



## Final Internal Audit Report

# North Herts District Council Review of the Effectiveness of the Finance, Audit and Risk Committee 2020/21

July 2021

<b>Issued to:</b>	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 2020/21 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 2020/21 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. 2020/21 REVIEW AREAS

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

<b>Governance</b>	
Meetings	<p>The Committee terms of reference states "There shall be six regular meetings of the Committee in each year". This term has been met with the Committee meeting six times in the 2020/21 civic year. The dates of meetings held include; 15/06/20, 20/07/20, 07/09/20, 03/12/20, 18/01/21 and 09/03/21.</p> <p>As a result of the Covid-19 pandemic all meetings were held virtually during the year.</p>
Attendance	<p>The Committee Terms of Reference states "The Quorum for a meeting of the Finance, Audit and Risk Committee shall be three (3) voting members of that Committee". The following Committee meetings satisfied this requirement at the onset of the meeting; 15/06/20, 20/07/20, 07/09/20, 03/12/20, 18/01/21 and 09/03/21.</p> <p>As meetings were held virtually due to the Covid-19 pandemic, connection difficulties to the remote meeting could cause meetings to be inquorate. This occurred on one occasion during the Committee meeting held on 03/12/20 and the meeting was adjourned until connection was restored and the quoracy requirement was met.</p> <p>The CIPFA guidance outlines "regular attendance of key senior management figures is important – both to maintain the credibility of the committee and to ensure that members are adequately</p>

	<p>supported by appropriate professionals". The Committee has demonstrated this as meetings have been attended by the Senior Officers throughout the year. This includes the Service Director - Resources, Policy and Community Engagement Manager, Committee Member and Scrutiny Officer, Democratic Services Manager, Client Audit Manager – Shared Internal Audit Service (SIAS), Head of the Shared Anti-Fraud Service (SAFS), Assistant Counter Fraud Manager- SAFS, Associate Partner - Ernst and Young, Audit Manager - Ernst and Young.</p> <p>Member attendance was as follows throughout the civic year:</p> <ul style="list-style-type: none"> <li>• One Member attended all six meetings</li> <li>• Three Members attended five meetings</li> <li>• One Member attended four meetings</li> <li>• One Member attended three meetings</li> <li>• One Member attended two meetings</li> </ul> <p>On one occasion a substitute Member attended the Committee for an absent Member. High levels of member attendance are important to ensure the continued effectiveness.</p>
Composition	<p>The Committee Terms of Reference states "No more than seven members shall be appointed to the Finance, Audit and Risk Committee. The Chair shall be appointed at the annual meeting of the Council". This term has been met with seven members being appointed to the Committee for the civic year, at the Council meeting held on 04/06/20. At the same Council meeting the Chair of the Committee (Councillor Kate Aspinwall) and Vice-Chair (Councillor Sam North) were appointed. Six substitute Councillors to the Committee were also appointed, with one substitute attending the Committee meeting on 08/03/21.</p> <p>Two Members held the post of Deputy Executive Member of the Cabinet whilst being members of the FAR Committee, this includes the Vice-Chair of the FAR Committee. Three Members were on the Overview and Scrutiny Committee. The Chair of the FAR Committee is the Vice Chair of the Overview and Scrutiny Committee. No Independent Members were appointed to the FAR Committee in 2020/21.</p> <p>The proportion of seats to political parties complies with local authority rules as specified in the Local Government and Housing Act 1989.</p>
Terms of Reference	<p>The Terms of Reference (ToR) of the Finance, Audit and Risk Committee is set out within section ten of the Councils Constitution. Through review and confirmation from a key officer at the Council,</p>

	<p>it was established the ToR has not been reviewed in the 2020/21 civic year.</p> <p>Our review of the ToR against the guidance outlined in 'CIPFA's Position Statement: Audit Committees in Local Authorities and Police' 2018 edition, demonstrated that some core functions were not reflected in the Councils ToR. Examples include to oversee the internal audit functions independence and objectivity and "support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies".</p>
Access and Agenda	<p>At the first civic meeting of the 2020/21 year (15/06/20) the Committee has reviewed its work and achievements for the 12-month period to March 2020. The Chair, Vice-Chair and membership of the Committee have been appointed at the annual meeting of the Council held on 04/06/20.</p> <p>The Committee minutes records recommendations made to Cabinet, showing it has appropriate access to this Committee as needed.</p>

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

<b>Core Functions</b>	
Internal Audit	<p>Internal Audit provision for the Council is provided by the Shared Internal Audit Service (SIAS). The Committee has received updates and key reports four times during the civic year.</p> <p>On 15/06/20 the Committee received assurance from SIAS within the '2019/20 Annual Assurance Statement and Internal Audit Annual Report' that the Internal Audit Function is 'generally conforming' to the PSIAS. This is the highest rating and means that SIAS has a charter, policies and processes assessed as conforming to the PSIAS Standards and are consequently effective. The report also outlines two areas of intentional non-conformance with the Standards, although these arrangements are considered to be effective given the nature of SIAS.</p> <p>The Committee has received updates from SIAS in four of its six meetings during the civic year. The reporting arrangements enabled the Committee to review progress of the agreed audit plan, performance against performance indicators, new high priority recommendations raised from audit engagements and implementation status of existing high priority recommendations. This would have enabled the Committee to gain assurance that progress against the audit plan would be enough to allow the Head of Internal Audit to provide an annual assurance opinion and transparency that high priority recommendations were being implemented within agreed timescales.</p>

	<p>The proposed Internal Audit Plan for 2021/22 was presented at the Committee meeting on 08/03/21 and subsequently reviewed and approved at this meeting. The information to the Committee outlines the extensive nature of the planning exercise completed by SIAS to produce the proposed plan.</p>
External Audit	<p>The Councils External Auditors are Ernst &amp; Young (EY). Representatives of the External Auditors are present at meetings as required along with accompanying reports. Such reports presented to the Committee in the civic year includes; the audit plan, draft and final audit finding reports and the annual audit letter.</p> <p>One of the key duties undertaken by EY is to provide an audit opinion on the Councils Statement of Accounts. The Draft Annual Statement of Accounts for 2019/20 were approved by the Committee on 07/09/20, with the approval of the Final Annual Statement of Accounts being delegated to the Chair of the Committee, subject to the Final Audit Results report not requiring any substantial change. This process was necessary as the Statement of Accounts needed to be approved by 30/11/20 with the next scheduled Committee meeting being after this date (03/12/20).</p> <p>The Draft and Final Audit Reports from EY provide confirmation of their objectivity and independence. The audit plan for 2020/21 has also outlined the communication requirements for facts and matters which "bear upon our integrity, objectivity and independence" and provided confirmation "safeguards that have been adopted appropriately mitigate the principal threats identified". The plan also "confirm that EY is independent" and "the audit engagement team have not compromised their objectivity and independence".</p>
Risk Management	<p>The Committee receives and reviewed quarterly updates on Corporate Risks including in July, September, December and March during the 2020/21 civic year. The reports the Committee received on 03/12/20 also presented the Risk Management Framework (RMF) Internal Audit, including the Committee resolving the amendments to the RMF in line with the management actions agreed as part of the audit.</p> <p>The Committee received an 'Annual Report on Risk Management' for April 2019- March 2020. This outlined the following at the Council:</p> <ul style="list-style-type: none"> <li>• Key Changes to the Corporate Risks</li> <li>• Archived and Re-Classified Corporate Risks</li> <li>• New Corporate Risks</li> <li>• Corporate Risks with Changed Risk Scores</li> <li>• Review/changes to the Risk Management Framework at NHDC</li> <li>• Risk Awareness and Appetite</li> </ul>

	The minutes of the Committee show that quarterly updates on risk management are supported by appropriate discussions, challenge/oversight prior to recommendations for approval by Cabinet. This includes discussions and challenges on movements to risk scores through the civic year.
Annual Governance Statement	<p>The Committee was provided with an opportunity to review and comment on the Annual Governance Statement for 2019/20 in the meeting held on 20/07/20, prior to this being brought back to the Committee for approval on 07/09/20. The AGS for 2019/20 was approved by the Committee on 07/09/20.</p> <p>The Committee reviewed progress of the AGS Action plan in 2020/21 at two meetings including on 03/12/20 and 08/03/21. The 2021 Local Code of Corporate Governance was reviewed and approved by the Committee on 08/03/21.</p>
Anti-Fraud Arrangements	The Councils anti-fraud provision is completed by the Shared Anti-Fraud Service (SAFS). The Committee has received updates three times during the civic year. Information monitored/reviewed by the Committee in the civic year includes, progress of actions and KPIs for the service as agreed by the Committee, levels of fraud and counter fraud activity. The 2021/22 anti-fraud action plan and service KPIs were reviewed and approved by the Committee on 08/03/21.

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 4.9 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 As part of the 2020/21 review of FAR Committee we advised that an independent member sit on the Committee. This could bring additional knowledge and expertise, whilst also maintaining continuity of Committee membership which may be affected by the electoral cycle. Our understanding is that the Council is examining the

constitutional arrangements and amendments required prior to implementing this suggestion through an appointment on the FAR Committee. This has been included in this report to retain focus on this.

#### Committee Business

- 4.4 The FAR Committee could have a forward work plan at the beginning of the civic year. This could support the Committee by including proposed agenda relevant to the Committee thereby focusing the discussions/oversight of the Committee and preventing overlap of remit with other Council committees such as Overview and Scrutiny. This action has been included and follows on from the June 2021 FAR meeting where an outline was included as part of the FAR Annual report, to remind Members of their role in developing knowledge, challenging and examining the Council's approach to financial control, risk management, governance and internal control matters.

#### Learning and Development

- 4.5 It is understood that Members are usually requested to complete a skills assessment matrix in the civic year. However, this did not take place in 2020/21 due to the challenges posed by the Covid-19 pandemic and working remotely. It is also understood that in previous years, the completion of skills assessments by some Members have not taken place in a timely manner to allow the Council to identify potential areas of development and create and deliver a training programme. In order to improve the effectiveness of the FAR Committee, the Chair should encourage that all Members complete and return the skills assessment in a timely manner, with the Council analysing the results to create a focused training programme for the Committee. We understand that a training matrix has been issued to all FAR Committee Members at the start of 2021/22.
- 4.6 It may also be beneficial for the first meeting of the civic year to outline the roles and responsibilities of the Committee Members. This could form a useful introduction to the Committee, particularly for newly elected Members to the Committee.

#### Terms of Reference

- 4.7 The FAR Committee Terms of Reference (ToR) was reviewed against the guidance outlined in 'CIPFA's Position Statement: Audit Committees in Local Authorities and Police' 2018 edition and was found to not include some core functions or duties within its terms of reference. We have identified the following areas of the CIPFA guidance that are not specifically or explicitly stated in the Council's ToR and the Council may wish to consider during the next review:
- a) Support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process;
  - b) Report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities. We have been made aware that an impending proposed change to the Constitution will require that the FAR Annual Report is referred on to Full Council. This referral

already happens in practice.

4.8 In addition, through our review we have identified two areas of partial conformance to the CIPFA guidance and these areas could be strengthened following a review of the ToR. These areas are as follows:

- a) Outlining the oversight of independence and objectivity of the internal audit function;
- b) Monitoring arrangements of management action in response to the issues raised by external audit.

Other Areas of compliance with CIPFA best practice

4.9 The 'CIPFA Position Statement: Audit Committees in Local Authorities and Police' 2018 edition also recommends that Members of the Audit Committee should be able to meet privately and separately with the external auditor and with the head of internal audit. The Council may want to consider whether and how it could enable this.