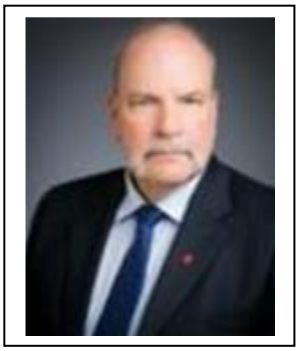
Essex County Council

Audit, Governance and Standards Committee

Annual Report 2020/21

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 2020/21. 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 2020/21 the Committee met six times having had to hold an additional meeting at the end of November 2020 to approve the Councils financial statements. Among the highlights, were the appointment of our first Independent Member; receiving unmodified opinions from our external auditor on the 2019/20 financial accounts and use of resources opinions of the Council and the Essex Pension Fund; a satisfactory conclusion on the Council's arrangements to secure value for money in its use of resources; 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, 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 Governance Committee

May 2021

Introduction

The Audit, Governance and Standards Committee undertakes the role of audit committee as well as having responsibility for standards issues at Essex County Council.

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 second such report.

Membership

During the 2020/21 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 Hedley (Conservative), Chairman
- Councillor Platt (Conservative), Vice Chairman
- Councillor Butland (Conservative), Committee Member
- Councillor Davies (Labour), Committee Member
- Councillor Channer (Conservative), Committee Member
- Councillor Jackson (Conservative), Committee Member
- Councillor Mitchell, (Conservative), Committee Member
- Councillor Moore (Conservative), Committee Member
- Councillor Smith (Non-aligned Group), Committee Member
- Councillor Turrell (Liberal Democrats), Committee Member
- Atta Ul Haque Independent Committee Member, appointed in 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 no later than 5 working days before each meeting. Due to restrictions in place related to the Covid-19 pandemic all six Committee meetings during 2020/21 took place on-line via Zoom and were open to the public to virtually attend or view via you tube.

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

During the course of the year, the Committee has undertaken work covering the full range of its responsibilities. A full list is of reports considered is at appendix 2 with key activities 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 2020/21:

- 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 2020, prior to the Committee's approval of the financial statements at the meeting in November 2020.

- 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 2020/21:

- Considering the audit plans presented by the external auditors for their audit of the Council and Essex Pension Fund for the 2019/20 financial year.
- Reviewing and scrutinising the Audit Completion Reports for the Council and Essex Pension Fund and the Annual Audit Letter that confirmed an unmodified opinion on the Group and the Council's Financial Statements and on the Essex Pension Fund's.
- Considered the 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 2020/21:

- Reviewing and commenting on the Internal Audit and Counter Fraud Plan for 2020/21 prior to endorsing the Plan for delivery.
- Considering and agreeing changes to the plan due to the Covid-19 pandemic.
- 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 2019/20 (reported at the meeting in July 2020).

- 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 2020/21

- 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 March 2020 producing an Action Plan of agreed actions that were formally adopted by the committee for implementation over the year 2020/21. These included the recruitment of an independent member to the committee and the introduction of a pre-meeting and member briefing sessions on matters of interest and value to the Committee. The full action plan with a progress update can be found at appendix 3.

Recruitment of Independent Member

The process for recruiting an independent member was agreed by Committee in March 2020 and the new independent member was formally appointed to the Committee in November 2020 after an open advertisement was placed and several potential fully qualified candidates were interviewed by the Chairman and two supporting committee members. The independent member has a background in accountancy and has received induction training. The appointment of an independent member to all Local Authority Audit Committees was recommended by the Redmond Review although we are proud to note that ECC had already understood the value of appointing a an independent member and had begun the recruitment process prior to Redmond reaching his conclusion.

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 2020/21 members attended briefing sessions on the following matters:

- The Council's Financial Statements
- The Strategic Risk Register and the ECC process for risk management

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

Appendix 1

Audit, Governance Standards Committee - Terms of Reference

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.

Key Reports Considered by the Committee during 2020/21 Appendix 2

Financial Statements and Accounts

- Deferral of completion of the external audit of the Council's 2019/20 Statement of Accounts
- Council's Statement of Accounts for 2019/20
- External auditor's Audit Completion Reports for 2019/20 for both ECC and Essex Pension Fund
- Provisional External Audit Plans for ECC and Essex Pension Fund for 2020/2021

Governance

- Annual Governance Statement for 2019/20
- The Redmond Review
- Members' gifts and hospitality for April 2019 to March 2020
- Revised Risk Management Strategy
- Regulation of Investigatory Powers Act 2000: Review of Activity
- Recruitment of an Independent Member to the AGS Committee
- Audit Committee Effectiveness Review Annual Update

Standards

- Consultation on proposed Local Government Association Code of Member Conduct
- LGA Model Code of Conduct Standards: Best Practice Recommendations

Internal Audit

- Chief Audit Executive's Annual Report and Opinion for 2019/20
- 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
- Annual Internal Audit Plan for 2021/22
- Updated Internal Audit Charter

Counter Fraud

- Annual Counter Fraud Plan for 2020/21
- Quarterly progress reports on counter fraud activity
- Updated Counter Fraud and Corruption Strategy
- Prosecution and Sanctions Policy

Effectiveness Review - Annual Progress Update

Action plan from the Audit Governance and Standards Committee.

No.	Action	Progress Update	Status
1	Introduce a pre-meeting session immediately prior to the start of the AG&S Committee to take the form of a briefing session and a pre-meeting	Meetings now start at 10.30, with a pre-meet and briefing session at 9.30am Members have received briefings on matters such as Financial Statements and Risk Management.	**Complete**
2	Review the work programme for the committee and plan when reports are due to be presented to avoid 'heavy' agendas. Consider increasing the frequency of AG&S committees to spread the workload and reduce the size of the agenda packs.	Committee review the work plan at every meeting and additional meetings are added where necessary.	**Complete**
3	Ask officers to try to reduce the size of the agenda packs if possible – consider receiving executive summary reports instead of more detailed reports	Contributing Officers now work to reduce the length of documents and covering reports contain summaries of the main issues.	**Complete**
4	Undertake an annual skills and knowledge self-assessment to determine where skills and knowledge need to be enhanced on an annual basis	Due to the impending election it was agreed that this would add more value if carried out after the election to account for the training needs of any new committee members.	**In Progress**
5	Look to co-opt at least one independent member to the AG&S committee to provide expertise and steer the	Independent member now appointed.	**Complete**

No.	Action	Progress Update	Status
	members to ask the challenging questions		
6	Produce a standalone annual report on the work of the AG&S committee for full council	The first such report was presented to full council in December 2020.	**Complete**
7	Increase the AG&S committee's visibility with officers and members by include a presence on the Essex CC intranet.	Page now live on intranet. https://intranet.essex.gov.uk/Pages/Audit_governance_and_standards_committee.aspx	**Complete**
8	AGS committee are considering requiring Directors or Heads of Service to attend the committee to do a joint presentation for all internal audit reports that have a limited or no assurance opinion. They want to get the service's view on the root cause of the issues identified in the audit, what action they are taking to remedy the situation, and how can the AGS committee help them	This now happens on a regular basis. Committee have received presentations from Tech Services, Finance and ASC in recent meetings.	**Complete**
9	AGS are considering using working groups (similar to those used at Basildon) to do in-depth look at issues outside of the committee, and report back to the committee on what they found	Committee received a report on this in September 2020 and are moving forward with an issue of interest.	**Complete**
10	The Committee have visibility of full strategic risk register at least once a year	Committee reviewed the Strategic Risk Register in September alongside a briefing session on the ECC approach to Risk Management This will be repeated annually.	**Complete**

No.	Action	Progress Update	Status
11	The Committee to undertake an annual review of its effectiveness and to consider how best to do it.	Committee completed a full review of its effectiveness with support and guidance from CIPFA in March 2020. A review of progress and consideration of effectiveness will be undertaken annually.	**Complete**
12	Changes to the audit and counterfraud plan to be referred to committee in future for approval rather than for information as at present.		**Complete**
	Training and Knowledge Enhancements		
	AGS committee identified areas where they were keen to have more training and briefing sessions. Topics requested initially by members detailed below.		
13	Briefing on corporate risk register and risk maturity to be provided.		**Complete**
14	Training session on understanding the financial statements, what they should be looking for, and what sort of questions they should be asking, prior to receiving the financial statements in June.		**Complete**
15	Briefing session on CIPFA/ALARM risk management benchmarking club	Not actioned as no relevant benchmarking undertaken in 2020	**On hold - pending activity to report**
16	Briefing on contract risks.	This was covered in Strategic Risk Session.	**Complete**

No.	Action	Progress Update	Status
17	Briefing on about Investment Risks faced by ECC.	Session to take place March 2021	**Deferred due to election**