

EPPING FOREST DISTRICT COUNCIL COMMITTEE MINUTES

Committee: Audit and Governance Committee **Date:** Monday, 9 February 2015

Place: Council Chamber, Civic Offices, High Street, Epping **Time:** 7.00 - 8.00 pm

Members Present: Councillors A Watts (Chairman), P Keska, S Weston, Mr A Jarvis

Other Councillors: Councillors S Stavrou, C Whitbread

Apologies:

Officers Present: C O'Boyle (Director of Governance), B Bassington (Chief Internal Auditor), S Alford (Principal Accountant), S G Hill (Assistant Director (Governance & Performance Management)), S Tautz (Democratic Services Manager), G. Nicholas (National Management Trainee) and G J Woodhall (Democratic Services Officer)

38. Webcasting Introduction

The Chairman reminded everyone present that the meeting would be broadcast live to the Internet, and that the Council had adopted a protocol for the webcasting of its meetings.

39. Declarations of Interest

There were no declarations of interest pursuant to the Council's Code of Member Conduct.

40. Minutes

RESOLVED:

That the minutes of the meeting of the Committee held on 24 November 2014 be taken as read and signed by the Chairman as a correct record.

41. Appointment of Vice-Chairman

The Chairman reported that the term of office of the Vice-Chairman of the Committee, Mr. R. Thompson, had expired on 8 February 2015. The Director of Governance reminded members that the terms of reference of the Committee required that the position of Vice-Chairman be assumed by a co-opted member.

RESOLVED:

That Mr. A. Jarvis be appointed as Vice-Chairman of the Committee for the duration of the meeting.

42. Matters Arising

(a) Audit and Governance Committee – Appointment of Co-opted Member

The Director of Governance updated members with regard to the current position in respect of the appointment of a replacement co-opted member of the Committee, following the recent retirement of Mr. R. Thompson after a period of six years.

Members were advised that, at its meeting on 17 February 2015, the Council was to appoint two councillors to join the Chairman of the Committee on an Appointment Panel to consider applications received for the vacant co-opted member position, and to make an appropriate appointment. The Committee received copies of documents relating to the vacancy, including the proposed appointment selection criteria, and were asked to let the Democratic Services Manager have any thoughts or comments on these as soon as possible, in order that the vacancy could be appropriately advertised.

The Director of Governance reported that that Council would also be asked to formally express its appreciation Mr. Thompson's dedicated contribution to the work and success of the Committee, over the duration of his appointment.

43. Audit & Governance Work Programme 2014/15

The Committee noted progress against the achievement of its work programme for the year. Members noted that the Grant Claims audit report that had been due to be presented to the meeting, would now be made to the meeting to be held on 30 March 2015.

44. Overview & Scrutiny Panel Framework Review - Recommendations of Task & Finish Panel

The Committee received a further report in connection with the review of the existing framework of the Council's overview and scrutiny panels, currently being undertaken by a Task and Finish Panel appointed by the Overview and Scrutiny Committee.

The Assistant Director (Governance and Performance Management) reported that the views of the Committee expressed at the last meeting in respect of options being investigated by at that time, which had included the possible combination of the Committee with the Standards Committee, had since been fully considered by the Panel.

Members noted that, in view of the reservations of the Committee, the combination of the two committees had now been omitted from the recommendations of the Task and Finish Panel as to the future structure of the overview and scrutiny framework. The Assistant Director reported that the decision of the Panel in this respect had had regard to the need to ensure the continued independence of audit and governance matters from the Council's executive and scrutiny functions. The Committee was advised that, although general member feedback indicated that the combination of the Audit and Governance Committee and the Standards Committee was not generally supported, it might be necessary to review the operation of the Audit and Governance Committee at some point in the future, to address the requirements of the Local Audit and Accountability Act 2014. To further address the concerns previously expressed by the Committee, the lead officer for the Governance Select Committee was to ensure clear demarcation between matters considered by the Select Committee and those that were within the clearly defined responsibilities of the Audit and Governance Committee.

The Committee noted that, at its meeting on 15 January 2015, the Task and Finish Panel had agreed that the following matters be recommended to the Overview and Scrutiny Committee on with regard to the future structure of the overview and scrutiny panel framework:

- (a) the establishment of a new overview and scrutiny framework of four 'select committees', with eleven members appointed to each select committee in accordance with pro-rata provisions;
- (b) the re-establishment of the existing Constitution and Member Services Scrutiny Panel as a new 'Constitution Working Group' and the appointment of existing members of the Scrutiny Panel to the Working Group;
- (c) the deferral of any action with regard to the combination of the Audit and Governance Committee and the Standards Committee but that, if necessary, a further Task and Finish Panel be established in future to consider such combination in light of new legislative audit requirements;
- (d) the development of focused and achievable work programmes for each select committee each year, drawing on Portfolio Holder and service delivery aims and objectives, and relevant community priorities; and
- (e) the enhancement of current training arrangements for members in respect of overview and scrutiny, including the use a variety of appropriate techniques and methodologies in the undertaking of future scrutiny and service review activity.

The Assistant Director reported that the select committee framework recommended by the Task and Finish Panel, which was substantially aligned with the Council's current management structure, improved current arrangements where not all service areas were subject to scrutiny or allocated to a particular panel for scrutiny purposes. The development of annual work programmes for each select committee, informed by relevant service aims and priorities, was a key feature of the new framework.

RESOLVED:

That the Committee support the recommendations of the Task and Finish Panel for the establishment of a new overview and scrutiny framework based on a structure of four 'select committees'.

45. Treasury Management Strategy Statement & Investment Strategy 2015/16-2017/18

The Committee considered a comprehensive report in respect of the Council's Treasury Management Strategy Statement and Investment Strategy for 2014/15 to 2016/17, which was a requirement of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management and covered the authority's treasury activity for the financial years 2014/15 and 2016/17. The Strategy Statement set out the risks associated with the Council's treasury activity and how these were managed.

The Principal Accountant reported that the Council undertook capital expenditure on long-term assets, funded by capital receipts, grants or borrowing. Members noted that the Council did not currently plan to borrow to carry out its capital investment, and that the Capital Programme envisaged a balance of £3.022 million in capital receipts and £2.043 million in the Major Repairs Reserve on 31 March 2018, from which it was concluded that adequate resources existed to fund the Capital Programme in the medium-term.

Members were reminded that the Council's current investments were subject to regular advice from its treasury management advisors, regarding the use of counterparties. Members noted that the Council currently had an investment portfolio of £63.3 million, of which £55.3 million was invested in the United Kingdom, £2million in Money Market Funds that were based in Ireland and £8million in Sweden. The Committee noted that the maturity profile of the investments ranged from £24.3 million available for instant access, to £5 million with a maturity date exceeding one year, and that it was important that the cash flow of the Council was carefully monitored and controlled to ensure that sufficient funds were available each day to cover its outgoings. Members were advised that this would become more difficult as the Council used up capital receipts and investment balances reduced.

The Principal Accountant advised members of the key risks associated with the Council's treasury management activity, and how these had been managed throughout the year through the use of prudential indicators:

- the Credit and Counterparty risk was the possibility of a counterparty going into liquidation and failing to meet its obligations to the Council. The Council's counterparty list was both prudent and regularly updated by its treasury advisors, and the authority kept its investments fairly liquid within a restricted counterparty list;
- the Liquidity risk was the possibility that sufficient cash would not be available to the Council when required. In mitigation of the risk, a number of Money Market Funds were maintained and the Director of Resources held monthly meetings with treasury staff to review cashflow requirements; and
- the Interest Rate risk was concerned with potential fluctuations in interest rates. It was proposed to maintain no more than 75% of the Council's investments in variable rate financial instruments, with the remainder of the investments made in fixed rate deposits. This approach would allow the Council to take advantage of any favourable changes in interest rates whilst also receiving a reasonable return. The Council's treasury management advisors considered that interest rates were unlikely to change significantly in the short to medium term.

The Principal Accountant informed the Committee that the Council had borrowed between the General Fund and Housing Revenue Account for many years, and the interest rate charged had been based upon the average investment interest earned for the year. Regulations issued by CIPFA required that this interest rate should be approved by the Council before the start of the financial year, and it was proposed that the average investment interest continue to be used as the rate for any inter-fund borrowing.

Members noted that the Treasury Management Strategy Statement and Investment Strategy would be considered by the Council at its meeting on 17 February 2015, and that the views of the Committee in respect of the authority's management of the risks associated with its treasury management activity, would be reported to the Council meeting. The Finance Portfolio Holder, Councillor S. Stavrou, encouraged all members to participate in the training course that the Council offered to increase understanding and awareness of treasury management activity and responsibilities.

At the request of the Committee, the Principal Accountant undertook to provide the Committee with details of the level of investment made with the Council's main counterparties and the return on such investments, as this information was not contained within the report. The Director of Governance advised members that it would be necessary to assess the likely sensitivity of this information, which might need to be provided to members on a strictly confidential basis.

RESOLVED:

- (1) That the Council's arrangements for the management of the risks associated with its treasury management activity, as set out within the proposed Treasury Management Strategy Statement and Investment Strategy for 2015/16 to 2017/18, be noted; and
- (2) That the Committee's endorsement of the Treasury Management Strategy Statement and Investment Strategy be reported to the Council.

46. Internal Audit Monitoring Report - October-December 2014

The Chief Internal Auditor presented a monitoring report for the third quarter of 2014/15, which provided a summary of the work undertaken by the Internal Audit Unit between October and December 2014. The report detailed the overall performance to date against the Audit Plan for 2014/15 and enabled the Committee to monitor the progress of Priority 1 actions issued in previous reports.

The Committee was advised that the following audit reports that had been issued during the period:

- (a) **Full Assurance:** None
- (b) **Substantial Assurance:** Bank Reconciliation; Car Mileage Claims; Private Housing Assistance; Corporate Asset Register; Housing Repairs Service; Gifts and Hospitality (Members and Officers); Contracts (Fraud Prevention);
- (c) **Limited Assurance:** Corporate Procurement; Car Parking Contract; and
- (d) **No Assurance:** None

The Committee noted that, during the quarter the report on Corporate Procurement had received a limited assurance rating due to a number of identified departures from Contract Standing Orders, specifically failures to monitor expenditure and take action when financial thresholds were reached. This audit had resulted from the findings of the Facilities Management audit reported to the previous meeting of the Committee, which had also been given a Limited Assurance rating. The Chief Internal Auditor reported that this additional audit work had targeted procurement across the remainder of the Council's services and had analysed data from the Marketplace system where Contract Standing Orders required quotations rather than formal tenders.

Members were advised that an audit had also been undertaken of the Car Parking Contract managed by the North Essex Parking Partnership (NEPP). The Chief Internal Auditor reported that, as a result of limitations in the information supplied by NEPP, this audit had been given limited assurance. However, the Committee noted that, based on the evaluation and testing of the Council's key controls designed to achieve its objectives relating to off-street car parking income, the Internal Audit Unit had been able to provide assurance that relevant processes were sound and in place for when full data was received from NEPP. The Chief Internal Auditor advised members that, since the audit had been completed, NEPP had outsourced their cash collection and payments to the Council had become erratic, and that documentation supplied could not always be reconciled with monies received. The Committee was pleased to note that additional audit time had been allocated to this issue and that further work was currently in progress. The Chief Internal Auditor indicated that he understood that orders for new parking meters had been placed and was requested to circulate details of the likely level of deficit to members, after the meeting.

The Chief Internal Auditor also reported that a range of further audit reports were currently being prepared, in relation to overtime claims, committee allowances and subsistence claims, and ICT access controls.

The Committee considered a schedule of outstanding Priority 1 recommendations arising from previous audit reports and the findings of limited assurance audits, to ensure follow up both by the Internal Audit Unit and relevant service management. The Chief Internal Auditor reminded members that progress against the Priority 1 recommendations was also monitored on a monthly basis by the Corporate Governance Group. Members were also advised of progress against the Audit Plan for 2014/15 and the current performance of the Internal Audit Unit against its key performance indicators.

RESOLVED:

That the following issues arising from the Internal Audit Monitoring Report for the third quarter of the year be noted:

- (a) the audit reports issued between October and December 2014 and significant findings therein;
- (b) the Priority 1 Actions Status Report;
- (c) the Limited Assurance Audit Follow-Up Status Report; and
- (d) the 2014/15 Audit Plan Status Report.

CHAIRMAN