EPPING FOREST DISTRICT COUNCIL
COMMITTEE MINUTES

Committee:	Audit & Governance Committee	**Date:**	28 September 2020
Place:	Virtual Meeting on Zoom	**Time:**	7.00 - 8.40 pm
Members Present:	I Hadley, S Heap, R Jennings and B Vaz		
Other Councillors:	A Patel and J Philip		
Apologies:	P Keska		
Officers Present:	C Hartgrove (Interim Chief Finance Officer), A Hendry (Democratic Services Officer), S Linsley (Senior Auditor), S Mitchell (PR Website Editor), A Small (Strategic Director Corporate and 151 Officer) and G Woodhall (Team Manager - Democratic & Electoral Services)		

---

26. WEBCASTING INTRODUCTION

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

27. DECLARATIONS OF INTEREST

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

28. MINUTES

Resolved:

(1) That the minutes of the meeting held on 27 July 2020 be taken as read and signed by the Chairman as a correct record.

29. MATTERS ARISING

There were no matters arising from the minutes of the previous meeting which warranted further discussion.

30. AUDIT & GOVERNANCE COMMITTEE - WORK PROGRAMME

The Senior Auditor, S Linsley, presented the Committee's Work Programme for 2020/21.

S Linsley highlighted that here had been two changes to the Work Programme since the last meeting: the Treasury Management Mid-Year report for 2020/21 and the Statutory Statement of Accounts for 2019/20 would now be considered at the next meeting of the Committee. A Small informed the Committee that the Government had relaxed the deadline for the Statutory Statement of Accounts to be completed. C Hartgrove explained that due to Covid-19, the Mid-Year Treasury Management report was not quite ready yet but he was working with the Council's consultants - Arlingclose – to finalise the report for the next meeting.

The Committee noted its revised Work Programme.

31. THE REDMOND REVIEW

The Council's Interim Chief Financial Officer, C Hartgrove, presented a report on the Redmond Review, an independent review into the oversight of local audit and the transparency of local authority financial reporting which had been published on 8 September 2020.

C Hartgrove reported that the Review had examined the effectiveness of local audit and its ability to demonstrate accountability for audit performance to the public. It also considered whether the current means of reporting an authority's annual accounts enabled the public to understand this financial information and receive the appropriate assurance that the finances of an authority were sound. Serious concerns had been expressed by consultees during the Review about the state of the local audit market and the ultimate effectiveness of the work undertaken by audit firms. Specifically, whether audit reports delivered full assurance on the financial sustainability and value for money of local authorities, and evidence submitted to the Review noted concerns about the balance of price and quality in audit contracts.

C Hartgrove drew the attention of the Committee to the fact that the fragmentation of the existing local government accounting and audit framework following the demise of the Audit Commission in 2015 had been pinpointed as a key area for reform. The creation of a new regulatory body – The Office of Local Audit and Regulation (OLAR) – was recommended, which would have specific responsibility for procurement, contract management, regulation, and oversight of local audit. The Review was also critical of the current size of audit fees (which had fallen dramatically in recent years) and recommended extending the deadline for the publication of audited accounts to 30 September from the current 30 July deadline.

C Hartgrove stated that Governance arrangements had also come under the spotlight, and a review of the composition of Audit Committees was recommended, and the switch to a narrative report on the value-for-money (VFM) opinion was supported. The Review also urged statutory status for the principles in the Chartered Institute of Public Finance and Accountancy's Financial Management Code as a means of better judging financial resilience. In terms of financial reporting, the Review highlighted the "impenetrable" nature of local government accounts and had recommended a simplified statement of service information and costs be prepared alongside the statutory accounts. The implementation of the recommendations would, in part, require regulatory or legislative change and the report of the Review was now being considered by the Government. Any implementation of the recommendations of the Review would be effective for the 2021/ 22 municipal year.

Cllr R Jennings supported the report and whole heartedly supported the principle that the required knowledge should always be present in the membership of an Audit Committee. In addition, the Councillor supported the recommendation that financial reports should be understandable by the general public.

C Hartgrove stated that Public Sector Audit Appointments Limited (PSAA) had removed many of the requirements for local authority audits, which had reduced the fees levied by the Audit companies. As highlighted in the Review, there would be pressure to increase audit fees in the future. The External Auditor, C Wisdom, added that the Review had concluded audit fees were 25% lower than they should be, and that extending the time permitted for audits to be carried out would create more flexibility in audit delivery as well as allowing the same Audit Team to audit more Councils. The Chairman, Cllr I Hadley, emphasised that there was no mention of transition costs within the Review.

Resolved:

(1) That the findings, conclusions and recommendations of the independent review into the oversight of local audit and the transparency of local authority financial reporting (The Redmond Review) be noted.

32. RISK MANAGEMENT

The Section 151 Officer, A Small, presented a report on the review of the Corporate Risk Register.

A Small reported that the Corporate Risk Register had been reviewed by the Officer Risk Management Group at its meeting on 9 September 2020, and the following revisions had been proposed:

- The Covid-19 risk had been removed as its affects had been adequately captured in many of the other corporate risks, especially the Financial Resilience and Economic Development risks.
- Risk 3 (Financial Resilience) had been upgraded given the size of the cost of Covid-19.
- Risk 6 (Business Continuity) had been downgraded as the Council continued to demonstrate the way it had coped with Covid-19.
- Risk 12 (Travel Plan) had been upgraded as it linked with Risk 11 (Accommodation Project) and the need to consider parking arrangements in light of commercial opportunities to rent out space at the Civic Offices.

A Small stated that the Council's Risk Management Strategy had not been revised since September 2017. The Risk Management Strategy had been reviewed and updated to reflect the changes in reporting arrangements. In addition, the 'Future Actions' section reflected the need for the Council to define its risk appetite and engage better with staff, and the Risk Assessment matrix (Appendix 1 of the Strategy) had been updated to ensure the Council could better identify its medium (amber) and high (red) risks. The Committee was asked to consider the amended Risk Management Strategy and recommend it to the Cabinet for adoption.

Cllr S Heap opined that risk 10, Climate Emergency, should be scored as A1 not B2, and that there appeared to be no strategy for developing manufacturing or the arts within the District as part of risk 4, Economic Development. In addition, Cllr S Heap asked why the Council was so concerned about reputational damage for a number of the risks and whether risk 1, Local Plan, was such a high risk if the District Council got merged as part of Local Government Reform? The Councillor also enquired if there would be any answers forthcoming for the detailed questions that he had previously emailed in before the meeting.

A Small stated that the Council's new Sustainability Officer had now started with the Council and the authority was now in a position to develop the necessary plans and actions. There was a high degree of uncertainty with Local Government Reform but it was still important to ensure the Council was prepared for whatever happened in the future. The perceived risks to the Council's budgets were much sooner than 2024, and the Council needed to plan accordingly.

The Portfolio Holder for Finance & Economic Development, Cllr J Philip, acknowledged that reputational damage was irrelevant in certain cases as the Council would be blamed regardless of what had actually happened. However, it was significant in a number of instances to allow the Council to represent its residents properly. Cllr J Philip felt that it was hazardous to refocus the Council's Risk Strategy on what might or might not happen in the future in relation to Local Government Reform. In respect of the Local Plan, each District Council was legally obliged to produce one, and it was unlikely that Local Plans would be merged as a result of Local Government Reform.

A Small reminded the Committee that the Council's risks were not listed in risk order on page 22 of the agenda, this was simply a statement of the current risks facing the Council. The table on page 33 of the agenda illustrated better the risks in order of their likelihood and impact, with risks 4 – Economic Development – and 9 – Delays in Issuing Planning Permissions – rated as the highest. If Cllr S Heap was to forward his emailed questions to A Small then responses would be circulated to the Committee.

Resolved:

(1) That detailed responses to the questions from Cllr S Heap be circulated to the Committee by A Small;

(2) That the current Corporate Risk Register, as revised by the Officer Risk Management Group, be noted; and

(3) That the revised Risk Management Strategy be recommended to the Cabinet for adoption.

33. INTERNAL AUDIT MONITORING REPORT - SEPTEMBER 2020

The Senior Auditor, S Linsley, presented the Internal Audit Monitoring Report for the period July to September 2020.

S Linsley stated that no reports had been issued since the Committee's last meeting in July. The current Recommendation Tracker showed that eight audit report recommendations had passed their due date (down from 16 previously), of which two were high priority. The two overdue, high priority audit recommendations were concerned with the development of a Corporate Data Retention and Disposals Policy, and Health & Safety Risk Assessments at the Council's Satellite Offices; however, good progress was being made to resolve both recommendations. The progress of all audit report recommendations continued to be monitored by the Corporate Governance Group. Progress against the Audit Plan for 2020/21 had initially been hindered due to Covid-19 but had now resumed.

S Linsley highlighted the other activities being undertaken by the Internal Audit Team, which included: providing advice and assistance with the Local Authority Discretionary Grants Scheme; assisting with development of Decision Making Accountability; and coordinating preparations for the National Fraud Initiative exercise for 2020/21. The Corporate Fraud Team had been instrumental in the withdrawal of six Right-to-Buy applications and were currently assisting Internal Audit and the Revenues Team investigating three potentially fraudulent applications for Covid-19 Business Grants.

Cllr S Heap highlighted possible issues with long-term sickness during the pandemic for the recommendations in relation to the implementation of a Council-wide approach for Business Rates, and felt that some of the outstanding Audit Report recommendations should have been implemented before the first lockdown came into being. S Linsley pointed out that the recommendations arising from this Audit Report were low priority, and the Service had also to deal with the implementation of the Small Business Grants scheme during the lockdown. However, the recommendations have now started to be progressed as the Service had pulled over resources from the Council Tax Team. In addition, S Linsley assured the Committee that audits were completed thoroughly, and that progress with outstanding recommendations from previous Audit Reports were monitored to ensure they were properly managed.

Resolved:

(1) That the summary of the work undertaken by the Internal Audit Team and the Corporate Fraud Team during the period July to September 2020 be noted.

34. STATEMENT OF ACCOUNTS 2019/20 - UPDATE

The Council's interim Chief Financial Officer, C Hartgrove, updated the Committee on the Council's progress in discharging its statutory duty to prepare an Annual Statement of Accounts for 2019/20.

C Hartgrove reported that The *Accounts and Audit (Coronavirus) Amendments Regulations 2020* had extended the statutory deadlines for 2019/20 for all local authorities:

- Unaudited Accounts – these were required to be published on the Council's website by 31 August 2020; the Council's Accounts were published on Friday 21 August 2020; and

- Audited Accounts – these were required to be published on the Council's website by 30 November 2020.

C Hartgrove informed the Committee that the audit of the Statement of Accounts for 2019/20 was currently in progress and it was anticipated that the external auditors would be able to issue their audit opinion by the statutory deadline of 30 November 2020.

Resolved:

(1) That the progress with the preparation of the Council's Statement of Accounts for 2019/20 be noted; and

(2) That the receipt and scrutiny of the Council's audited Statement of Accounts for 2019/20 at the Committee's meeting scheduled for 23 November 2020 be agreed.

35. ANY OTHER BUSINESS

Resolved:

(1) That, 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:

(a) Treasury Management Outturn Report 2019/20; and

(b) Audit Planning Report – Year Ended 31 March 2020.

36. TREASURY MANAGEMENT OUTTURN REPORT 2019/20

The Council's interim Chief Financial Officer, C Hartgrove, presented the Treasury Management Outturn Report for 2019/20.

C Hartgrove reminded the Committee that the Treasury Management Outturn Report detailed the Council's actual Treasury Management activity for the year, and included the year-end position which would be included in the Council's Statement of Accounts. During the year, external borrowing by the Council had risen by £39million to £224.5million and the value of the Council's investments had risen by £5.5million to £22.1million. The Council's Commercial Property Portfolio was also included and this had delivered a net income of £6.2million during the year, although there were also valuation losses due to unfavourable market conditions.

C Hartgrove reported that full compliance had been achieved with the majority of the Council's adopted Treasury Management and Prudential Indicators; however, there had been some technical breaches with Investment Limits. The £3million limit on investing in any single organisation (except for the UK Government) was breached during the year, with the Council holding larger amounts of cash with NatWest, the Council's main bankers. The peak cash holding was £26million in mid-December 2019 for a period of 6 days. The increasing scale of commercial activity generally, including the Qualis initiative, meant that the current Investment Limits were proving operationally very difficult. A review of the Limits had therefore been undertaken and a solution (that balanced risk with operational need) had been developed. Based on discussions with Arlingclose, the Council's Treasury Management consultants, a revised Investment Limit for a single institution had therefore been suggested at £4million.

In addition, C Hartgrove stated that it was the view of Arlingclose that the Council's current Investment Limit of £10million in total for Money Market Funds (MMFs) was now excessively prudent, with a £10million limit more usually associated with a single MMF. These were not considered risky investments (and usually carried very high credit ratings), provided investments were spread across a range of MMFs. It was therefore proposed that the MMF Investment Limit be amended to £10 million for a single MMF. Consequently, the Committee was requested to recommend these revised Investment Limits to the Council for approval.

In relation to the increased borrowing undertaken by the Council of £39million during the year, the Section 151 Officer A Small reminded the Committee that £30million of this borrowing had been undertaken on behalf of Qualis. It was likely that the Council would undertake further borrowing on behalf of Qualis and this would be reflected in the Treasury Management Strategy in the future. The Portfolio Holder for Finance & Economic Development, Cllr J Philip, added that Qualis could test the market for future lending, and the Council would not necessarily be the only lender to Qualis in the future. C Hartgrove stated that the loan with the Public Works Loan Board of £185.5million was still to be repaid in 2022; the Council was due soon to make a repayment of £31.8million, for which it currently had approximately £12million currently set aside.

Cllr R Jennings was concerned that the Council now had a substantial debt and was there a mechanism to stop the Council borrowing further monies? A Small stated that the risks the Council could take when borrowing monies was part of the Treasury Management Strategy; there was a requirement to demonstrate that the Council's liabilities could be managed and the debts repaid, so potentially there was no upper limit for the Council's borrowings.

The External Auditor stated that their focus was on the robustness of the governance arrangements, and that decisions to borrow further monies by the Council were based on sound financial processes, including assessing whether the Council was benefitting from its borrowing decisions. The Council would always be encouraged to follow its governance processes to ensure that any borrowing decisions were sound, and that such decisions were monitored to ensure that the original business case was still relevant.

In relation to the proposed increase in Investment Limits, A Small explained that each MMF was a blend of different funds with different institutions, which presented a more diversified risk. Thus, such Funds were more likely to achieve an 'AAA' credit rating than a single institution due to this spreading of the risk. If the Council was to have more than £10million in cash for any length of time, then it would probably be more prudent to reduce debts than hold these monies in such funds. However, they would normally only be used for short-term holdings and it was unlikely that the Council would invest in more than 3 such funds at any one time. In addition, the Council would only ever use such funds that were credit rated as 'AAA' and recommended by Arlingclose.

Cllr S Heap was concerned that MMFs were not as safe as being stated by Officers. The Councillor felt that there needed to be some control over the number of such funds that were invested in, and would prefer a limit of £5million per fund. Cllr I Hadley commented that this rise in the investment limit for MMFs appeared to be much larger than the proposed rise in the counterparty limit from £3million to £4million, especially as it was a rise from £10million in total invested in MMFs to £10million per MMF. Cllr R Jennings shared these concerns and would also prefer a limit of £5million per MMF. Cllr J Philip proposed that the Section 151 Officer would report to the next meeting of the Committee instances of when the Council used more than three MMFs at any one point in time. However, Cllr R Jennings highlighted that the Committee only met every two or three months and suggested that an emergency meeting of the Committee could be called, or perhaps the Chairman plus one or two other Members of the Committee, whenever Officers wished to invest in more than three MMFs.

C Hartgrove reiterated that monies did not generally remain in MMFs for very long, and were often only invested in for very short periods of time, whilst Cllr J Philip reminded the Committee that the Council would be acting on the advice of their Treasury Management Consultants. A Small stated that the alternative would be to invest these funds with individual institutions in accordance with the Treasury Management Strategy, but this would limit the Council's flexibility to make short-term investment decisions and represent a higher investment risk. In addition, the more individuals that had to be called together before the Council could make an investment decision would also restrict the Council's flexibility.

However, the Committee was still concerned about the risk this could pose to the Council if there was not a maximum on the number of MMFs that could be invested in at any one time. Therefore, the Committee agreed to recommend to limit the number of such Funds that could be invested in to three at any one time, and if Officers wished to invest Council monies in more than three such Funds at the same time then they would have to call an emergency virtual meeting with at least three members of the Audit & Governance Committee – preferably including the Chairman – to discuss the situation.

Resolved:

(1) That the Treasury Management Outturn Report for 2019/20 be noted;

(2) That the following amended Treasury Management Investment Limits be recommended to the Council for approval:

(a) Single Institution (excluding the UK Government) to be increased to £4million (previous limit was £3million); and

(b) Money Market Funds to be increased to £10million per fund, with a maximum of 3 Funds to be invested in at any one time unless Officers have called an emergency virtual meeting with three members of the Audit & Governance Committee – preferably including the Chairman - to discuss the situation (previous limit was £10million in total for all such Funds invested in).

37. AUDIT PLANNING REPORT - YEAR ENDED 31 MARCH 2020

The External Auditor, C Wisdom, presented the Audit Planning Report for the year ended 31 March 2020.

C Wisdom highlighted the key areas of focus for the Audit, which included the three significant risks that had been identified: property valuations for fixed assets and investments; expenditure as part of the Council's Capital Programme; and management override of accounting controls. In addition, the Council's liability under the Local Government Pension Scheme would also be an area of audit focus. It was reported that this year's audit was progressing more efficiently than last year and was expected to be completed on time.

In response to questions from the Committee, C Wisdom explained that many valuations changed due to the future outlook for a particular market, e.g. if rents were not expected to be as good as a year ago then property valuations would decrease. There was usually some degree of judgement with valuations. In respect of the Pension Scheme deficit, the Pension Scheme would have invested in a variety of assets so no single particular asset – such as land values – would be responsible for the deficit. A narrative regarding the actuarial valuations for the Pension Scheme would be added in future.

C Wisdom assured the Committee that there was no intent to mislead by quoting a figure of '£2,000k' instead of '£2m', and that '£2m' would be used in future. The basis of valuations used for the assets transferred to Qualis was not currently known, but they would be examined in the future.

Resolved:

(1) That the Audit Planning Report for the year ended 31 March 2020 be noted.

38. 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

This page is intentionally left blank