

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

**Committee:** Audit and Governance Committee      **Date:** Monday, 30 July 2018

**Place:** Council Chamber, Civic Offices, High Street, Epping      **Time:** 7.00 - 8.15 pm

**Members Present:** Councillors J Knapman (Chairman), A Jarvis, L Hughes, R Jennings and J M Whitehouse

**Other Councillors:** A Lion

**Officers Present:** P Maddock (Assistant Director (Accountancy)), Z Thompson (External Auditor), S Marsh (Chief Internal Auditor), S Linsley (Senior Auditor), F Ahmed (Finance Officer), A Hendry (Senior Democratic Services Officer) and R Perrin (Senior Democratic Services Officer)

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### **1. Webcasting Introduction**

Councillor J Knapman 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.

### **2. Election of Chairman and Vice-Chairman**

Councillor J Knapman opened the meeting and advised the Committee that it needed to elect a Chairman and Vice-chairman for 2018/19, and that under the Terms of reference for the Committee, where the Chairman was an elected Member then the Vice-Chairman had to be one of the Co-Opted Members and vice versa. Nominations were invited from the Committee for the role of Chairman for the forthcoming municipal year.

Following the election of the Chairman, Councillor J Knapman invited nominations for the role of Vice-Chairman for the forthcoming municipal year.

#### **Resolved:**

(1) That J Knapman be elected Chairman of the Audit and Governance Committee for 2018/19; and

(2) That N Nanayakkara be elected Vice-Chairman of Audit and Governance Committee for 2018/19.

### **3. Declarations of Interest**

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

### **4. Minutes**

#### **Resolved:**

That the minutes of the meeting held on 26 March 2018 be taken as read and signed by the Chairman as a correct record.

**5. Matters Arising**

There were no matters arising from the previous meeting.

**6. Audit & Governance Work Programme 2018/19**

The Chief Internal Auditor presented the Audit and Governance Work Programme for 2018/19 and stated that additional items could be added to the Programme as and when they arose.

Councillor J Knapman commented that the Committee could consider the Planning Service as part of their work programme to establish if it was value for money.

**7. Statutory Statement of Accounts 2017/18**

The Assistant Director (Accountancy) advised that one of the key roles of this Committee was scrutinising the annual Statutory Statement of Accounts. All Members of the Council would have the opportunity to debate the accounts at Full Council and part of that debate would be to consider the recommendation of this Committee. He advised that the External Audit was still being carried out as a result of the Government changing the requirement for the accounts to be completed by 31 July 2018 instead of the end of September.

The Assistant Director (Accountancy) informed the Committee that there had been no significant changes to presentation of the annual Statutory Statement of Accounts for 2017/18. Two of the notes required by International Financial Reporting Standards required a major element of judgement, which were Note 3 "Critical judgements in applying accounting policies" and Note 4 "Assumptions made about the future and other major sources of estimation uncertainty". The key critical judgement highlighted in Note 3 was that the Council does not currently need to close facilities or significantly reduce levels of service provision. If this were not the case it would be necessary to consider any assets that would be affected and any consequent impairment of their values. The main area included under Note 4, related to the Council's pension liability. The substantial annual fluctuations in the pension liability made clear the element of judgement exercised by the actuary in establishing the pension figures. The Balance Sheet showed that the pension liability for the Council had decreased in the year from £81.121 million to £74.860 million. This was due to the £3.072 million increase in the value of the projected liabilities being lower than the £9.333 million increase in scheme assets. Further fluctuations were likely in subsequent years as it became clear how members of the pension scheme were responding to the change from a final salary scheme to a career average based scheme. The inclusion of the amount in the Balance Sheet showed the extent of the authority's liability, if the pension fund was to close on 31 March 2018 but did not mean that the full liability would have to be paid over to the pension fund in the near future.

There were two other areas in the Statement of Accounts to bring to Member's attention as having required a major element of judgement. The first of these was asset valuations, Property, Plant and Equipment (PPE) that had a value of nearly £758 million, followed by Investment Properties with a value of £114 million. The assets were revalued periodically to ensure their valuations were correct and up to date and the auditors had carefully considered all of the revaluations and were satisfied that the asset values were not materially misstated.

The other area had been the provision for business rate appeals. The Collection

Fund included a Provision for Appeals of £3.4 million, which had been similar to 2016/17. This provision was calculated with the help of an external firm of rating experts who had analysed each outstanding appeal up to the end of March 2017 and had given a projected value for settlement. From April 2017, the new rating list had come into force, in addition to a new system of dealing with appeals. To date no appeals relating to the new list had been settled, consequently there was no real information to base the provision relating to 2017/18 on.

The financial statements for 2017/18 showed the St Johns Site as an asset held for sale, at £6.139 million. It was originally classified under Current Assets due to the completion of the sale expected in February 2019. However, now it looked likely to occur during 2019/20 and had therefore been reclassified as a Non-Current Asset. There had been no extraordinary items and no prior year adjustments.

There had been two significant adjustments required since the draft accounts had been issued which included;

- (a) The pension information had to be restated, as it was discovered that there was a significant difference in the overall estimated value of the fund at £6,630 million compared to what actually transpired which was £6,519 million. This meant the liability relating to the council recorded in the accounts increased from £72.001 million to £74.860 million; and
- (b) The Shopping Park which had increased in valuation and had been reclassified as an investment property and added to the Revaluation Reserve. However, on reclassification the revalued amount should have been moved to the Capital Adjustment Account but the asset management system had not flag the entry and it was unfortunately not spotted until after 31 May 2018. Nevertheless, it had no affect on the Council's Comprehensive Income and Expenditure or Balance Sheet totals.

There were a couple of other more minor adjustments and reclassifications which was usually the case and neither the Internal nor External Auditor had reported any material weakness in internal controls.

The Committee noted that on the Index of Notes to the Statement of Accounts, Officer Remuneration, the remuneration in relation to the Assistant Director of Neighbourhoods looked concerning, as it appeared that they were earning more than the Chief Executive. The Assistant Director (Accountancy) advised that the Assistant Director of Neighbourhoods had been previously employed as a consultant and because of changes to regulations they had to be brought onto the payroll. The Committee asked that more information be included in the Statement to better reflect and explain the situation regarding these figures. The Committee also asked that some consideration be given when transferring a consultant onto the PAYE system and that a precedent was not set by giving the same rates as a consultant.

The Committee enquired whether the Council was in a financially stronger position than the previous year. The Assistant Director (Accountancy) advised that the Council's position was largely unchanged and that the real challenges laid ahead for all local authorities when the Fair Funding Review reached its conclusion.

The Committee commented that there had not been enough time to test the integrity of the financials, or critically review the accounts, narrative or auditors' report in the two days since the publication of the accounts and concerns could be raised about how the Committee had been seen to discharge its responsibilities effectively. Furthermore, the legislative changes to the timetable for the preparation and approval of accounts and audit deadline for 2017/18 had been known in 2015, so

there should have been no need for the late production. The Committee asked that auditors and the EFDC responsible officers reported back to a future meeting about what steps would be put in place to prevent this happening again.

**Resolved:**

(1) That the auditors and the EFDC responsible officers report back to a future meeting on the steps they will put in place to prevent the late issue of the Statutory Statement of Accounts for consideration at the Audit and Governance Committee; and

(2) That subject to any minor amendments required by the external auditors, the Audit and Governance Committee recommend to the Council that the Statutory Statement of Accounts for 2017/18 be adopted.

**8. Annual Report of the Chief Internal Auditor**

The Chief Internal Auditor presented their Annual Report for 2017/18.

The Chief Internal Auditor informed the Committee that this report was presented in support of the Internal Audit opinion on the adequacy of the Council’s internal control environment and provided a summary of the work undertaken by the Internal Audit shared service during 2017/18. The Accounts and Audit Regulations 2015 also included a requirement for the Authority to carry out an annual review of the effectiveness of its system of internal audit as part of the wider review of the effectiveness of the system of governance.

The Chief Internal Auditor reminded the Committee that the 2017/18 Internal Audit Plan had been presented to the Audit and Governance Committee in March 2017. A total of 19 assurance reviews were completed and overall the audits were positive with the majority being given Substantial assurance and there were no Limited or No assurance reports. Furthermore, the reports that had been given Moderate assurance, related to a specific area rather than a breakdown of controls across the Council.

The Chief Auditor also stated that her opinion had not relied solely upon the formal audits undertaken, but also took account of special investigations undertaken by the Internal Audit or the Corporate Fraud Team. There had been no significant (estimated at more than £10,000) investigations into suspected internal fraud, although an internal investigation had been carried following the Chief Internal Auditor receiving a Whistleblowing allegation. Furthermore, the Corporate Fraud Team reported directly to the Chief Internal Auditor, which ensured that there was a corporate approach to anti-fraud activities as well as ensuring synergies with the Internal Audit team.

In November 2016 the service was confirmed as being fully compliant with the Public Sector Internal Audit Standards (PSIAS) by an external assessor, which remained the case because there had been no significant changes in the way the Internal Audit service was delivered or operated and the Chief Internal Auditor had not taken on any additional responsibilities.

The performance indicators for the service in 2017/18 were as follows:

Aspect of Service	Performance Indicator	Target	2017/18 Year End outcome	2016/17 Year End outcome

Audit Plan	Achievement of the Annual Plan	95%	87%*	84%
Internal Audit processes	Issue of draft report after closing meeting	10 working days	5 days	16 days
	Issue of final report after agreement with client to draft	5 working days	3 days	4 days
Effective management engagement	Management responses within 10 working days of draft report	10 working days	10 days	21 days
	Implementation of agreed audit recommendations	Within agreed timescales	Largely met (as reported by tracker)	Largely met (as reported by tracker)

The Committee commented that they were mindful of the resourcing issues that had impacted the 2017/18 internal audit and had caused the deferrals; consequently it was surprising that it had not been reflected in the resources constraints. It was also highlighted that the implementation of the Internal Audit Work Plan and the need for future deferrals should be minimised as much as possible. The Chief Internal Auditor advised that if she had felt that not enough work had been completed or not fully understood, she would have declared it in her report and although there had been some deferrals, a wide range of areas had been covered.

The Committee advised that they had requested that criteria for any potential deferrals on the current Audit Plan would be established. The Chief Internal Auditor advised that the criteria for deferrals would be considered by the Corporate Governance Group.

#### **Resolved;**

- (1) The Annual Report of the Chief Internal Auditor for 2017/18 and the Assurance Level given be noted;
- (2) That the Annual Report of the Chief Internal Auditor for 2017/18 be included as part of the review by the Committee of the adequacy and effectiveness of Internal Control; and
- (3) That, for the twelve-month period ending 31 March 2018, the confirmation by the Chief Internal Auditor that the Council had an adequate and effective Governance, Risk Management and Control Framework be noted.

#### **9. Annual Governance Statement 2017/18**

The Chief Internal Auditor presented a report on the Annual Governance Statement for 2017/18.

The Chief Internal Auditor stated that the Council's Statutory Statement of Accounts had been prepared in accordance with the Accounts and Audit Regulations 2015. Within the Regulations, and in accordance with defined 'proper practice', there was a mandatory requirement to publish an Annual Governance Statement (AGS). The arrangements were designed to provide the Council with assurance regarding the adequacy of its governance arrangements, and identifying where those arrangements need to be improved. The Statement was also partly derived from

detailed reviews by all Service Directors on the effectiveness of the governance arrangements within their areas. The Statement also outlined the Governance Framework at the Council, the progress made on significant governance issues identified in the previous Statement, and the following areas for improvement or monitoring during 2018/19:

- (i) to maintain compliance on General Data Protection Regulations and ensure continuous improvement; and
- (ii) Transformation.

The Committee commented that all the Statutory Officers in the Corporate Governance Group had recently changed and whether there had been any assurance that the appropriate support had been put into place. The Chief Internal Auditor advised that the current arrangements (pending the introduction of a new senior management structure) included the Senior Management, Monitoring Officer, Section 151 Officer and Chief Internal Auditor which had been referred to in the report and was in line with the Council responsibilities.

The Chairman advised that he had concerns over the governance of enforcement officers, when a Planning Committee had determined a planning application and no appeal was made, that the decision of the Sub-Planning Committee would not be carried out if enforcement was determined appropriate. He advised that he would be raising this issue at Full Council.

**Resolved:**

That the Annual Governance Statement for 2017/18 be approved.

**10. Corporate Fraud Team Strategy 2018 / 2019**

The Chief Internal Auditor presented a report on the Corporate Fraud Team Strategy which set out the focus and approach of the Corporate Fraud Team for the year 2018/2019 and summarized the work of the team for 2017/18.

The Chief Internal Auditor advised that the main focus of the proactive work undertaken by the team during the 2018/2019 would include Right to Buy Applications, Non-Domestic Rates fraud and fraud within Council Tax single person discounts. The team would review and risk assess 100% of the referrals it received, in order to ensure efficient allocation of resources and the highest risk referrals were prioritised. It would also continue with the Whistle Blowing Policy.

In addition, the Corporate Fraud Team would continue with the National Fraud Initiative to match any frauds that potentially involved staff and "high risk" cases. The joint working arrangements continued with Brentwood Borough Council which had the added benefits of additional income, investigators honing their skills in investigations and training. The informal joint working initiative with the anti-fraud team at Chelmsford City Council would also continue into 2018/2019 with the intention to become self funding.

**Resolved:**

That the Corporate Fraud Team Strategy for 2018 / 2019 be approved.

**11. Audit and Governance Committee Annual Report**

The Chief Internal Auditor presented the Audit & Governance Committee Annual Report 2017/18.

The Chief Internal Auditor stated that the Annual Report of the Audit and Governance Committee outlined the Committee's work and achievements over the year ending 31 March 2018. The Annual Report helped to demonstrate to residents and the Council's other stakeholders, the vital role that was carried out by the Audit and Governance Committee and the contribution that it made to the Council's overall governance arrangements.

The Annual Report had concluded that the Committee continued to make a real and positive contribution to the governance arrangements of the Council. The Committee's key achievement was in the additional assurance provided for the robustness of the Council's arrangements regarding corporate governance, risk management and the control environment. During the coming year, the Committee would concentrate on:

- Continuing to review governance arrangements to ensure that the Council adopted the best practice;
- Continuing to support the work of audit and ensure that appropriate responses were provided to their recommendations;
- Continuing to help the Council manage the risk of fraud and corruption;
- Providing effective challenge, particularly to officers, raising awareness of the importance of sound internal control arrangements and giving the appropriate assurances to the Council;
- Considering the effectiveness of the Council's risk management arrangements; and
- Providing existing and new members of the Committee with relevant training, briefings etc. to help in discharging their responsibilities.

**Recommended:**

That the Annual Report for the Audit and Governance Committee for 2017/18 be recommended to the Council for approval.

**12. Internal Audit Monitoring Report - April to July 2018**

The Chief Internal Auditor presented the Internal Audit Monitoring Report for the period April to July 2018.

The Chief Internal Auditor advised the Committee that ten reports had been issued since the previous meeting, of which six had been given substantial assurance and were related to Housing Planned Maintenance and Major Works Programme, Card Income Payments, Payroll, HR Absence Management, Housing Benefits and Capital Projects (Non-Housing). The four that had been given moderate assurance were Leisure Management Contract, Asset Management Strategy, General Ledger and Agency Workers. The Audit Recommendation Tracker currently contained two recommendations which had passed their due date; both medium priority for Management of Council Housing Voids and Leisure Management Contract.

Other Internal Audit activities included the Internal Audit representation on business groups and project teams, in addition to less formal meetings. The main focus of Internal Audit's non-audit work had been General Data Protection Regulation (GDPR) Working Party which had been recently been disbanded as GDPR came into force on 25 May 2018. Furthermore, Internal Audit had developed internal audit

programmes, in conjunction with the Council's Data Protection Officer, to assess the Council's compliance with GDPR.

Finally, the Chief Internal Auditor advised that the National Fraud Initiative (NFI) and the Council were data matching with other Essex councils as part of a pan-Essex commitment, to identify fraud and error in the Council Tax base. Nearly £400,000 of savings had been made across Essex since November 2017, with the Council achieving savings of over £55,000 from the matches.

**Resolved:**

That the progress made against the Internal Audit Plan for 2018/19 be noted.

**13. Any Other Business**

In accordance with Section 100B(4)(b) of the Local Government Act 1972, the following items of urgent business be considered following the publication of the agenda:

- Audit of Accounts - Annual Governance Report 2017/18.

**14. Audit of Accounts - Annual Governance Report 2017/18**

The External Auditor introduced the audit report for the year ended 31 March 2018, highlighting the key findings of the financial statement of the Council. They had substantially completed their audit procedures in accordance with the planned scope and their objectives had been achieved, subject to the matters set out in the report.

The key findings were;

- (a) That no additional significant audit risks had been identified during the course of the external audit procedures subsequent to the Audit Plan on 19 January 2018;
- (b) That the final materiality was £2,000,000, which had not required reassessment;
- (c) That there were no significant changes to the planned audit approach nor were any restrictions placed on the audit;
- (d) That the audit identified the following material misstatements:
  - Upon transfer of the Langston Road Retail Park from Assets Under Construction to Investment Properties, the Revaluation Reserve balance was not removed via the Capital Adjustment Account. The revaluation reserve was therefore overstated by £6.503 million and this had been adjusted in the revised financial statements;
  - The St John's Road site was classified as an asset held for sale within current assets at £6.139 million in the draft financial statements. However, planning permission had not yet been granted on the site and therefore the site should have been classified as a surplus asset within non-current assets. Surplus assets were consequently understated by £6.139m and this had been adjusted in the revised financial statements; and
  - The Essex Pension Fund actuary reissued its IAS19 actuarial valuation report in June 2018 following publication of the Council's draft financial

statements as there had been a significant movement in the estimate used in the actuarial calculation and the actual fund value at the year end of £111 million. The impact for the Council was that the pension scheme liability had increased by £2.859 million to £74.860 million and this had been adjusted in the revised financial statements.

- (e) That there had been no unadjusted audit differences;
- (f) That the audit identified no significant deficiencies in internal controls;
- (g) That following the receipt of the draft accounts, the Pension Actuary had issued an updated IAS19 report and the audit was in progress;
- (h) That a number of presentational changes had been made to the draft financial statements as a result of the audit;
- (i) That management reported at the end of the year a General Fund balance of £6.7 million, which was an improved position compared to the opening balance of £0.5 million predominantly due to a change in accounting treatment. Management were planning for reserves to be 37% of the Council's net funding requirement by 2021/22 with the minimum requirement being set by Members at 25%;
- (j) That the Council had healthy levels of reserves when compared to the minimum requirement and a strong asset base. The impact of the Transformation Programme and the commercial strategy the Council had adopted on its finances were appropriate to continue to deliver the strategies;
- (k) That subject to the successful resolution of outstanding matters, it had been anticipated that a unmodified opinion on the financial statements for the year ended 31 March 2018 would be issued;
- (l) That there were no exceptions to report in relation to the consistency of the Annual Governance Statement with the financial statements; and
- (m) The Council was below the audit threshold for a full assurance review of the Whole Government Accounts return and no other powers or duties under the Local Audit and Accountability Act 2014 had been exercised.

The work of the External Auditors was still ongoing and would continue right up until the deadline of 31 July 2018.

The Committee raised concerns about the process and time given, to give a fair judgement on the External Auditor's Annual Governance Report.

**Resolved:**

That the External Auditor's Annual Governance Report be noted.

**CHAIRMAN**