

EPPING FOREST DISTRICT COUNCIL COMMITTEE MINUTES

Committee: Audit and Governance Committee **Date:** Monday, 6 February 2017

Place: Council Chamber, Civic Offices, High Street, Epping **Time:** 7.00 - 8.05 pm

Members Present: J Knapman (Chairman), A Jarvis (Vice-Chairman), L Hughes, R Jennings, A Patel, J M Whitehouse and N Nanayakkara

Other Councillors: R Bassett and G Mohindra

Apologies: -

Officers Present: C O'Boyle (Director of Governance), R Palmer (Director of Resources), S Marsh (Chief Internal Auditor), S Linsley (Senior Auditor), G J Woodhall (Senior Democratic Services Officer) and J Leither (Democratic Services Officer)

Also in attendance: B Pryke (External Auditor)

37. WEBCASTING INTRODUCTION

The Chairman made a short address to remind everyone present that the meeting would be broadcast live to the internet, and would be capable of repeated viewing, which could infringe their human and data protection rights.

38. DECLARATIONS OF INTEREST

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

39. MINUTES

Resolved:

(1) That the minutes of the meeting held on 28 November 2016 be taken as read and signed by the Chairman as a correct record.

40. MATTERS ARISING

There were no matters arising from the previous meeting for the Committee to consider.

41. AUDIT & GOVERNANCE WORK PROGRAMME 2016/17

The Director of Governance informed the Committee that the Grant Claims Audit Report for 2015/16, which was due to be considered at this meeting, would now be submitted to the next meeting on 27 March 2017.

The Chief Internal Auditor also advised the Committee that the unallocated item on the Work Programme, Information Regarding the Whistle Blowing Policy, was currently planned to be presented to the Committee at its meeting in June 2017.

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

42. CODE OF CORPORATE GOVERNANCE

The Director of Governance presented a report on the revised Code of Corporate Governance.

The Director reported that the Chartered Institute of Public Finance & Accountancy (CIPFA) and Society of Local Authority Chief Executives (Solace) had published the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom for 2016/17, which was a new framework for Corporate Governance which would apply from this year. The Accounts and Audit Regulations 2015 also required an authority to conduct a review at least once in a year of the effectiveness of its system of internal control and include a statement reporting on the review with any published Statement of Accounts. For a local authority in England, this statement was the Annual Governance Statement and local authorities in England were required to provide this statement from this year in accordance with "Delivering Good Governance in Local Government: Framework (2016)". The overall aim of the Framework was to ensure that:

- (a) resources were directed in accordance with agreed policy and according to priorities;
- (b) there was sound and inclusive decision making; and
- (c) there was clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

The Director stated that Officers had undertaken a review exercise of its current governance arrangements against a series of seven principles set out at paragraph 6 of the report. Each Principle had a series of sub-principles against which the proposed new code had been matched. The final draft document had been attached for approval, and was required to be adopted before April 2017. The next Annual Governance Statement (due in June) would then need to relate to the new framework and demonstrate how the requirements of the framework were met. Therefore, the structure of the Annual Governance Statement would change. The Committee was requested to approve the revised Code of Corporate Governance.

The Vice-Chairman queried the use of the word '*Social*' in point (iii) of paragraph (6). The Director clarified that the word 'Social' had a broader definition in this context; the Council was not responsible for providing social services, but it could partner with other organisations to produce social benefits for the benefit of the District. The Chairman highlighted that section 3 of the draft Code of Governance provided more detail in terms of potential social benefits.

Decision:

- (1) That the draft revised Code of Corporate Governance be approved and subject to an annual review by the Committee.

43. EXTERNAL QUALITY ASSURANCE OF INTERNAL AUDIT AGAINST THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS

The Chief Internal Auditor presented a report on the external quality assurance of Internal Audit against the Public Sector Internal Audit Standards.

The Chief Internal Auditor informed the Committee of the results of an independent external quality assessment of the Internal Audit shared service against the Public Sector Internal Audit Standards (PSIAS), which came into effect in April 2013. The overall conclusion of the report was that the Internal Audit shared service complied with the PSIAS and continued to provide an effective and efficient service to each Council (Epping Forest, Harlow and Broxbourne). A key theme throughout the report was the need to develop aspects of the audit process to improve the focus on the significant risks facing the Council in the achievement of its objectives. The Internal Audit shared service was continuing to develop an approach which reflected full recognition of risk factors.

The Chief Internal Auditor highlighted the benchmarking analysis and that the shared service was outperforming Local Government generally in terms of delivering the service. There were some further actions identified by the external assessor which would enhance service provision but these did not affect the overall level of compliance with the PSIAS, but would ensure that the Internal Audit shared service continued to develop and demonstrate best practice. An Action Plan would be developed to address the recommendations for improvement noted during the review.

In response to questions from the Committee, the Chief Internal Auditor stated that the recommendations from the exercise were not mandatory; it was the responsibility of the Chief Internal Auditor to implement the recommendations and there would be no need to report back to the external assessment team. The Committee enquired as to why it had been recommended to change the audit opinions given for each report again; the Chief Internal Auditor stated that Harlow District Council currently utilised four levels of opinion and this recommendation dealt with an issue that needed to be considered and implemented across all three Councils.

The Committee welcomed the results of the assessment, and the Chairman suggested that a further recommendation be agreed to note the excellent performance of the shared service when benchmarked against other Local Authorities.

Resolved:

- (1) That the compliance of the Internal Audit Shared Service with the requirements of the Public Sector Internal Audit Standards be agreed;
- (2) That the actions proposed to enhance the Internal Audit shared service be noted; and
- (3) That the excellent performance of the Internal Audit shared service when benchmarked against other Local Authorities be noted.

44. INTERNAL AUDIT MONITORING REPORT - NOVEMBER 2016 TO FEBRUARY 2017

The Senior Internal Auditor presented the Internal Audit Monitoring Report for the period November 2016 to February 2017.

The Senior Internal Auditor advised the Committee that three reports had been issued since the previous meeting – Treasury Management, Housing Health & Safety (Gas Safety), and Waste Management – all of which had been awarded substantial assurance. In addition, the Committee was requested to approve the deferral of

seven audits in the 2016/17 Audit Plan to 2017/18, but it was emphasised that there would be sufficient coverage through the remaining audits for the Chief Internal Auditor to give their annual opinion for 2016/17.

The Senior Internal Auditor reported that the Recommendation Tracker contained five recommendations which had passed their target dates. Four were of medium priority and related to the audit reports issued for Grounds Maintenance, Email, Internet & Telephone Usage, Sundry Debtors, and Off Street Car Park Income; and one was of low priority and related to the audit report issued for the HR Sickness Absence Performance Indicator. The high priority recommendation relating to Health & Safety issues at Townmead Depot had now been completed.

The Senior Internal Auditor highlighted that the Corporate Fraud Team was continuing to focus on Right-to-Buy applications received by the Council, and a further six applications had been stopped or withdrawn; another four properties had been recovered as a result of fraud intervention. The Team was currently engaged in a number of criminal investigations, including a money laundering case on behalf of Broxbourne Borough Council. Finally, the third Eastern Corporate Fraud Group meeting took place last month and was hosted by the Corporate Fraud Team.

The Senior Internal Auditor added that the Service continued to be represented on a number of business groups and project teams, including: Programme & Project Management; Corporate & Business Planning; Electronic Invoicing; and Information Management.

The Senior Internal Auditor informed the Committee that the Internal Audit Charter was reviewed on an annual basis to ensure it remained current and relevant, and the last review was presented to the Committee in November 2015. It had been previously agreed to defer the review in 2016 until after the External Quality Assessment had been undertaken. This had now been completed, and the Internal Audit Charter was reviewed as part of this exercise where no deficiencies or enhancements were identified by the Assessor. Therefore, it was proposed for the Committee to approve the Charter unchanged – save for the date on the front.

The Senior Internal Auditor reminded the Committee it had agreed at the last meeting that it would be beneficial for the Committee to evaluate its overall knowledge and skills, which in turn could be used to guide Member training. A proposed template for collating this information had been attached as an Appendix to the report, and made a clear distinction between the core areas of knowledge for all members of the Committee and other specialisms that could add value to the Committee. It was suggested that the Chief Internal Auditor would circulate the checklist to the members of the Committee, collate the responses, and present a summary to the Committee at its next meeting.

Cllr J M Whitehouse expressed concern about the audit of the Asset Management Strategy being deferred to the Audit Plan for 2017/18. The Chief Internal Auditor agreed that this was an important area but the audit had been stalled for a number of reasons, including the need to concentrate resources on the Local Plan, staff absences, and restructuring within the Planning Policy and Economic Development sections. The Committee were assured that this audit would be in the Audit Plan for 2017/18.

The Chief Internal Auditor explained that the factors behind the request to defer a number of audits to 2017/18 included staff sickness, audits taking longer than expected, and being called to investigate other areas that were not in the original

Audit Plan for 2016/17. However, it was reiterated that enough audits had been performed for the Chief Internal Auditor to give her annual opinion.

The Committee was concerned that some of the audit report recommendations were not being implemented in a timely fashion; there was one recommendation still outstanding from an audit performed in December 2015. The Chief Internal Auditor stated that the managers concerned owned the risk and drove the change; the Corporate Governance Group was very good at monitoring the implementation of audit report recommendations. The Committee was still perturbed about the audit recommendation still outstanding for the Grounds Maintenance audit report published in December 2015, and it was agreed that if this particular recommendation was not implemented by the next meeting then the manager concerned should be requested to attend the next meeting of the Committee and provide an explanation.

In respect of the knowledge and skills analysis for members of the Audit & Governance Committee, the Chairman requested that an explanation be provided for the 'Confident', 'Aware' and 'Development Appreciated' columns on the pro forma, and Officers agreed to provide this.

Resolved:

(1) That the progress made both against the 2016/17 Internal Audit Plan and by the Corporate Fraud Team be noted;

(2) That the following audits in the Audit Plan for 2016/17 be deferred until 2017/18:

- (a) Asset Management Strategy;
- (b) Energy Management;
- (c) Equality & Diversity;
- (d) IT Helpdesk;
- (e) Anti-Social Behaviour;
- (f) Mutual Exchanges; and
- (g) Performance Management;

(3) That, following the review of the Internal Audit Charter as part of the External Quality Assessment of the Internal Audit shared service which found that no changes were required, the Internal Audit Charter be approved without amendment;

(4) That a knowledge and skills analysis of the Audit & Governance Committee's members be undertaken and the results submitted to the meeting scheduled for 26 June 2017 for consideration; and

(5) That the Assistant Director of Neighbourhoods (Technical Services) be requested to attend the next scheduled meeting of the Committee on 27 March 2017 to provide an explanation if the outstanding audit recommendation to provide adequate staff resilience for the Finance Officer had not been completed/implemented.

45. TREASURY MANAGEMENT STRATEGY STATEMENT 2017/18

The Director of Resources presented a report on the Treasury Management Strategy Statement for 2017/18, which was a requirement of the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Treasury Management and covered the Council's treasury activity for the financial year 2017/18. The Strategy Statement set out the risks associated with the Council's treasury activity and how these were managed.

The Director reported that the Council undertook capital expenditure on long-term assets, funded by capital receipts, grants or borrowing. The Committee noted that the Council planned to borrow to carry out its capital investment, and that the Capital Programme envisaged a balance of £1.368million in capital receipts and £0 in the Major Repairs Reserve on 31 March 2020, from which it was concluded that adequate resources, including borrowing, still existed to fund the Capital Programme in the medium-term. The Council's underlying need to borrow was referred to as the Capital Finance Requirement (CFR). As a consequence of the Housing Revenue Account Subsidy reform, and some large projects within the Capital Programme, an authorised limit of £240million had been set for borrowing, rising to £260million by the end of 2019/20.

The Committee was reminded that the Council's current investments were subject to regular advice from its treasury management advisors, Arlingclose, regarding the use of counterparties. Members noted that the Council currently had an investment portfolio of £48.5million, of which £46.5million was invested in the United Kingdom (UK) and £2million in Sweden. The Committee noted that the maturity profile of the investments ranged from £15.5million available for instant access, to £14million with a maturity date between one and three months; 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 Director advised members of the key risks associated with the Council's treasury management activity, and how these had been managed throughout the year via the use of prudential indicators:

- (i) 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 most significant change from the previous Strategy was an increase in the minimum credit rating for counterparties from BBB to BBB+.
- (ii) The Liquidity risk was the possibility that sufficient cash would not be available to the Council when required. In mitigation of this risk, a number of Money Market Funds were maintained and the Director of Resources held monthly meetings with treasury staff to review cash flow requirements.
- (iii) 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 Director informed the Committee that the Council had borrowed between the General Fund and Housing Revenue Account (HRA) 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.

The Committee noted that the Treasury Management Strategy Statement for 2017/18 would be considered by the Council at its meeting on 21 February 2017, 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.

When questioned by the Committee, the Director further explained that the Treasury Management Indicators ensured that the Council complied with the Code. It was acknowledged that the upper limit of 100% and lower limit of 0% for the Maturity Structure of Borrowing did give the Council maximum flexibility, and similarly with 75% for the upper limit on variable interest rate exposure. In respect of the Council's Capital Programme, the single most expensive item was the construction of the Epping Forest Shopping Park, which was due to be completed by 2018/19. A moratorium had been placed on the Council Housebuilding Programme after Phase IV until a further review had been conducted, and hence spending also reduced in 2018/19.

The Director acknowledged the high degree of uncertainty in both the United Kingdom and global economies, which had been illustrated by the vote in the Referendum last year to leave the European Union, as well as the election of Donald Trump to the American Presidency. There was also the very real risk of the Council's Revenue Support Grant being further reduced by the Government; hence the Council was investing its capital resources in assets that would generate future revenue for the Council.

The Committee welcomed the report and noted that the Council was a relatively risk adverse authority. The Committee was content with the Strategy, as well as the prudent approach adopted for dealing with the risks associated with its Treasury Management activity, and noted that the Council currently had no issues with its proposed borrowing. The Committee agreed that the Strategy Statement for 2017/18 should be recommended to the Council for adoption, with the additional comments above.

The Committee noted that the Council was a relatively risk adverse local authority, and no problems were currently foreseen with the degree of borrowing that was proposed to finance the Capital Programme in future years. It was the intention for future borrowing to only be undertaken on revenue generating schemes, which would ultimately strengthen both the balance sheet and revenue position of the Council, and this would offset the risk of future reductions in the Council's Revenue Support Grant from Government. Overall, the Committee was content with the Strategy as presented, as it represented a continuation of the prudent approach which had been a consistent theme for the Council's Treasury Management function for a number of years.

Resolved:

- (1) That the Council's proposed Treasury Management Strategy Statement for 2017/18 be noted;
- (2) That the arrangements for dealing with the risks associated with its Treasury Management activity, as outlined in the Council's proposed Treasury Management Strategy Statement for 2017/18, be considered adequate; and

Recommended:

- (3) That the proposed Treasury Management Strategy Statement for 2017/18 be recommended to the Council for approval and adoption; and
- (4) That the following comments be made to the Council by the Chairman when it considered the adoption of the Treasury Management Strategy Statement:
 - (a) the Council was a relatively risk adverse authority;
 - (b) no problems were foreseen with the level of borrowing that was proposed to finance the Capital programme in future years; and
 - (c) the Strategy represented a continuation of the prudent approach which had been a consistent theme of the Council's Treasury Management function for a number of years.

46. ANY OTHER BUSINESS

The Chairman commented on the Equality Analysis Reports (EAR), which had accompanied each report on the agenda for tonight's meeting, stating that they were very confusing and enquired whether Officers could reconsider the format and also reduce the size of each one.

The Director of Governance acknowledged the concerns of the Chairman and explained that the requirement for these EARs had come from a High Court ruling. This was the first cycle of meetings that the template had been used, which ensured that Officers undertook a proper equality analysis process, and the format would be reviewed in the light of experience of their use – by both Officers and Members.

47. EXCLUSION OF PUBLIC AND PRESS

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

CHAIRMAN