

Governance and Audit Committee

ANNUAL REPORT 2019/20

Foreword by Councillor Simon Day, Chairman of the Governance and Audit Committee

This report provides an overview of the Governance and Audit Committee's activity during the municipal year 2019/20.

I am pleased to report that the Committee continues to discharge its responsibilities to provide independent assurance on the adequacy of the council's risk management framework and the associated control environment, and provides robust scrutiny and challenge of the Authority's financial performance.

As outlined in the body of this report, the Committee has been actively engaged with both internal and external audit, and I would like to thank all the Members who served on the Committee during 2019/20. My thanks also go to the Council officers who have supported me in my role as Chairman, and in the work of the Committee.

In looking forward to 2020/21 and beyond, and given the continued financial pressures facing the Council, the importance of an effective Governance and Audit Committee remains critical.

1.0 Introduction and Background

- 1.1 The Council established a Governance and Audit Committee in March 2006. Whilst there is no statutory obligation to have an Audit Committee, they are widely recognised as a core component of effective governance. In recent years there has been a significant amount of regulation and guidance issues in governance arrangements for private and public sector bodies, the common feature of governance arrangements being the existence of an Audit Committee.
- 1.2 The purpose of the Council's Governance and Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review of the authority's financial and non financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.
- 1.3 There are many benefits to be gained from an effective Audit Committee. In fulfilling its role the Committee will:
 - reduce the risks of illegal or improper acts;
 - reinforce the importance and independence of internal and external Audit;
 - increase confidence in the objectivity and fairness of financial reporting.
- 1.4 Stricter internal control and the establishment of a Governance and Audit Committee can never eliminate the risks of serious fraud, misconduct or misrepresentation of the financial position. However, it will:
 - give additional assurance through a process of independent and objective review; and
 - raise awareness of the need for internal control and the implementation of audit recommendations.

3.0 Programme of reports 2019/20

3.1 Detailed below is the programme of reports considered by Governance and Audit Committee during 2019/20, and how they relate to the Committees terms of reference.

| Function/Issue | Responsible officer/body | 24 Jul 2019 | 25 Sept 2019 | 03 Dec 2019 | 04 Mar 2020 |
|---|--------------------------|-------------|--------------|-------------|-------------|
| Audit activity | | | | | |
| External Audit Annual Letter | GT | | ✓ | | |
| Internal Audit Annual Report | EKAP | ✓ | | | |
| External Audit Findings Report | GT | ✓ | | | |
| External Audit Plan 2019/20 | GT | | | | ✓ |
| Internal Audit Charter and Draft 2020-21 Internal Audit Plan | EKAP | | | | ✓ |
| Internal Audit Standards Self Assessment | EKAP | | | | ✓ |
| Internal Audit Quarterly Update Report | EKAP | ✓ | ✓ | ✓ | ✓ |
| External Audit Update Report | GT | | | ✓ | |
| Audit Committee Assurance Statement | HF | ✓ | | | |
| Homes England Audit 2018/19 | DCX | ✓ | | | ✓ |
| Regulatory framework | | | | | |
| Annual Governance Statement | DCG | ✓ | | | |
| Annual Governance Statement Action Plan 2018/19 Progress Report | DCG | | | | ✓ |
| Annual Treasury Management Review 2018/19 | HF | ✓ | | | |
| Corporate Risk Management Quarterly Update | HF | ✓ | ✓ | ✓ | ✓ |
| 2019-20 Accounting Policies | HF | | | | ✓ |
| Treasury Management Strategy Statement and Annual Investment Strategy - Mid Year Review Report 2019-20 | HF | | | ✓ | |
| Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy for 2020-21 | HF | | | ✓ | |
| Final Statement of Accounts 2018-19 and Management's Letter of Representation | HF | ✓ | | | |

Key

- DCG Director of Corporate Governance and Monitoring Officer
- DCX Deputy Chief Executive Section 151 Officer
- EKAP East Kent Audit Partnership
- GT Grant Thornton
- HF Head of Financial Services

4.0 Review of the Governance and Audit Committee's effectiveness

4.1 The Governance and Audit Committee should ensure it has effective communication with the authority, to include the Executive, the Head of Internal Audit, the External Auditor

and other stakeholders. Consequently it is considered to be best practice for the Committee to be self aware and to submit an annual report to Council.

- 4.2 The annual report summarises the work of the Committee for the year and concludes that it has received clear, concise and relevant information, training events on topics specific to the business of the Committee, and has done all that it can to meet the aims and objectives for the Committee in the best way that it can.

5.0 Annual Report

- 5.1 The Governance and Audit Committee is assured on the integrity and reliability of data held in the financial statements. It receives clear, concise reports and actions are dealt with in an appropriate timescale. The members of the Committee receive specific training in order to assist them with their role in receiving comprehensive assurance from the accounting officer.
- 5.2 The work of internal and external audit provides detailed assurance on the reliability and integrity of the information held in the financial statements as well as on the key control framework in operation across the council.
- 5.3 The assurances from the accounting officer, the work of internal and external audit together support the Committee in forming their opinion of the financial statements, enabling them to agree to sign them off in accordance with regulations.
- 5.4 The Committee reviews the Council's Governance Framework as appropriate and Local Code of Corporate Governance annually.
- 5.5 The Committee reviews the Risk Management Strategy on a regular basis and considers the effectiveness of the risk management process both through the work of internal audit and through receiving quarterly risk management reports.
- 5.6 The Committee considers the effectiveness of the internal audit arrangements by reviewing the quality of reports, actions and follow-ups through the quarterly reports submitted during the year to the Committee.
- 5.7 The Committee is able to request service managers and, where necessary, the relevant portfolio holder to attend the Committee to give an update on progress against agreed actions to reduce risk and/or improve governance.
- 5.8 The Chairman and Officers have considered the effectiveness of the Committee. The self-assessment evidence demonstrating achievement of the Committee's terms of reference is attached at Appendix 1.
- 5.9 Due to pressure on staff and resources recommended actions from last year have not been fully implemented. The work has therefore been rolled over into next year. The recommended actions are listed in Appendix 2 attached to this report. They will be incorporated into the council's Annual Governance Statement (AGS).

6.0 Future Challenges

- 6.1 The Committee notes the publication of CIPFA's Financial Management Code. The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.

The FM Code therefore for the first time sets the standards of financial management for local authorities. Each local authority (and those bodies designated to apply the FM Code) must demonstrate that the requirements of the code are being satisfied. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the chief finance officer (CFO) and their professional colleagues in the leadership team. It is for all the senior management team to work with elected members in ensuring compliance with the FM Code and so demonstrate the standard of financial management to be expected of a local authority. In doing this the statutory role of the section 151 officer will not just be recognised but also supported to achieve the combination of leadership roles essential for good financial management. Therefore the Committee welcomes the Section 151 Officer's review of TDC's financial management, to be undertaken in the forthcoming year.

6.2 The Governance and Audit Committee will continue with its existing duties whilst continually striving to achieve best practice where this is feasible and affordable. In the forthcoming year, the Committee will need to:

- oversee corporate risk management within the context of change arising from the continued reduction in resources
- maintain effective internal control in a period of government funding reductions and service change.
- make the Code more of a forward facing document by identifying and planning future changes in governance arrangements
- moving documents to the Council's website and provide links to those documents in reports

7.0 Appendices

Appendix 1 Governance and Audit Committee Annual Assessment for the period 2019/20

Appendix 2 Governance and Audit Committee Action Plan 2020/21

Governance and Audit Committee Self-assessment of good practice - Appendix 1

| Good practice questions | Yes | Partly | No | Comments/Action |
|--|-----|--------|----|---|
| Audit Committee purposes and governance | | | | |
| Does the council have a dedicated Audit Committee? | ✓ | | | |
| Does the Audit Committee report directly to full council? | ✓ | | | Annual Report of Governance and Audit Committee that goes to Annual Council |
| Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement? | | ✓ | | Action; Review the terms of reference against the CIPFA's Position Statement |
| Is the role and purpose of the audit committee understood and accepted across the authority? | ✓ | | | Set out in the constitution and understood by Members and officers |
| Does the audit committee provide support to the authority in meeting the requirements of good governance? Is an annual calendar of meetings/reports prepared to ensure all duties noted in the terms of reference are fulfilled? | ✓ | | | Meeting dates are arranged with deadline dates in mind to ensure they are met. Council protocol to issue agenda at least 5 clear working days prior to the meeting. |
| Are the arrangements to hold the committee to account for its performance operating satisfactorily? | | ✓ | | Action; Undertake a more detailed review of the committee's operation in the coming year |
| Functions of the committee | | | | |
| Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement? | ✓ | | | |
| • Good governance | ✓ | | | |
| • Assurance framework | ✓ | | | |
| • Internal audit | ✓ | | | |
| • External audit | ✓ | | | |
| • Financial reporting | ✓ | | | |
| • Risk management | ✓ | | | |
| • Value for money or best value | | ✓ | | Covered by work provided by internal and external audit |
| • Counter-fraud and corruption | ✓ | | | |
| Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that | ✓ | | | Annual report sets out the work undertaken in accordance with the committee terms of reference. This includes all core areas. |

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| adequate consideration has been given to all core areas? | | | | | | | |
| Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them? | | ✓ | | Action: To be undertaken as part of the terms of reference review | | | |
| Where coverage of core areas has been found to be limited, are plans in place to address this? | | | n/a | Core areas sufficiently covered | | | |
| Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose? | ✓ | | | | | | |
| Membership and support | | | | | | | |
| Has an effective audit committee structure and composition of the committee been selected? This should include: <ul style="list-style-type: none"> • Separation from the executive • An appropriate mix of knowledge and skills among the membership • A size of committee that is not unwieldy • Where independent members are used, that have been appointed using an appropriate process | ✓ | ✓ | ✓ | n/a | n/a | n/a | Members of the Committee are independent of the Executive. |
| Does the chair of the committee have appropriate knowledge and skills | ✓ | | | | Chair has undertaken training | | |
| Are arrangements in place to support the committee with briefings and training? | ✓ | | | | Governance and Financial section within formal Induction Programme for Members following Elections. Training sessions provided throughout the year, especially for the Statement of Accounts. Members also request training when required. | | |
| Has the membership of the committee been assessed against the core knowledge and skills framework and be found to be satisfactory? | ✓ | | | | | | |
| Does the committee have good working relations with key people and organisations, including external audit, internal | ✓ | | | | | | |

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| audit and the chief finance officer? | | | | |
| Is adequate secretariat and administrative support to the committee provided? | ✓ | | | |
| Effectiveness of the committee | | | | |
| Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work? | ✓ | | | The Charter and Strategy cover these areas. Also Customer Feedback which is detailed in the quarterly Internal Audit update reports and the Internal Audit Annual Report. |
| Has the committee evaluated whether and how it is adding value to the organisation? | | ✓ | | Partly through the Annual Report |
| Does the committee have an action plan to improve any areas of weakness? | ✓ | | | See actions recommended above. |

Governance and Audit Committee Action Plan 2020/21 - Appendix 2

Following the completion of an annual assessment of the performance of the Governance and Audit Committee for the period May 2019 to April 2020, the issues below were identified and action will be undertaken during the period May 2020 to April 2021 to address these.

| Ref | Good practice principle / description / issue identified | Proposed Action | Proposed completion date | Responsible officer / body |
|----------|---|---|--------------------------|----------------------------|
| 20-21/01 | Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement? | Review the terms of reference against the CIPFA's Position Statement | September 2020 | DCG |
| 20-21/02 | Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them? | To be undertaken as part of the terms of reference review | September 2020 | DCG |
| 20-21/03 | Make the Code a more forward face document | Reviewing with Committee recommendations for future work | December 2020 | DCG |
| 20-21/04 | Move to make the Code web rather than paper based | Create a dedicated web page on the internet site | July 2020 | DCG |
| 20-21/05 | Does the committee monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption? | To undertake a review of financial management in accordance with the CIPFA Financial Management Code. | December 2020 | DCX |

Key:

DCG Director of Corporate Governance & Monitoring Officer
DCX Deputy Chief Executive/S151 Officer
CE Chief Executive