

## **EPPING FOREST DISTRICT COUNCIL COMMITTEE MINUTES**

**Committee:** Audit and Governance Committee    **Date:** 28 November 2016

**Place:** Council Chamber, Civic Offices, High Street, Epping    **Time:** 7.00 - 7.55 pm

**Members Present:** J Knapman (Chairman), R Jennings, A Patel, J M Whitehouse and A Jarvis (Vice-Chairman)

**Other Councillors:** R Bassett, G Mohindra, J Philip, L Wagland and C Whitbread

**Apologies:** N Nanayakkara

**Officers Present:** R Palmer (Director of Resources), S Marsh (Chief Internal Auditor), S Linsley (Senior Auditor), G J Woodhall (Senior Democratic Services Officer) and S Tautz (Democratic Services Manager)

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### **25. WEBCASTING INTRODUCTION**

The Chairman made a short address to remind all present that the meeting would be broadcast on the Internet, and that the Council had adopted a protocol for the webcasting of its meetings.

### **26. DECLARATIONS OF INTEREST**

(a) Pursuant to the Council's Member Code of Conduct, Councillor R Jennings declared an interest in agenda item 7, Appointment of External Auditor, by virtue of being a member of the Local Government Association. The Councillor had determined that his interest was pecuniary and would leave the meeting for the duration of the item.

### **27. MINUTES**

#### **Resolved:**

(1) That the minutes of the meeting held on 19 September 2016 be taken as read and signed by the Chairman as a correct record.

### **28. MATTERS ARISING**

The Chairman reported that he had drafted a report concerning the summoning of Officers to the Audit & Governance Committee, as promised at the last meeting; however, it transpired that the Committee already had this authority within its Terms of Reference and that the proposed report from the Chairman was superfluous.

### **29. AUDIT & GOVERNANCE WORK PROGRAMME 2016/17**

The Chief Internal Auditor reported that the Review of the Internal Audit Charter had been deferred to the next meeting of the Committee, on 6 February 2017.

The Committee noted the current Work Programme for 2016/17.

### 30. APPOINTMENT OF EXTERNAL AUDITOR

The Director of Resources presented a report regarding the appointment of the External Auditor.

The Director reported that, as part of the closing down of the Audit Commission, the Government had novated external audit contracts to the Public Sector Audit Appointments (PSAA) on 1 April 2015. The contracts were due to expire following conclusion of the audits of the 2016/17 accounts, but could be extended for a period of up to three years by PSAA, subject to approval from the Department for Communities and Local Government. In October 2015, the Secretary of State confirmed that the transitional provisions would be amended to allow an extension of the contracts for a period of one year. This meant that, for the audit of the 2018/19 accounts, it would be necessary for authorities to either undertake their own procurements or to opt in to the Appointed Person regime.

The Director stated that, in July 2016, the PSAA were specified by the Secretary of State as an 'Appointing Person' under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The Appointing Person was sometimes referred to as the sector led body and the PSAA had wide support across most of Local Government. An invitation from the PSAA to opt in was received by the Council on 27 October 2016 and a response was required by 9 March 2017. The main advantages of using the PSAA would be:

- (a) assuring timely auditor appointments;
- (b) managing the independence of auditors;
- (c) securing highly competitive prices;
- (d) saving on procurement costs;
- (e) saving on the time and effort needed for auditor panels;
- (f) focusing on audit quality;
- (g) operating on a not-for-profit basis; and
- (h) distributing any surplus funds to scheme members.

The Director added that if the Committee were minded to support the use of the Appointing Person arrangements, then this would need to be recommended to the Council for approval at its meeting on 20 December, as Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 required that such a decision had to be made by the Council (authority meeting as a whole). The new contract would need to be awarded by 30 June 2017.

In response to questions from the Committee, the Director confirmed that the PSAA would determine the length of the new contract, but the current intention was for it to be for 5 years, which would be a sensible length of contract and the Director had no real concerns over this. It was also felt that the process would produce a competitive price for the Epping Forest contract.

The Committee acknowledged that a sector wide procurement conducted by the PSAA was likely to produce better outcomes than any procurement undertaken by the Council alone, and would also be less resource intensive. It was felt that this would be the best option for delivering potential cost savings to the Council and also for ensuring the independence of the new appointed External Auditor.

**Recommended:**

(1) That the opting in by this Council to the Appointing Person arrangements made by the Public Sector Audit Appointments (PSAA) for the appointment of an External Auditor be recommended to the Council for approval.

**31. ANNUAL AUDIT LETTER**

The Director of Resources introduced, and the External Auditor presented, a report on the Annual Audit letter for the year 2015/16.

The External Auditor stated that the Annual Audit Letter summarised the key issues arising from the audit work carried out during the year. In respect of the Financial Statements, one material misstatement was identified and corrected relating to the write off of non current assets, i.e. assets that were no longer owned by the Council as they were either transport related or related to the former waste disposal site at Bobbingworth that was now a park. As a result of this misstatement, the opening balances for the 2014/15 financial year were overstated by £8.4million, and a third balance sheet had been prepared by Officers showing restated opening balances for 2014/15. A further misstatement was discovered when Officers were unable to locate two assets for off street parking areas associated with Council housing, and therefore the existence of these assets could not be confirmed. Further analysis confirmed that the value of the affected assets was £330,000 and that their impact on the Council's financial statements was not material. An unqualified true and fair opinion on the financial statements was issued on 30 September 2016 and it was confirmed that the Annual Governance Statement was neither misleading nor inconsistent with other information arising from the Audit.

Aside from the financial statements, the External Auditor reported that they were satisfied the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources; therefore, an unqualified Value for Money conclusion had also been issued. The External Auditors had found no reason to exercise their statutory powers and that there were no matters to report to the Committee. The review of Grant Claims and Returns was in progress and scheduled to finish before the deadline of 30 November 2016; the results would be reported to the Committee upon completion of this work at its next scheduled meeting on 6 February 2017. An Audit Certificate to close the Audit for the year ended 31 March 2016 was issued on 30 September 2016.

The Committee welcomed the report and expressed their satisfaction with the Annual Audit Letter for 2015/16. The Committee especially noted the good level of co-operation that existed between Officers of the Council and the External Auditors.

**Resolved:**

(1) That the Annual Audit Letter issued by the External Auditor for 2015/16 be noted; and

(2) That the excellent level of co-operation between Officers of the Council and the External Auditor during the Annual Audit be noted and commended.

**32. MID-YEAR REPORT ON TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS 2016/17**

The Director of Resources presented the mid-year progress report on Treasury Management and Prudential Indicators, which covered the treasury activity for the first half of 2016/17, and was a requirement of the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Treasury Management.

The Director reported that, during the first half of the year, the Council had continued to finance all capital expenditure from within internal resources. The estimate for the Capital Programme during 2016/17 had indicated expenditure of £47.597million, which would be financed by capital grants, capital receipts and revenue. The Capital Programme for the three-year period ending 31 March 2019 had predicted expenditure of £102million, partly funded by borrowing of £12.6million, with £2.99million available in usable capital receipts and £nil in the Major Repairs Reserve. As it was possible for the vast majority of the Capital Programme to be undertaken without borrowing, it was considered that adequate resources existed for the Council's Capital Programme in the medium term.

The Director advised the Committee that the Council had £52.9million under investment as at 30 September 2016, and the average net investment position of the Council had been approximately £61.9million throughout the first half of 2016/17. The Council's investments as at 30 September 2016 had consisted of £33million in fixed investments, £19.9million in variable investments and £nil in long-term investments. The Council had received no further dividends from the administrators of the Heritable Bank; the Council had received 98% of the value of its deposits. The Administrator had indicated that they were seeking to extend the period of administration for another year until 6 October 2017. The importance of carefully monitoring and controlling the Council's cash flow to ensure enough funds were available each day to cover outgoings was highlighted; this would become more difficult as the Council used up its capital receipts and reduced its investment balances.

The Director stated that the Council held loans totalling £184.7million at 30 September 2016, the majority of which had funded the self-financing of the Housing Revenue Account. It was anticipated that the Council would require further loans up to £16million in 2016/17 to fund capital projects such as the Epping Forest Shopping Park. The revised Capital Programme for the five-year period to 2020/21 would be considered by the Cabinet at its meeting on 1 December 2016.

Finally, the Director added that there had been no breaches of any of the prudential indicators relating to capital activity, the indebtedness for capital purposes and the Council's overall Treasury position.

In response to questions from the Committee, the Director stated that having 38% of the Council's investments in variable rate products was higher than Officers would like, but there was a need to have funding easily available for the St John's Road development in Epping. The Director agreed with the Chairman that as current interest rates were so low, and they could only conceivably go up, then there was little risk to the Council as investment rates should improve.

The Director acknowledged that the current Housing Revenue Account (HRA) 30-Year Financial Plan was not as assured as before; the Government had reduced the rents that could be charged to tenants and had introduced a levy on high value assets to finance the Right-to-Buy scheme beyond 2017/18. The HRA Financial Plan

would be kept under review to assess whether the Council Housebuilding Programme remained financially viable. The Director also reassured the Committee that the Council's external Treasury Management advisors provided a minimum of monthly updates to the credit ratings for the financial institutions on the Council's counterparty list, or more frequently if an event occurred which affected financial markets; these were distributed to four different Officers, who could take any urgent action necessary in the absence of the Director.

**Resolved:**

- (1) That the mid-year progress report on Treasury Management and the prudential Indicators for 2016/17, and the management of the risks therein, be noted;
- (2) That none of the Prudential Indicators had been breached during the first half of 2016/17 be noted; and
- (3) That the importance of regularly reviewing the HRA 30-Year Financial Plan be emphasised.

**33. REVIEW OF THE EFFECTIVENESS AND THE TERMS OF REFERENCE OF THE AUDIT AND GOVERNANCE COMMITTEE**

The Chief Internal Auditor presented a report on the review of the effectiveness of the Audit & Governance Committee and its Terms of Reference.

The Chief Internal Auditor stated that the effective operation of the Audit & Governance Committee formed a key element in the Council's assurance framework, and it was considered best practice for an assessment of its effectiveness to be undertaken each year as part of the Annual Governance Statement process. The review was performed by the Chief Internal Auditor, in conjunction with the Chairman of the Committee, and took the form of a self-assessment checklist based on guidance issued by the Chartered Institute of Public Finance & Accountancy (CIPFA). The results of the review showed that the Council complied with the recommended best practice for an effective Audit Committee, with some minor improvements required in the areas of Partnerships, Skills & Knowledge, and Approach to Fraud; an Action Plan had been drawn up to deal with these issues.

The Chief Internal Auditor reported that the Committee's Terms of Reference should be reviewed on an annual basis to ensure that the Audit & Governance Committee continued to be effective. The Internal Audit Service compared the Committee's current Terms of Reference with the CIPFA model Terms of Reference, and performed a benchmarking exercise with the Terms of Reference for the Audit Committees at Harlow District and Broxbourne Borough Councils. The result of the review was that the Committee's Terms of Reference remained 'fit for purpose' and that no changes were necessary at the current time.

The Committee noted and welcomed that the results of the self-assessment exercise clearly indicated the Committee's performance was effective in relation to the recommended best practice, and endorsed the resulting Action Plan – particularly in relation to the development of the necessary skills and knowledge for the members of the Committee. In response to a suggestion from the Committee, the Chief Internal Auditor added that feedback from Officers and the External Auditors could be taken account of in future reviews to add an element of independence.

**Resolved:**

- (1) That the results of the review of the Committee's own effectiveness be noted;
- (2) That the results of the self-assessment checklist, which showed that the Council was compliant with recommended best practice for an effective Audit Committee, be approved;
- (3) That the Action Plan resulting from the review of the effectiveness of the Committee, which identified the following areas for minor improvement, be approved:
  - (a) Partnerships;
  - (b) Skills & Knowledge; and
  - (c) Approach to Fraud; and
- (4) That the Committee's current Terms of Reference be endorsed following the review and benchmarking exercises undertaken.

**34. INTERNAL AUDIT MONITORING REPORT - SEPTEMBER TO NOVEMBER 2016**

The Senior Auditor presented the Internal Audit Monitoring Report for the period September to November 2016.

The Senior Auditor advised the Committee that four reports had been issued since the previous meeting, of which three had been given Substantial Assurance – Corporate Procurement, Cash and Banking, and Off-Street Car Parking Income. No assurance level was awarded for the analysis of the Human Resources Sickness Absence Performance Indicator; this was an additional piece of audit work requested by management, and it was found that the performance data should be subject to a more rigorous local independent review.

The Senior Auditor reported that the Recommendation Tracker contained eight recommendations which had passed their due date; five of which were medium priority and three were low priority. Monitoring had demonstrated that progress continued to be made on all of these outstanding recommendations. The only high priority recommendation currently on the Tracker related to the Health & Safety issues at Townmead Depot, which was not currently overdue. Since the last meeting of the Committee, a site meeting had taken place which had led to the establishment of a plan to address the key actions required at the depot, and the Cabinet had agreed an allocation of £75,000 within the Capital Programme for 2017/18 to install new gates, refurbish the toilet facilities and improve the boundary fencing.

The Senior Auditor stated that the Corporate Fraud Team had stopped a further four fraudulent Right-to-Buy applications and had recovered another property as a result of fraud. The team was engaged in a number of criminal investigations, including active money laundering investigations, and three criminal prosecutions were currently being prepared. A Standards investigation had recently been completed, and discussions were underway with another Essex Local Authority concerning the formation of a joint working relationship for anti-fraud work.

The Senior Auditor added that the Service was also represented on a number of business groups and project teams to provide advice and guidance, including:

- Project & Programme Management;
- Corporate and Business Planning;

- Electronic Invoicing;
- Customer Self Service Kiosks; and
- Information Management.

Finally, the Senior Auditor informed the Committee of the progress that had been made on addressing the issues identified in the Annual Governance Statement 2015/16:

- (a) Procurement Rules – training sessions on the new rules had been held and documentation published on the intranet;
- (b) Corporate Policies – the Corporate Fraud Team was reviewing and updating the anti-fraud policies; and
- (c) Project Management – a potential Project Management system would be tested in the near future.

In response to questions from the Committee, the Chief Internal Auditor stated that the electrical substation at Townmead Depot was in an unsafe state; the energy provider responsible for the substation had been informed and if there was no action taken then the Council would secure the area with fencing. The Senior Auditor explained that the risk assurance methodology was currently being reviewed by the Health & Safety Executive, which could lead to further work having to be undertaken by the Council. The Chief Internal Auditor reassured the Committee that the Corporate Fraud Team did liaise regularly with other Local Authorities, and this liaison included the exchange of pertinent information.

Cllr Wagland highlighted that, in respect of corporate fraud, the setting up of sophisticated bogus companies online had led to a large increase in identity fraud, and this might be an issue that the Committee would want to monitor. The Chief Internal Auditor reassured the Committee that the Corporate Fraud Team received national alerts concerning bogus companies, and the Council did have robust processes in place to deal with the setting up of new suppliers and the paying of invoices. The Director of Resources added that one attempted fraud in relation to the Epping Forest Shopping Park project had been recently thwarted. Cllr Wagland cautioned the Committee that some of these companies had the ability to set up a mirror entity which checks would not necessarily highlight as being false.

The Senior Auditor clarified that the work undertaken on the Human Resources Sickness Absence Performance Indicator had been classed as consultancy work, and therefore this was the reason for no assurance level being awarded. The Chief Internal Auditor reminded the Committee that the Audit Plan was kept under constant review throughout the municipal year, and that the Corporate Fraud Team was also involved in investigations concerning the sub-letting of Council properties as well as the activities outlined in the report.

The Committee welcomed the report, and the Chairman suggested that the issue of online identity fraud, and the associated risks to the Council, should be investigated.

**Resolved:**

- (1) That the progress made against the Audit Plan 2016/17 and by the Corporate Fraud Team be noted; and
- (2) That the issue of online identity fraud and the associated risks to the Council be investigated and reported back to the Committee at a future meeting.

**35. ANY OTHER BUSINESS**

The Committee noted that there was no other urgent business for consideration at the meeting.

**36. EXCLUSION OF PUBLIC AND PRESS**

The Committee noted that there was no business which necessitated the exclusion of the public and press.

**CHAIRMAN**