

EPPING FOREST DISTRICT COUNCIL COMMITTEE MINUTES

Committee: Audit and Governance Committee **Date:** Monday, 24 November 2014

Place: Council Chamber, Civic Offices, High Street, Epping **Time:** 7.00 - 8.10 pm

Members Present: A Watts (Chairman), R Thompson (Vice-Chairman) and P Keska

Other Councillors: J Philip, Mrs M Sartin, D Stallan, B Surtees and C Whitbread

Apologies: S Weston and A Jarvis

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

Also in attendance: D Eagles and A Barnes (External Auditors)

27. 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.

28. DECLARATIONS OF INTEREST

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

29. MINUTES

Resolved:

(1) That the minutes of the meeting held on 25 September 2014 be taken as read and signed by the Chairman as a correct record, subject to the addition of the External Auditors as attendees.

30. MATTERS ARISING

The Vice-Chairman of the Committee requested an update on the development of a Prudential Borrowing Policy agreed at the last meeting (minute 25 resolution 2 refers), as it had not been included in the Mid-Year Treasury Management report to be considered later in the meeting. The Principal Accountant (Treasury Management) informed the Committee that the issue of Prudential Borrowing was being added to the Treasury Management Statement and would be considered by the Committee at its next meeting scheduled for 5 February 2015.

31. AUDIT & GOVERNANCE WORK PROGRAMME 2014/15

The Committee noted its Work Programme for the current municipal year.

32. OVERVIEW AND SCRUTINY PANEL FRAMEWORK REVIEW

The Committee agreed to consider this report as the next item of business of the meeting.

The Director of Governance introduced a report on the review of the Council's current structure of Scrutiny Panels, which included details of possible options for the future structure, being undertaken by a Task & Finish Panel during 2014/15. This report had been provided for the Audit & Governance Committee to comment on the proposals which had a potential impact upon it.

The Vice-Chairman of the Overview & Scrutiny Task & Finish Panel reminded the Committee that the Task & Finish Panel had been established in February 2014 to examine the existing framework of the Council's Scrutiny Panels, and suggest how the future structure could complement the new management structure of the Council. The Task & Finish Panel had met on two occasions so far, with a third meeting due to take place the following evening. In addition, a Member workshop had recently taken place. At the second meeting of the Panel, all of the current Scrutiny Panel Chairmen had offered their views on the current and possible future arrangements.

The three Appendices to the report were highlighted to the Committee by the Vice-Chairman of the Task & Finish Panel. Appendix 1 illustrated the current structure and indicated those areas of responsibility that were not tacitly covered by one of the current Scrutiny Panels. Appendix 2 demonstrated how the Scrutiny Panels could be aligned with the new Directorate structure implemented in April 2014. This approach would also lend itself to a 'Commissioning Model' whereby a separate Task & Finish Panel or Work Group could be set up to examine a particular issue in detail. Appendix 3 revealed a potential five Panel Thematic 'Select Committee' approach, which would include a combined Audit & Standards Select Committee under the umbrella of the Overview & Scrutiny Committee. The current Constitution & Member Services Scrutiny Party could become a Working Party to complete its review of the Council's Constitution.

The Vice-Chairman of the Task & Finish Panel informed the Committee that the recent Member Workshop had favoured the merger of the current Audit & Governance and Standards Committees, and the Commissioning Model was not popular although elements of it could prove useful. It was also felt that the current Housing Scrutiny Panel worked very well, and had a heavy workload which would preclude its combination with another Panel. The Committee was asked to consider and comment upon the review.

The Chairman of the Audit & Governance Committee expressed his concerns about the comments that had been attributed to him in the report, specifically paragraph (3) as the Chairman felt that he had been quoted out of context and had not made the statements quoted in the report. The Chairman clarified the context for his comments was that the original proposal for the review was for the structure of the Scrutiny Panels to match the structure of the new Directorates; it was not envisaged that this review would encompass the Audit & Governance Committee or the Standards Committee, as both of these bodies report direct to the Council. The Chairman stated that he felt the existing Scrutiny Panels did not provide a robust counter-balance to the Cabinet from an Audit point of view, and that his remarks should be viewed in that context.

The Chairman felt that the Task & Finish Panel had misunderstood the nature and independence of the Audit & Governance Committee. It was pointed out that the Chief Internal Auditor had a direct responsibility to the Chief Executive of the Council, and therefore it was analogous for the Audit & Governance Committee, as the body responsible for reviewing processes undertaken by Members and Officers, to report directly to the Council rather than a subsidiary body like the Overview & Scrutiny Committee. The Chairman emphasised that the Audit & Governance Committee had always reported directly to the Council, and that this should remain the case in the future. The suggestion in paragraph 8 of the report, that the Audit & Governance Committee, Standards Committee and Constitution & Member Services Scrutiny Panel should be combined into one Select Committee showed a lack of understanding of the purpose of these three Committees.

The Chairman apologised for not being able to attend the meetings of the Task & Finish Panel. The Chairman had not been requested to attend any meetings of the Panel before the meeting dates were set, and once they had been scheduled, the Chairman was not available to attend their meetings.

The Vice-Chairman of the Audit & Governance Committee stated that the previous report from the Task & Finish Panel had thoroughly analysed the existing Scrutiny Panel structure and had made no mention of either the Audit & Governance Committee or Standards Committee. Therefore, it had been a surprise to see proposals for the merger of these two Committees in this report. It was felt that the importance of the Audit & Governance Committee was not understood; Governance issues made up the majority of the Committee's workload, and yet Governance had been excluded from the new Select Committee's title. The report before the Committee had made no mention of how adequate independent oversight of the Council would be maintained nor how the new structure would meet the requirement to maintain an independent Audit Committee.

The Vice-Chairman highlighted that an Audit & Governance Committee was concerned with processes, controls and how Senior Officers managed the organisation. A Standards Committee was concerned with Members and their personal conduct. Therefore, there was a conflict of interest between the two Committees, one of which dealt with corporate ethics and the other which dealt with individual ethics. It was reiterated that the report lacked detail about the proposals for the new Audit & Standards Select Committee, which made it very difficult to debate the proposals and advise the Task & Finish Panel accordingly. Therefore, the Vice-Chairman could not support the proposals pertaining to the Audit & Governance Committee within the report.

The Vice-Chairman of the Task & Finish Panel reiterated that the report before the Committee offered suggested solutions, and was a paper for discussion and consultation. No decisions had been made, and the report would now be considered again by the Task & Finish Panel before being released for consultation with Members, Stakeholders and Officers. The Vice-Chairman of the Task & Finish Panel did state that the suggested Audit & Standards Select Committee would not report direct to the Overview & Scrutiny Committee, but would continue to report directly to the Council as at present with the two separate Committees.

The Vice-Chairman of the Committee responded that he would welcome any suggestions on how to improve the Council's Scrutiny Function or the operation of Audit & Governance Committee. However, the report before the Committee lacked detail to be given proper consideration and comment.

The Director of Governance added that the report still contained a considerable degree of flexibility as certain principles were still to be discussed. The final structure of the Scrutiny Panels had not been fully worked out and this was simply an interim report showing indicative areas of responsibility. The import of the Audit & Governance Committee reporting direct to the Council had been understood, and it was enquired as to whether there were any further issues that the Task & Finish Panel needed to consider.

When invited by the Chairman to comment, the External Auditor informed the Committee that they would like to contribute some best practice and guidance documents which the Task & Finish Panel could have regard to. The Chartered Institute of Public Finance & Accountancy (CIPFA) had also produced some position statements on Audit Committees, including guidance on how an Audit Committee should interact with a Council's Scrutiny function. The External Auditor also requested the opportunity to be included in the discussions if that was possible.

The Assistant Director of Governance (Governance & Performance Management) informed the Committee that the timetable for the process included a consultation to be undertaken after the next Task & Finish Scrutiny Panel meeting, and that this had to be completed in time for a report to be made to the Overview & Scrutiny Committee at its meeting scheduled for 12 January 2015.

The Chairman proposed, and the Committee agreed, a timetable whereby a report from the Overview & Scrutiny Committee meeting scheduled for 12 January 2015 on the proposals for the future structure of the Scrutiny Panels would be submitted to the next meeting of this Committee on 5 February 2015, and that this report should also include the views of both the Internal and External Auditors. The Audit & Governance Committee would then report their views on the proposals to the Council on 17 February 2015.

In terms of further comments for the Task & Finish Panel to consider at its next meeting, the Committee wanted to convey:

- their strong reservations about audit issues and standards issues being considered by the same body as it was felt that there was a possible conflict of interest;
- the importance of Audit & Governance Committee Members to be kept away from any involvement in Cabinet decision making to uphold their monitoring role;
- the importance of the difference between an Audit Committee and a Standards Committee, and why these should be maintained as separate bodies; and
- the importance to examine the CIPFA guidelines as part of the review regarding the relationship between Audit and Scrutiny, and why they should also be kept separate.

Resolved:

(1) That a further report on the future structure of the Council's Scrutiny Panels be submitted to the next meeting of the Committee scheduled for 5 February 2015 following:

- (a) the consultation exercise on the draft proposals;
- (b) consideration of the consultation responses at the meeting of the Overview & Scrutiny Committee scheduled for 12 January 2015; and

- (c) consideration of the views of the Internal and External Auditors;
- (2) That the views of the Audit & Governance Committee on the proposed future structure of the Council's Scrutiny Panels be reported directly to the Council meeting scheduled for 17 February 2015;
- (3) That the Scrutiny Review Task & Finish Panel be requested to consider the following further comments of the Committee:
 - (a) the possible conflict of interest generated by the same body considering both Audit and Standards issues;
 - (b) the need for members of the Audit & Governance to be separated from the Cabinet decision making process;
 - (c) the difference between an Audit Committee and a Standards Committee, and the importance of retaining them as separate bodies; and
 - (d) examination of the guidelines issues by CIPFA regarding the relationship between Audit and Scrutiny, and the importance of retaining them as separate functions of the Council.

33. MID-YEAR REPORT ON TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS 2014/15

The Principal Accountant (Treasury Management) presented the mid-year progress report on Treasury Management and Prudential Indicators, which covered the treasury activity for the first half of 2014/15, and was a requirement of the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Treasury Management.

The Principal Accountant reported that, during the first half of the year, the Council had continued to finance all capital expenditure from within internal resources. The revised estimate for the Capital Programme during 2014/15 had indicated expenditure of £26.452million, which would be financed by capital grants, capital receipts and revenue. The Capital Programme for the three-year period ending 31 March 2017 had forecasted expenditure of £60million, with £1.8million available in usable capital receipts and £4.1million in the Major Repairs Reserve. Therefore, it was considered that adequate resources existed for the Council's Capital Programme in the medium term.

The Principal Accountant advised the Committee that the Council had £62.1million under investment at 30 September 2014, and the average net investment position of the Council had been approximately £62million throughout the first half of 2014/15. The Council's investments as at 30 September 2014 had consisted of £38.3million in fixed investments, £13.8million in variable investments and £10million in long-term investments. The Council had also received a further dividend from the administrators of the Heritable Bank; the Council had now received 94% of the value of its deposits. It was anticipated that further dividends would not be received until all outstanding litigation had been settled and the administration process had been completed.

The Principal Accountant stated that the Council held loans totalling £185.47million at 30 September 2014, which had funded the self-financing of the Housing Revenue Account. It was not anticipated that the Council would require further loans in 2014/15, but it was expected that a further £20million would be borrowed in 2015/16.

The timing and exact amounts of this borrowing was still uncertain as it depended on the progress with various economic development schemes and the Council's share of developments in St John's Road, Epping and the Epping Forest Shopping Park in Debden. The Public Works Loans Board would be the Council's preferred source of borrowing in 2015/16, given the transparency and controls that it continued to provide, and this additional borrowing would not exceed the Council's authorised limit of £230million for total borrowings.

Finally, the Principal Accountant 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.

The Committee welcomed the report and noted that the Council was getting a good return with minimal risk from its investments, and that the interest rates were declining for long-term loans from the Public Loans Works Board. The Director of Governance confirmed that the proposed capital expenditure for the two schemes in Epping and Debden had been agreed at the last meeting of the Council.

Resolved:

(1) That the mid-year progress report on Treasury Management and the Prudential Indicators for 2014/15, and the management of the risks therein, be noted.

34. ANNUAL AUDIT LETTER 2013/14

The External Auditor presented the Annual Audit Letter for 2013/14, which summarised the key issues that had arisen from the External Auditor's work during the year.

The External Auditor reported that an unqualified true and fair opinion on the Council's Financial Statements had been issued on 30 September 2014, and that the Council's significant financial systems were adequate for producing the Financial Statements. No material misstatements had been identified during the audit, however, it had been noted that the control environment could be strengthened for the monthly reconciliations between the Housing Rents system and the General Ledger. It was considered that proper arrangements had been put in place by the Council to secure economy, efficiency and effectiveness in its use of resources, and an unqualified value for money conclusion had also been issued on 30 September 2014.

The External Auditor stated that they were satisfied the Annual Governance Statement was not inconsistent or misleading with information from the audit of the Financial Statements, and also complied with the guidance "*Delivering Good Governance in Local Government*" issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE). The Council's Whole of Government Accounts (WGA) return was consistent with the audited Financial Statements, although an amendment for the Pension Deficit figure was required, resulting in a reduction of £496,000 for the Pension liability, following a revised statement from the Actuary. The review of the Housing Pooled Capital Receipts return had been completed, which resulted in one adjustment, whilst the review of the Housing Benefits Subsidiary claim for 2013/14 was in progress and would be reported in January 2015.

The External Auditor concluded that the work of the Council's Internal Audit team could be relied upon, and that the assistance and co-operation provided by the

Council during the audit was much appreciated. In response, the Chairman thanked the External Auditors for their efforts throughout the year.

Resolved:

(1) That the Annual Audit Letter for 2013/14, issued by the External Auditor, be noted.

35. INTERNAL AUDIT MONITORING REPORT - JULY TO SEPTEMBER 2014

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

The Chief Internal Auditor advised the Committee of the audit reports that had been issued during the period:

- (a) Full Assurance:
 - None;
- (b) Substantial Assurance:
 - Business Plans;
 - Commercial Property Management;
 - Reprographics;
 - North Weald Airfield; and
 - Key Performance Indicators;
- (c) Limited Assurance:
 - Facilities Management; and
 - Planning Fees
- (d) No Assurance:
 - None.

The Chief Internal Auditor also highlighted that there were a further six reports being drafted concerning: Car Mileage Claims; Corporate Procurement; Contracts – Fraud Prevention; Private Sector Housing Grants; Corporate Asset Register; and Car Parking Contract. The Committee's attention was drawn to the Outstanding Priority 1 Actions Status report, all of which would be reviewed in follow-up audits, and the Limited Assurance Audit Follow Up Status report. It was also noted that the Audit Plan for 2014/15 had been appended to the report to allow the Committee to monitor progress against the Plan.

The Chief Internal Auditor reported that, at the request of the Assistant Director of Resources (Facilities & ICT), an audit of Facilities Management was carried out. This resulted in a Limited Assurance audit report being issued as a number of departures from Contract Standing Orders had been noted, especially the failure to monitor expenditure and take action when financial thresholds had been reached. Assurances had now been given that procedures were in place to monitor expenditure with individual suppliers and highlight when thresholds had been reached.

In respect of the Limited Assurance audit report issued for Planning Fees, the Chief Internal Auditor stated that weaknesses within the reconciliation process had been

identified. Planning staff were updating the reconciliation, with the assistance of Accountancy staff, and would ensure that future reconciliations were carried out in a timely manner.

The Chief Internal Auditor reported upon the current status of the Internal Audit Unit's Local Performance Indicators for 2014/15:

- | | | |
|------------------------------|-------------|------------------|
| • % Planned Audits Completed | Target 90% | Actual 36%; |
| • % Chargeable Staff Time | Target 75% | Actual 78%; |
| • Average Cost per Audit Day | Target £245 | Actual £227; and |
| • % User Satisfaction | Target 90% | Actual 93%. |

The Chief Internal Auditor informed the Committee that, as of 1 July 2014, the User Satisfaction Survey was being given to the relevant Assistant Director or Manager at the Audit Exit meeting for completion at the meeting. This had led to a more punctual completion of the surveys and the publication of a User Satisfaction figure for the second quarter of 2013/14.

The Chairman observed that there had been a recent theme of different reconciliations within the Council not working properly, and that perhaps this was caused by the lack of a Corporate Information Systems Policy, to enable different systems to interface with each other without manual interventions. The Vice-Chairman highlighted that some of the target dates for the outstanding Priority 1 Actions had been missed, and that in such circumstances revised target dates should be issued by the Corporate Governance Group. The Committee enquired about the progress with the purchase of a new Commercial Property Portfolio system; the Chief Internal Auditor reported that a new system had been purchased by the Council and that it was being populated with data from the spreadsheets being currently used. The Chief Internal Auditor would report on further progress at the next meeting of the Committee.

Resolved:

- (1) That the following issues arising from the Internal Audit Monitoring Report for the second quarter of 2014/15 be noted:
 - (a) the Audit reports issued between July and September 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.

36. ANY OTHER BUSINESS

Resolved:

- (1) That, as agreed by the Chairman and in accordance with Section 100B(4)(b) of the Local Government Act 1972, together with paragraphs (6) and (24) of the Council Procedure Rules, the following item of urgent business be considered following publication of the agenda:
 - (a) Appointment of Co-Opted Member.

37. APPOINTMENT OF CO-OPTED MEMBER

The Director of Governance presented a report on the appointment of a new Co-Opted Member of the Committee.

The Director of Governance reported that the Vice-Chairman, Mr R Thompson, had tendered his resignation from the Committee, following two terms as a Co-Opted Member, totalling six years. His second and final term would expire on 9 February 2015. The Committee was reminded that it had undertaken a similar process in 2013 to appoint the second Co-Opted Member currently serving on the Committee, Mr A Jarvis, and it was proposed to utilise the same principles and processes with this appointment. Therefore, the Committee was requested to propose to the Council that an Appointment Panel consisting of three Members be appointed with delegated authority to undertake the recruitment for the soon-to-be vacant position; that one of the Members of the Panel be the current Chairman of the Committee and the remaining Group Leaders be requested to nominate to the other positions as the normal rules of pro rata did not apply in this case; and that the outgoing Co-opted Member be invited to attend the meetings of the Panel in a non-voting, advisory capacity. Officer support to the Panel would be provided by the Director of Governance and other appropriate Officers from within the Directorate.

The Chairman of the Committee enquired as to whether both of the current Co-Opted Members of the Committee should attend the interviews. The Director of Governance reminded the Committee that it was usually the Council Members on the Panel who made the appointment, and that it was a matter for Council as to whether others were invited to attend the interviews. The Committee was content for both Co-Opted Members to attend the interviews, in an advisory capacity, and it was agreed that both should be invited.

The Director of Governance also confirmed that all available outlets would be used to advertise the vacancy, including social media. It was confirmed that Mr R Thompson could attend the next meeting of the Committee if required, as it was scheduled for 5 February 2015 and his term did not expire until 9 February 2015. Although the Council would use its best endeavours to have appointed a replacement before then.

Both the Chairman on behalf of the Committee, and the Director of Governance on behalf of the Officers, paid tribute to Mr R Thompson for his commitment and contributions to the Committee over the previous six years, particularly in the field of risk management.

Resolved:

(1) That a report be submitted to the Council recommending the following procedure for the appointment of a new Co-Opted Member for the Audit & Governance Committee:

(a) That an Appointment Panel of three Councillors be appointed, to include the Chairman of the Audit & Governance Committee, with delegated authority to undertake the interviews following public advertisement and to appoint the preferred candidate for the soon-to-be vacant position of Co-Opted Member position on the Audit & Governance Committee;

(b) That, as pro rata rules did not apply in this instance, nominations to serve on the Appointment Panel with the Chairman of the Audit & Governance Committee be sought from the remaining Group Leaders;

(c) That the two existing Co-Opted Members of the Audit & Governance Committee be invited to attend the interviews in a non-voting, advisory capacity; and

(d) That the Council's appreciation of the contribution of Mr R Thompson to the Audit & Governance Committee as a Co-Opted Member over the previous six years be formally recognised.

CHAIRMAN