



Final Internal Audit Report

North Herts District Council – Review of the Effectiveness of the Finance, Audit and Risk Committee 2019/20

September 2020

Issued to:	Members of the Finance, Audit and Risk Committee
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1. EXECUTIVE SUMMARY

- 1.1 The audit committee is a key element of the governance framework of local authorities. CIPFA describe the purpose of an audit committee as ‘to provide to those charged with governance, independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.’ CIPFA’s Position Statement: Audit Committees in Local Authorities and Police 2018
- 1.2 The Public Sector Internal Audit Standards (PSIAS) also state that the ‘Head of Internal Audit should participate in the committee’s review of its own remit and effectiveness.’ For the 2019/20 review, this function has been delegated to SIAS, who provide internal audit services to North Herts District Council (‘The Council’).
- 1.3 This review provides Members with the opportunity to reflect on the effectiveness of the Finance, Audit and Risk Committee (‘the Committee’) during the 2019/20 civic year. It also provides assurance to Members of the FAR Committee and the Council on the effectiveness of risk management and internal control arrangements (Internal Audit) and the approval of the annual accounts (External Audit).

2. 2019/20 REVIEW AREAS

- 2.1 The effectiveness of the Committee in discharging its Governance responsibilities are outlined below:

Governance	
Meetings	<p>The Committee met six times during the 2019/20 civic year. This is consistent with the number of meetings outlined in the Terms of Reference, which states 'there shall be six regular meetings of the Committee in each year'.</p> <p>The Committee met in June, July, September and December (2019) and January and March (2020).</p>
Attendance	<p>All meetings held were quorate (with at least three voting members as outlined in the Terms of Reference).</p> <p>One member of the Committee attended one out of six scheduled meetings, while another attended two out of six scheduled meetings.</p> <p>It is vital that the Committee maintain a high level of member attendance and engagement to help ensure that it is effective. The Committee meetings were supported by officers as required throughout the year. These included the Service Director – Resources; Accountancy Manager; Assistant Counter Fraud Manager (Shared Anti-Fraud Service) Committee and Member Services Officer; Senior Policy Officer; Head of the Shared Internal Audit Service; Client Audit Manager from the Shared Internal Audit Service; and an EY representative.</p>

Composition	<p>The Committee is comprised of seven Members, with a quorum of three Members for each meeting. The proportion of seats to political parties complies with local authority rules as specified in the Local Government and Housing Act 1989. There are also substitute Members that can attend in a Committee Members absence.</p> <p>During 2019/20, the Chair of the Committee was Councillor Kate Aspinwall, with Councillor Sam North as the Vice-Chair.</p>
Terms of Reference and Reporting	<p>The Terms of Reference of the Finance, Audit and Risk Committee is set out in section ten of the Council Constitution. This was reviewed and approved by Full Council on 16 January 2020.</p> <p>This report on the effectiveness of the FAR Committee is not referred to Full Council, this should be considered as part of the reporting cycle to ensure full transparency and the items raised in section 4 can be considered more widely.</p> <p>When comparing the Committee's Terms of Reference to the guidance outlined in 'CIPFA's Position Statement: Audit Committees in Local Authorities and Police' 2018 edition, it was confirmed that the Terms of Reference included all core functions and Committee responsibilities.</p>
Access and Agenda	<p>The Chair of the Committee is appointed at the annual meeting of the Council, and the Committee reviews its work and achievements from the previous year at the first meeting of the civic year.</p> <p>The Committee references decisions to Cabinet where appropriate, showing that it has appropriate access to other committees where appropriate.</p>

2.2 The effectiveness of the Committee in discharging its core functions is outlined below:

Core Functions	
Internal Audit	<p>The Committee was informed at the 15 June 2020 meeting that the Council's Internal Audit Service (provided by SIAS) 'generally conforms with the Public Sector Internal Audit Standards in 2019/20 as defined by the Head of Assurance'. 'Generally, conforms' is the highest rating, which means that 'SIAS has a charter, policies and processes assessed as conformant to the Standards and is consequently effective'. There are two areas of agreed non-compliance, but there were no significant deviations from Standards which warrant inclusion in the Council's Annual Governance Statement. This is outlined in the Annual Assurance Statement and Internal Audit Annual Report.</p> <p>Throughout the year, the Committee received updates from SIAS</p>

	<p>at four of its six meetings. The Committee received and scrutinised update reports throughout the year to gain assurance that:</p> <p>a) Progress would be enough to allow the Head of Internal Audit to provide an annual assurance opinion; and</p> <p>b) High priority recommendations were being implemented in line with the agreed timescales.</p> <p>The proposed Internal Audit Plan for 2020/21 was presented to the March 2020 Committee meeting for review and approval after an extensive planning exercise was completed by SIAS.</p>
External Audit	<p>The Council's external auditors are EY, with representatives being present at Committee meetings as requested.</p> <p>EY present a variety of reports to the Committee, including the audit plan, audit findings report, and the annual audit letter. A key duty undertaken by external audit is to provide an audit opinion on the Council's Statement of Accounts. The Statement of Accounts 2018/19 was signed off by the FAR Committee at its 29 July 2019 meeting.</p> <p>The Committee sought clarification on the information presented as appropriate.</p>
Risk Management	<p>The Committee review quarterly updates on corporate risks as provided by the Service Director (Resources). There is evidence in Committee Minutes that the Members debated new risks and the movement of risks throughout the year and had an appropriate space to challenge risks before they were recommended to Cabinet for approval.</p>
Annual Governance Statement	<p>The Annual Governance Statement was reviewed by the Committee at its June 2020 meeting.</p> <p>The implementation of the Annual Governance Statement was monitored throughout the year.</p>
Anti-Fraud Arrangements	<p>The Council's anti-fraud provision is completed by the Shared Anti-Fraud Service (SAFS). The Committee received updates from SAFS three times during the year. This included reviewing the progress of the service against its targets.</p>

2.3 Non-core functions of the Committee (as defined by the CIPFA guidance) have not been included in this review. An example of this is Treasury Management.

3. OVERALL AUDIT OPINION

3.1 This review has shown that the FAR Committee is compliant with the CIPFA best practice guidance and is therefore an effective scrutiny body for financial, audit, risk and internal control functions.

4. LOOKING AHEAD

- 4.1 The role of the Audit Committee is increasingly poignant because of significant external pressures being faced by the Council in the coming year.
- 4.2 In light of these pressures, we advise that the actions set out below at paragraphs 4.3 to 4.6 are completed to ensure ongoing compliance with CIPFA best practice guidance and to maximise the effectiveness of the FAR Committee:

Independent member (non-political appointment)

- 4.3 It may be beneficial to have an independent member sit on the Audit Committee (this would be a non-political appointment), which could bring additional knowledge and expertise. Also, this could maintain continuity of Committee membership which may be affected by the electoral cycle.

Committee Independence

- 4.4 To ensure effective independence of FAR Committee Members, it is advisable (and best practice) that Members are exclusively on the FAR Committee. However, we recognise that this may be practically difficult to implement, therefore the Council should consider the membership status of each Member and the potential risk to independence prior to selection for this committee. Membership of sub-committees, such as Licensing and Planning, are likely to pose less risk to independence than Members that are part of the Cabinet or Overview and Scrutiny Committee (OSC). Therefore, Members of Cabinet or OSC should be discouraged from becoming members of the FAR Committee.

Committee Business

- 4.5 Members challenge processes, as appropriate, to ensure there is an appropriate balance between risk and control. This could be enhanced by compiling a forward work plan at the beginning of the civic year, including proposed agenda items which are relevant to the Committee and of interest to Members (ensuring that the remit of this Committee does not overlap with, for example, OSC) .

Learning and Development

- 4.6 All Members are requested to complete a skills self-assessment to identify areas of strength and training needs. This would allow a training programme to be developed to address any improvements or training needs identified. At the time of this review, there were limited returns of the skills self-assessment matrices, in order to improve the effectiveness of this Committee, the Chair should encourage all Members to return their completed skills self-assessment matrices.