



## **Governance and Audit Committee – 24 July 2019**

### **Annual Report of Governance and Audit Committee**

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#### **Purpose of report**

To review and record the activities of the Committee in an annual report in line with best practice.

#### **Attachment(s)**

Appendix 1: Annual Report

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#### **1. Background**

1.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) in their guidance note 'Audit Committees – Practical Guidance for Local Authorities', recommend that an Audit Committee should:

- undertake an annual review of their effectiveness; and
- produce an annual report on their activity.

#### **2. Annual Report of Governance and Audit Committee**

2.1. The Annual Report in Appendix 1 summarises the work of the Committee in the year and provides the results of the annual review of the effectiveness of the Committee.

#### **3. Important Issues to Consider**

3.1. The annual review of the effectiveness of the Governance and Audit Committee identified four areas where the effectiveness of the Committee could be further strengthened. A schedule of recommendations has been developed following the annual review, as set out in Appendix 1.

#### **4. Equality and Diversity Implications**

4.1. There are no equality and diversity implications arising from the recommendations in this report.

#### **5. Privacy Impact Implications**

5.1. There are no privacy impact implications arising from the recommendations in this report.

#### **6. Legal Implications**

6.1. There are no legal implications arising from the recommendations in this report. The terms of the Constitution do not require the Governance and Audit Committee to produce an annual report. However, the Committee can report any matter to full Council; therefore it has the option to take the annual report to Council or inform other members that the report is available to review in the minutes of this meeting.

#### **7. Risk Management**

7.1. There are no significant risks arising from the recommendations in this report.

## 8. Resource and Financial Implications

8.1. There are no resource or financial implications arising from the recommendations in this report.

## 9. Constitutional Implications

9.1. There are no constitutional implications arising from the recommendations in this report.

## 10. Implications for our Customers

10.1. There are no implications for our customers arising from the recommendations in this report.

## 11. Corporate Outcomes

11.1. This report links to the following Corporate Outcomes:

- **Effective Management**

*Ensuring the Governance and Audit Committee operates effectively in accordance with best practice so that performance is managed and exposure to risks are minimised*

- **Employees and Members with right knowledge, skills and behaviours**



*Ensuring that members have the right skills and knowledge to carry out their roles effectively*

## 12. Recommendation

12.1. The Committee is recommended to:

- Approve the annual report of the Governance and Audit Committee including the recommendations to further enhance the effectiveness of the Committee.

*(Reason: To ensure the Governance & Audit Committee are following good practice guidelines on performance and effectiveness)*

<b>Legal</b>	Power: <b>Local Government Act 2003, Local Audit and Accountability Act 2014 Accounts and Audit Regulations 2015</b>				
	Other considerations:				
<b>Background Papers:</b> CIPFA – Practical Guidance for Local Authorities					
<b>Person Originating Report:</b> Amy Eyles, Finance Manager ☎ 01832 742087 ✉ aeyles@east-northamptonshire.gov.uk					
<b>Date:</b> 04/07/2019					
<b>CFO</b> 15/07/19		<b>MO</b> 15/07/19		<b>CX</b>	

## **Appendix 1 - ANNUAL REPORT OF THE GOVERNANCE AND AUDIT COMMITTEE FOR THE YEAR 2018/19**

### **1. Background**

The purpose of the Governance and Audit Committee is to oversee and provide independent assurance of the adequacy of the risk management framework and control environment, scrutiny of the authority's financial and non-financial performance in that context, and oversee the financial reporting process, including:

- To review summary internal audit reports and actions arising from them
- To consider reports of external audit and inspection agencies and monitor action arising from them
- To monitor the effective development and operation of risk management and corporate governance
- To monitor the effectiveness of the whistleblowing and anti-fraud and anti-corruption policies
- To approve the annual governance statement
- To approve the annual statement of accounts for publication

The Terms of Reference can be found in the Constitution (Part 8). A full review of the Terms of Reference for the Committee was undertaken in 2018 and amended Terms of Reference were approved by Council on 15<sup>th</sup> October 2018.

This report, in line with best practice, sets out the committee's work and performance during the year, including how it has met its terms of reference.

### **2. Membership of the Committee and meetings**

The Committee comprises 10 members who are appointed by the Council at its Annual Meeting each year. The following Councillors were appointed for the municipal year 2018/19:

- Cllr P Wathen Chairman)
- Cllr A Smith (Vice-Chairman)
- Cllr A de Capell-Brooke
- Cllr S Hobbs
- Cllr R Underwood
- Cllr D Maxwell
- Cllr R Beattie
- Cllr M Hillson
- Cllr S Hughes
- Cllr L Jones

Senior Officers from the Council are also present at meetings, including the Monitoring Officer, Section 151 Officer, Head of Resources (Deputy Section 151 Officer), Internal Audit Manager. Where appropriate, representatives of the External Auditor (EY) will also attend. The Chair and Vice Chair of the Committee also meet with Internal Audit and the Head of Resources on a regular basis.

### **3. Governance and Audit Committee business**

During the year the Committee met on the following dates and conducted the following business:

#### **20 June 2018**

Draft Statement of Accounts 2017/18  
Risk Management Update – Quarter 4 (2017/18)  
Progress on Implementation of Internal Audit Recommendations  
To note a letter received from the Council's External Auditors regarding audit fees  
Internal Audit – Annual Internal Audit Report and Opinion  
Internal Audit – Internal Audit Charter & Strategy  
Internal Audit – Revised Internal Audit Plan 2018/19  
Annual Report of Governance and Audit Committee  
Licensing Protocol  
North Northamptonshire Safety and Resilience Partnership

#### **25 July 2018**

Final Statement of Accounts 2017/18  
Annual Governance Report of the External Auditor 2017/18  
Progress on Implementation of Internal Audit Recommendations  
Internal Audit Progress and Performance Update

#### **19 September 2018**

Annual Audit Opinion 2017/18  
Annual letter from Local Government Ombudsman  
Internal Audit – Progress and Performance  
Progress on Implementation of Internal Audit Recommendations  
Proposed Changes to Constitution Part 5.1 and Part 9 – Reporting of Councillor Complaints

#### **28 November 2018**

Risk Management Update – Quarter 2 (2018/19)  
Progress on Implementation of Internal Audit Recommendations  
Internal Audit – Progress and Performance  
Internal Audit Planning 2019/20

#### **5 December 2018**

Draft External Audit Plan 2018/19

#### **30 January 2019**

Progress on Implementation of Internal Audit Recommendations  
Internal Audit – Progress and Performance  
Proposed Changes to Constitution Part 4.3 – Budget and Policy Framework  
Procedure Rules – flexible controls on use of earmarked reserves  
Risk update

#### **28 March 2019**

Internal Audit – Internal Audit Plan 2019/20  
Internal Audit – Progress and Performance  
Grant Certification 2017/18  
Risk Management Update – Quarter 3 (2018/19)  
Progress on Implementation of Internal Audit Recommendations  
Updated External Audit Plan 2018/19  
Enterprise Centre – Progress and Assurance Update

Proposed Changes to Part 2 of the Constitution (Articles) to allow named substitutes to be nominated for the North Northamptonshire Joint Committee and Part 9 of the Constitution (Councillor Complaints)

#### **4. The Committee's main achievements**

The key achievements of the Committee during the year were:

- Effective challenge of officers in respect of audit reports
- Improving the knowledge base of the Committee through attendance at various training sessions throughout the year (as detailed in section 5)
- Review of Risk Register in order to seek assurance that key risks are being appropriately mitigated, thereby providing additional assurance through a process of independent review. The council's risk management framework has been identified as an area where the Committee will focus increased attention in 2019/20, as detailed in the recommendations set out in Section 8 below
- Satisfying itself that appropriate actions have been taken to implement outstanding audit recommendations. As at 31<sup>st</sup> March 2019 there was only one outstanding overdue audit recommendation.
- Scrutinising the Statement of Accounts and Annual Governance Statement prior to approval
- Review updates to the Constitution

#### **5. Training events**

Members of the Committee have received training on the following during the last year:

- Internal Audit Training (28 November 2018) attended by 6 Committee members – Audit Committees: Roles and Effectiveness.
- Chair Cllr P Wathen (29 November 2018) – CIPFA Development Day for Local Authority Audit Committees.

#### **6. Governance and Audit Committee effectiveness review**

The Committee completed an effectiveness review on 21<sup>st</sup> June 2017 based on CIPFA guidance. The conclusion of the review was that the Committee is effective in its role but a number of action points were noted, as detailed below.

##### **a) Annual Report and Evaluation**

###### Actions identified:

- In order to ensure the role and purpose of the Committee is understood across the authority, an Annual Report of the Governance and Audit Committee will be presented to Council each year.
- The Committee will carry out an annual evaluation to assess whether it is fulfilling its Terms of Reference and consideration is being given across all core areas.
- The Annual Report will include an action plan to address any areas of weakness highlighted in the annual evaluation.

Response:

- This is the second Annual Report of the Governance and Audit Committee.
- An annual evaluation was carried out in June 2019 through the completion by members of the Committee of an Effectiveness Checklist Tool. The Effectiveness Checklist was based on an original checklist tool developed in November 2017 by the National Audit Office as a summary of good practice principles for Audit and Risk Assurance Committee members.
- The annual evaluation completed in June 2019 identified the following areas where effectiveness could be improved, and a set of recommendations for implementation has been developed, as set out below:

	<b>Results</b>	<b>Comments</b>	<b>Recommendations</b>	<b>Officer Responsible</b>
<b>1</b>	The need for ongoing training to update and improve skills, including financial skills and a broader induction programme, has been identified.	The training programme should include a session on the Statement of Accounts, access to CIPFA training and any other suitable training during the year. A training session covering the Statement of Accounts will be provided prior to the meeting of the Governance and Audit Committee on 24 <sup>th</sup> July 2019.	A suitable training programme should be developed, to include meeting the training requirements of new members.	Finance Manager
<b>2</b>	Heads of Service to report directly to the Committee on the systems of internal control and management of risks within the different service areas.	Annual senior management assurance statements are completed by Heads of Service prior to the completion of the Statement of Accounts. These statements provide assurance that there is an effective framework in place to give sufficient and reliable assurance on the council's stewardship and the management of the major risks to deliver an improved, cost-effective public service. The assurance statements are referenced in the Annual Governance Statement, which forms part of the Statement of Accounts.	There should be earlier engagement with the Governance and Audit Committee regarding the Annual Governance Statement and draft Statement of Accounts.	Finance Manager
<b>3</b>	Additional information is required on the council's overall control	A report on risks is provided to the committee at each meeting, however more detail would help the committee to more	A 'deep dive' into one or two critical risks could be undertaken at each meeting, for the	Committee to select risk for deep dive, Finance Manager to co-ordinate response for the

	environment and risk management strategies and implementation, given the upcoming local government reorganisation.	effectively provide assurance on the adequacy of the council's risk management framework by ensuring that the council is appropriately responding to identified risks.	Committee to get a broader understanding of how the Risk Management Strategy is being implemented.	following meeting.
4	The committee should ensure that there is the ability to co-opt additional members or procure specialist advice when required for additional assurance work.	The Terms of Reference of the committee set out at point 6.1 that the committee has the power to appoint time-limited working parties, review teams and panels as necessary. This power has already been exercised by the committee when a special report on the Enterprise Centre was commissioned.	No specific recommendation required.	N/a
5	Given the upcoming local government reorganisation, the Committee needs to give additional and timely attention to financial management and reporting issues.	A training session covering the Statement of Accounts will be provided prior to the meeting of the Governance and Audit Committee on 24 <sup>th</sup> July 2019. This session will cover the key accounting policies, estimates and judgements made in the accounts.	Earlier engagement with the Governance and Audit Committee regarding the Statement of Accounts would enable the committee to give more timely attention to financial management and reporting issues.	Finance Manager

#### **b) Terms of Reference**

##### Actions identified:

- The Committee will review its Terms of Reference to ensure they are still fit for purpose.

##### Response:

- The Terms of Reference of the Governance and Audit Committee were reviewed in September 2018 and the proposed amendments were approved by Council in October 2018.

#### **c) Skills Assessment**

##### Actions identified:

- Whilst the Committee has not formally completed a full skills assessment, the Chair is satisfied that the individual experience and knowledge of Committee members allows the Committee to adequately discharge its duties.
- The Committee will continue to work with the Joint Standards Complaints Committee to support ethical values and review the Code of Conduct and the Constitution to achieve those values.

Response:

- The annual evaluation of the Committee carried out in June 2019 included an assessment of the skills of the Committee. The Chair has concluded that the results of the annual evaluation indicate that Committee members have the range of skills needed to be fully effective and to ensure that the Council gains the assurance it needs on governance, risk management, the control environment and on the integrity of all elements of the Statement of Accounts. However, the effectiveness review has highlighted that a broader induction programme and increased ongoing training would enable members to regularly update and further improve their skills given the upcoming local government reorganisation, as noted in the recommendations set out in Section 6a above.

## **7. Conclusion**

The Committee was able to confirm:

- That the system of internal control, governance and risk management in the authority was adequate in identifying risks and allowing the authority to undertake the appropriate management of these risks.
- That there were no areas of significant duplication or omission in the systems of internal control, governance and risk management arising from audit and other reports that had not been adequately resolved or were in the process of being resolved.

The Committee's conclusion is based on assurance gained from its own work and the work of Internal Audit and External Audit.