The Financial Regulations define the Council's financial policies and the framework for managing the Council's financial affairs.

#### ***The Committee's Activity in 2021/22***

- Reviewed proposed updates to the Financial Regulations, to address a range of technical matters and areas of ambiguity and to address practical issues arising as a consequence of implementing the My Oracle corporate system in October 2021.
- Recommended to full Council that the revised Financial Regulations be adopted.

### ***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 2021/22:***

- Reviewing and commenting on the Internal Audit and Counter Fraud Plan for 2021/22 prior to endorsing the Plan for delivery.
- Considering and agreeing changes to the plan, although the Committee were pleased to note that minimal changes were made during the 2021/22 financial year.
- 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, Country Parks and the Essex County Travelers Unit.
- 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 2020/21 (reported at the meeting in June 2021).
- 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.

#### ***Committee Activity 2021/22***

- Approving the revised Risk Management Strategy in order to promote effective risk management as a key component of good corporate governance. 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.

## **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 its first comprehensive effectiveness review in January 2020 producing an Action Plan of agreed actions that were formally adopted by the committee for implementation over the years 2020/21 and 2021/22. It is anticipated that the Committee will fully review their effectiveness again in 2023.

### ***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. It is likely that Local Authority Audit Committees will soon be mandated to have an independent member and as such we are proud to note that ECC had already understood the value of appointing an independent member and already have this appointment in place.

## **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.

During 2021/22 new members to the Committee received full induction training covering all the key responsibilities of AGS Committee Members. In addition, Committee members completed a Skills and Knowledge self-assessment to identify any gaps in knowledge or experience. As a result, members received training on

- The Strategic Risk Register and the ECC process for risk management
- Internal Audit
- Counter Fraud

In addition, members kept up to date via CIPFA newsletters and adhoc updates from officers on matters of interest.

### 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 to 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.

