

EPPING FOREST DISTRICT COUNCIL COMMITTEE MINUTES

Committee: Audit and Governance Committee **Date:** Monday, 27 March 2017

Place: Council Chamber, Civic Offices, High Street, Epping **Time:** 7.35 - 8.50 pm

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

Other Councillors: R Bassett and C Whitbread

Apologies: R Jennings

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

Also in attendance: D Eagles and Z Thompson (External Auditors)

48. 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.

49. DECLARATIONS OF INTEREST

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

50. MINUTES

Resolved:

(1) That the minutes of the meeting held on 6 February 2017 be taken as read and signed by the Chairman as a correct record.

51. MATTERS ARISING

The Director of Governance reported that the Grounds Maintenance Team had recruited a replacement Finance & Technical Officer, who had started on 13 February 2017. Therefore, this outstanding audit recommendation for the Grounds Maintenance Team was now considered complete and the Assistant Director of Neighbourhoods (Technical Services) had been advised that his attendance at tonight's meeting was not required.

The Chairman commented that the Committee should threaten to summon more Officers before it, as outstanding audit recommendations seemed to be implemented when this happened.

52. AUDIT & GOVERNANCE WORK PROGRAMME 2016/17

The Chief Internal Auditor reported that the item listed as Internal Audit Compliance with the Public Sector Internal Audit Standards had actually been considered by the Committee as part of the External Quality Assurance item at the last meeting.

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

53. REPORTS OF THE EXTERNAL AUDITORAudit Plan for 2016/17

The External Auditor presented the Audit Plan for 2016/17, which summarised the significant risks that could impact on the audit as well as the key outputs. There were detailed sections outlining the scope of the audit, a risk assessment and the proposed audit fee.

The External Auditor reported that it was intended to examine the process used to establish a valuation, as there was a risk with valuations based on assumptions that were uncertain and subjective by nature. It was also highlighted that the presentation of some of the financial statements would change, which would also require a restatement of the Comprehensive Income and Expenditure Statement for 2015/16.

Planning Letter for 2017/18

The second report presented by the External Auditor was the Planning Letter for 2017/18, which summarised the proposed fee and audit arrangements for the 2016/17 financial year.

The External Auditor reported that the proposed core audit fee would remain at £64,672 whilst the proposed Certification Fee had yet to be set; this was currently expected to be £18,533 for 2016/17. The focus of the planned work would again be on the audit of the financial statements, the value for money conclusion and the Whole of Government Accounts return.

The External Auditor stated that the planned outputs for 2017/18 were as follows:

- a detailed Audit Plan in March 2018;
- a report on any significant deficiencies in internal controls arising from the interim audit in June 2018;
- the Audit Completion report in July 2018;
- the opinion on the financial statements, the use of resources conclusion and certificate of audit closure in July 2018;
- the consistency opinion on the summarisation schedules in July 2018;
- the Annual Audit Letter in August 2018; and
- the Grant Claims and Returns Certification report in December 2018.

The Committee noted that the Audit Schedule had been brought forward by about two months in comparison to previous years, and the External Auditor emphasised that Councils should have been preparing for the new Schedule. The Director of Resources explained that the Department of Communities & Local Government had deemed there was a demand for the Whole of Government Accounts to be prepared quicker than in previous years. The Council could cope with the deadlines being brought forward by two months, and the Director was not expecting any material errors to be forthcoming in the Accounts, but highlighted there was always a balance between speed and accuracy; i.e. more speed, less accuracy.

Grant Claims & Returns Certification Report

The final report presented by the External Auditor was the Grant Claims and Certification Report for 2015/16, which detailed the key findings from the External Auditor's certification work.

The External Auditor highlighted the key issues arising from the work, along with recommendations for the future and an Action Plan. The first item on the Action Plan was to provide refresher training to all Benefit Assessors to ensure that they were aware of how earned income should be calculated in respect of Housing Benefit, as some errors had been identified in this calculation. For the Pooled Housing Capital Receipts Return, an issue was identified relating to the recording of quarterly amounts arising from the disposal of dwellings which took place before 1 April 2012 under the Right-to-Buy scheme. Therefore, the second and final item on the Action Plan was to review the quarterly amounts submitted for the pooling of capital receipts prior to the final submission to ensure the return was consistent with supporting documentation held by the Council.

The Committee noted that the final fee charged for this work was £19,691; this was slightly less than the original planned fee of £20,533.

Resolved:

- (1) That the following reports from the External Auditor be noted:
 - (a) the Audit Plan for the audit of the 2016/17 financial year;
 - (b) the Planning Letter outlining the proposed fees and programme of work for the 2017/18 financial year; and
 - (c) the Grants Claim & Returns Certification for the year ended 31 March 2016.

54. INTERNAL AUDIT STRATEGY 2017/18

The Chief Internal Auditor presented a report on the Internal Audit Strategy and Plan for 2017/18.

The Chief Internal Auditor reported that the Internal Audit Service supported and contributed to the achievement of the Council's objectives by supporting good governance, with the outcomes from Internal Audit work feeding into the Annual Governance Statement. Following changes to the International Professional Practices Framework by the Global Institute of Internal Auditors, the Internal Audit Service had adopted a Mission and ten Core Principles, and the purpose, authority and responsibility of the Internal Audit Service was formally defined in the Internal Audit Charter.

The Chief Internal Auditor stated that the draft Audit Plan for 2017/18, and the indicative Plans for the two subsequent years (2018/19 and 2019/20) had included all of the fundamental financial systems, to provide assurance to Management and Members that there were controls in place for good financial management. The annual audit of these systems was also a request of the Council's External Auditors. The Plan also included any high risk financial areas identified by the Corporate Risk Register, plus a contingency provision (6%) for investigations and other unplanned work identified during the year, as well as references to any cross-cutting or themed audits across the shared Internal Audit Service. There was also flexibility within the

Plan to accommodate reviews of areas considered to be of a high risk to the achievement of the Council's objectives. Progress against the Plan would be monitored by the Committee, and any proposed amendments would be subject to the approval of the Committee.

The Chief Internal Auditor advised the Committee that the longer term plan was to formalise the shared Internal Audit Service between Harlow District, Broxbourne Borough and Epping Forest District Councils, and further progress had been made with Broxbourne Borough Council becoming the host authority and employer of the shared Internal Audit Staff from 1 April 2017. A Shared Services Board had been established to oversee and implement the Shared Internal Audit Service, and to consider any major changes to the Service.

The Chief Internal Auditor highlighted that the proposed Audit Plan for 2017/18 totalled 500 days, and was based on what needed to be provided for the Council through the use of themes. The Plan had been reduced from the 800 days proposed in previous years, and it was not envisaged that there would be any further reduction from the 500 days currently proposed. The Internal Audit Three Year Plan, attached at Appendix 1 of the report, was explored in more detail by the Chief Internal Auditor for the benefit of the Committee. An Audit Needs Assessment had been undertaken to determine which areas should be audited and which should not, and the Chief Internal Auditor offered to go through this process with the Chairman of the Committee to provide further reassurance.

The Vice-Chairman suggested that the Audit Plan should be monitored more closely by the Committee in future, and enquired if the Audit Plan covered all of the risks listed in the Corporate Risk Register. The Chief Internal Auditor undertook to list all of the audit work scheduled for each risk in the Register. Cllr Patel commented that it would be useful to also audit the projects within the Transformation Programme and enquired whether this would form a separate area within the Plan. The Chief Internal Auditor reassured the Committee that this would be predominantly covered by the 37 days set aside in the Plan for *'Projects, Joint Working and Partnership Audits'* but there was also the 30 days *'Contingency'* allocation within the Plan which could be used to investigate other areas as directed by the Committee.

Resolved:

- (1) That the Internal Audit Strategy and Plan for 2017/18 be approved; and
- (2) That the process employed for the Audit Needs Assessment used to develop the Audit Plan for 2017/18 be explained in full by the Chief Internal Auditor to the Chairman of the Committee.

55. CORPORATE FRAUD TEAM STRATEGY 2017/18

The Senior Corporate Fraud Investigator presented a report on the Corporate Fraud Team Strategy for 2017/18.

The Committee was informed that the Corporate Fraud Team had become operational on 1 April 2015 and was created in order to bring a uniform approach to anti-fraud activities and to ensure that the Council had adequate resources dedicated to anti-fraud activity. The Corporate Fraud Team Strategy for 2017/18 summarised the key principles for the Team for 2017/18 along with some longer term aims.

The Senior Corporate Fraud Investigator stated that the Corporate Fraud Team Strategy set out the main focus of work that would be undertaken by the Team during

2017/18. The Plan allowed for a mix of both proactive work, such as the vetting of all Right-to-Buy applications, the targeting of Non Domestic Rates fraud with particular scrutiny of so-called 'Phoenix' companies, as well as at least one tenancy audit focusing on social tenancy related fraud, and reactive work including the assessment of all referrals and the provision of training packages to two separate departments within the Council. Members of the public were continuing to be encouraged to report fraud and "*Know a Cheat in your Street*" leaflets had again been included in every Council Tax and Business Rates bill. A review of the data matches from the recent National Fraud Initiative was already underway.

The Senior Corporate Fraud Investigator reported that the team had recently entered into a joint working initiative with their counterparts at Chelmsford City Council, which would focus on the sharing of investigative resources, exploring the potential for joint proactive initiatives, and providing a support service for Investigators. The Team had also undertaken a Standards investigation during 2016 for which it was remunerated, and would continue to be available to undertake such work in the future. The Team was continuing to provide training and advice to external organisations, and areas showing the potential for joint working or shared service arrangements were continuing to be explored, thus creating possible revenue raising opportunities.

The Senior Corporate Fraud Investigator added that the team now had the ability to undertake financial investigations under the provisions of The Proceeds of Crime Act 2002 and had used this ability on three active criminal prosecutions. Services had also been provided to a neighbouring Council, and would continue to be marketed to other local authorities and / or organisations on a "paid for" basis.

In response to questions from the Committee, the Senior Corporate Fraud Investigator outlined that sub-letting, key selling, Right-to-Buy and abandonment were the main forms of fraud associated with social housing. The Team did not get directly involved in potential fraud for Council Tax discounts, such as the Single Persons Discount; however, the Team did investigate potential fraud for Local Council Tax support as this was not a benefit.

The Committee was informed that the Corporate Fraud Team did not operate to a specific target system. In respect of value for money, an attempt was made to put a financial value on the Team's work, although this was more difficult for Social Housing fraud; £18,000 was used as the figure for when a Council House was recovered as this was the cost of housing a family in temporary accommodation for one year. The Senior Corporate Fraud Investigator reassured the Committee that information was shared with other agencies when the law allowed for this.

The Chairman welcomed the fact that a more serious attitude was being taken to Corporate Fraud by the Council.

Resolved:

- (1) That the Corporate Fraud Team Strategy for 2017/18 be approved.

56. EFFECTIVENESS OF THE ARRANGEMENTS FOR RISK MANAGEMENT

The Director of Resources presented a report on the effectiveness of the arrangements for Risk Management within the Council.

The Director reminded the Committee that its terms of reference included the consideration of the effectiveness of the Council's Risk Management arrangements. This contrasted with the role of the Finance & Performance Management Cabinet

Committee, which was to advise and make recommendations to the Cabinet on Risk Management and Insurance issues. The internal arrangements for Risk Management had not changed during the year. Each Directorate had a nominated '*Champion*' for Risk Management who represented their Directorate at meetings of the Risk Management Group. All Directorates were required to have a section on Risk Management in their Business Plans and have a standing item regarding Risk Management on the agenda of their management team meetings. This was to ensure that Directorate Risk Registers and Action Plans were regularly monitored.

The Director stated that, at the corporate level, the Risk Management Group met quarterly to discuss issues and recommend alterations for the Corporate Risk Register to the Corporate Governance Group. The Corporate Governance Group considered the proposed changes from the Risk Management Group and undertook a separate review of the Corporate Risk Register to ensure that there were not any further risks to be considered for inclusion. Recommendations for updating the Corporate Risk Register were then considered by the Finance & Performance Management Cabinet Committee before being recommended for approval by the Cabinet. The key updates that had been made to the Corporate Risk Register during 2016/17 were outlined for the benefit of the Committee.

The Director reminded the Committee that, when considering this report a year ago, it had requested reassurance on the actions taken to mitigate large risks to the Council. For Risk 1, relating to the Local Plan, some of the actions included: an Internal Audit Review had generated a substantial assurance rating; external contractors had been used for specific pieces of work; Memorandums of Understanding had been agreed with neighbouring authorities; and, as part of the agreed Local Development Scheme, a public consultation had been undertaken on the draft Local Plan during the autumn of 2016. For the Epping Forest Shopping Park, the risk concerning attracting suitable tenants at appropriate rents had been addressed through the use of two agents with expertise in Retail Parks. And for Risk 4, covering the Council's income and finances, the Council had been effective in managing and reducing costs through efficiency programmes and the competitive tendering of services.

The Director advised the Committee that the internal audit of Risk Management for 2015/16 had been given a rating of substantial assurance. There was just one recommendation that was scored as a priority 2 and this had now been actioned.

In response to questions from the Committee, the Director of Resources reiterated that the engagement of Colliers and Harveyspackfield had addressed the risk regarding the attraction of tenants for the Epping Forest Shopping Park, and it was expected that all of the available space at the Shopping Park would be let before its planned opening in September 2017. The Director also reminded the Committee that the Council had been investing in Capital projects to generate future revenue streams for a number of years now, and this had been achieved without vastly increasing the need for the Council to undertake further borrowing. The Director reassured the Committee that any potential new risks to the Council were identified either by the Management Board, the Risk Management Group or the Finance & Performance Management Cabinet Committee.

Resolved:

- (1) That the arrangements for Risk Management within the Council be considered effective.

57. INTERNAL AUDIT MONITORING REPORT - FEBRUARY TO MARCH 2017

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

The Senior Internal Auditor advised the Committee that two reports had been issued since the previous meeting – Grants to Voluntary Organisations and IT Disaster Recovery – both of which had been awarded substantial assurance. In addition, the Committee was requested to approve the deferral of a further two audits in the 2016/17 Audit Plan to 2017/18, but it was emphasised that there would still be sufficient coverage through the remaining audits for the Chief Internal Auditor to give their annual opinion for 2016/17. The audits requested for deferral were Safeguarding and Joint Working – Community Safety.

The Senior Internal Auditor reported that the Recommendation Tracker contained one recommendation which had passed its target date, regarding the review of the Sundry Income and Debt Policy. As reported earlier in the meeting, the recommendation for Grounds Maintenance concerning staff resilience had now been completed, following the recruitment of a replacement Finance & Technical Officer.

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 two applications had been stopped or withdrawn; one property had been recovered as a result of fraud intervention. The Team was currently engaged in three prosecutions, and work had commenced on this year's "*Know a Cheat in your Street*" anti-fraud campaign; leaflets would be distributed with this year's Council Tax and Business Rates demands. Further work had also been undertaken on this year's National Fraud Initiative. The Internal Audit Service continued to be represented on a number of business groups and project teams, including: Programme & Project Management; Corporate & Business Planning; Electronic Invoicing; Information Management; and Personal Data for the new Payroll/HR system.

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 had been 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 stated that the Shared Service with Broxbourne Borough and Harlow District Councils was still due to commence on 1 April 2017, with all Officers coming under the employ of Broxbourne Borough Council. A Shared Services Board had been created to manage the service, and its inaugural meeting had been held on 13 February 2017. The Committee were reminded that the recent External Quality Assessment had concluded that each of the three Councils received an effective and efficient service.

In respect of the potential deferral of two audits to the Audit Plan for 2017/18, the Chief Internal Auditor stated that the team had performed additional unplanned audit work during this year, and hence there was a need to defer the two audits as requested.

Resolved:

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

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

(a) Safeguarding; and

(b) Joint Working – Community Safety.

58. ANY OTHER BUSINESS

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

59. 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