

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

**Committee:** Audit and Governance Committee      **Date:** Monday, 30 March 2015

**Place:** Council Chamber, Civic Offices, High Street, Epping      **Time:** 7.30 - 8.15 pm

**Members Present:** A Watts (Chairman), P Keska, S Weston and A Jarvis

**Other Councillors:** J Philip and Ms S Stavrou

**Apologies:** -

**Officers Present:** C O'Boyle (Director of Governance), B Bassington (Chief Internal Auditor), G J Woodhall (Democratic Services Officer) and S Tautz (Democratic Services Manager)

**Also in attendance:** A Barnes (External Auditor)

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### **47. 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.

### **48. DECLARATIONS OF INTEREST**

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

### **49. MINUTES**

**Resolved:**

(1) That the minutes of the meeting held on 9 February 2015 be taken as read and signed by the Chairman as a correct record.

### **50. MATTERS ARISING**

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

### **51. AUDIT & GOVERNANCE WORK PROGRAMME 2014/15**

The Committee noted its Work Programme for 2014/15.

The Democratic Services Officer reported that a draft Work Programme for 2015/16 would be circulated in due course.

**52. APPOINTMENT OF CO-OPTED MEMBER**

The Director of Governance presented a report on the appointment of a new Co-Opted Member for the Committee, following the retirement of R Thompson in February 2015.

The Committee noted the details of the recruitment process and the current position concerning the receipt of applications for the appointment of a replacement Co-opted Member. Following the extension of the closing date for applications, the Appointment Panel would now undertake interviews on the evening of 23 April 2015, and the Panel would include the current and previous Co-Opted Members of the Committee in an advisory, non-voting capacity. The Director of Governance was optimistic of making an appointment on the evening.

**Resolved:**

(1) That the current position in relation to the appointment of a new Co-Opted Member for the Audit & Governance Committee be noted.

**53. REPORTS FROM THE EXTERNAL AUDITOR**

The External Auditor presented three reports to the Committee, the first being the Audit Plan for 2014/15 which summarised the significant risks with an impact on the audit and the key outputs from the Audit, the second was the Planning Letter for 2015/16 which detailed the proposed fee and audit arrangements, and finally the Grant Claims & Returns Certification which had been previously circulated to the Members of the Committee.

In respect of the Audit Plan for the 2014/15 financial year, the External Auditor reported that the Audit Plan summarised the proposed work to be undertaken for the audit of the 2014/15 financial year. It would be designed to respond to significant risks and indicated where the focus of resources would be in providing an opinion on the financial statements and value for money conclusion. There were four significant risks which would impact upon the Audit, these being: Management Override; Revenue Recognition; Valuation of Land & Buildings; and Financial Resilience. The Plan set out the proposed fee for the Audit as £86,229 plus VAT, which was an increase of £900 in comparison to the fee previously reported in the Planning Letter. There was a further fee of £24,710 plus VAT for the certification of claims and returns, which was a reduction of £2,090 from the figure previously quoted in the Planning Letter as the Audit Commission had removed the certification of Pooled Capital Receipts Return from the scope of the work.

The External Auditor informed the Committee of the expected key outputs from the audit:

- a report on any significant deficiencies in internal controls arising from the interim audit in May 2015;
- a final report to those charged with governance in September 2015;
- the opinion on the financial statements, a value for money conclusion, and certificate by 30 September 2015;
- an assurance statement on the Whole of Government Accounts by 7 October 2015;
- a summary of findings from the audit in the Annual Audit Letter in October 2015; and
- the results of the Grant Claims and Returns certification work in January 2016.

In response to a question from one of the Members, the External Auditor stated that the Council could reclaim Value Added Tax (VAT) from Her Majesty's Revenue & Customs (HMRC), however it was incumbent upon Finance Officers to ensure that the Council did not exceed the 5% De Minimis rule otherwise the Council would lose this ability. The rules regarding the claiming back of VAT was complicated, and as a local authority the Council could claim back some categories of VAT but not others.

With regard to the Planning Letter for 2015/16, the External Auditor reported on the proposed fees and programme of work for the 2015/16 financial year. The proposed core audit fee would reduce to £64,672 from £85,329 in 2014/15, whilst the proposed Certification Fee would also reduce from the £24,884 in 2014/15 to £18,533. The total fee of £83,205 represented a 25% reduction in comparison to 2014/15 as a result of the further audit procurement exercise undertaken in April 2014. 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 planned outputs for 2015/16 were as follows:

- a detailed Audit Plan in March 2016;
- a report on any significant deficiencies in internal controls arising from the interim audit in May 2016;
- the final report to those charged with governance in September 2016;
- the opinion on the financial statements, the value for money conclusion, and certificate in September 2016;
- the Assurance Statement on the Whole of Government accounts and report to the National Audit Office in October 2016;
- the Annual Audit Letter in October 2016; and
- the Grant Claims and Returns Certification report in January 2017.

In relation to the Grants Claims and Certification report for 2013/14, the External Auditor highlighted the key issues arising from the work, along with recommendations for the future and an action plan. An adjustment was required for the Housing Benefit Subsidy, which had led it to being qualified. The impact of this amendment was an increase of £6,644 in the amount payable to the Department of Works & Pensions, although the External Auditor acknowledged that this amendment was very small when compared against a claim worth nearly £38.5million. For the Pooled Housing Capital Receipts Return, an issue was identified relating to the omission of new build expenditure incurred during 2012/13. This omission was corrected but it had no impact on the value of the Return.

There were four recommendations for future action, all of which had been accepted by Officers. For the second recommendation in the 2013/14 Action Plan, the External Auditor stated that they would expect refresher training to be undertaken by Staff to cover those areas where differences had been found in the treatment of rent liability, eligible rent and tax credits. The management response stated that refresher training would be taking place in March 2015, and the Director of Governance undertook to report back to the committee whether the training had been undertaken.

**Resolved:**

- (1) That the following reports from the External Auditor be noted:
  - (a) the Audit Plan for the audit of the 2014/15 financial year;
  - (b) the Planning Letter outlining the proposed fees and programme of work for the 2015/16 financial year; and

- (c) the Grant Claims & Returns Certification for the year ended 31 March 2014.

#### 54. EFFECTIVENESS OF THE ARRANGEMENTS FOR RISK MANAGEMENT

The Director of Governance 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 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 to the Corporate Risk Register during 2014/15 were detailed.

In response to queries from the Members present regarding the Corporate Risk Register, the Director of Governance stated that additional funding for infrastructure projects being provided by the Council was arising from a shortfall in such funding being obtained from Section 106 Agreements or Community Infrastructure Levies. This could involve considerable sums of monies. It was also explained that cyber risks had been included on the register in Risk 6, Data/Information, but its score had been below the threshold necessary to produce an Action Plan. The Council had improved the security of its computer systems in recent years, as evidenced by Government tests, but the Risk Management Group could be requested to re-examine this area. It was also highlighted that the Council had maintained its GSCX status in recent years.

The Director reported that external advice had been sought and received prior to decisions made by the Council about the former Winston Churchill Public House site. 'Corporate Memory' referred to the knowledge contained by long-serving members of staff and the Director reassured the Committee that such knowledge was shared throughout the Forward Planning team in respect of the Local Plan. The Chairman suggested that the Corporate Risk Register could be refreshed again in an exercise similar to that carried out in 2013. The Director stated that Zurich Risk Engineering could be contacted to ascertain how often such a refresh should occur.

#### **Resolved:**

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

**55. DRAFT INTERNAL AUDIT AND CORPORATE FRAUD INVESTIGATION PLAN 2015/16**

The Chief Internal Auditor presented a report on the draft Internal Audit Plan for 2015/16.

The Chief Internal Auditor reported that the draft Audit Plan for 2015/16 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 for investigations and other unplanned work identified during the year. 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 on a quarterly basis, and any proposed amendments would be subject to the Committee's approval.

The Chief Internal Auditor advised the Committee that a Corporate Fraud Investigation Team had been formed, consisting of four Investigators reporting to the Chief Internal Auditor. Their work on corporate fraud prevention and detection had also been included in the Audit Plan and estimated at 800 days, but this could well change in the future. The Audit Team itself would now consist of four full-time Auditors as the post which had been previously been part-time had been made permanent, and more audits had been included in the Plan as a result. Regular meetings had continued with the Chief Internal Auditors at Uttlesford and Harlow District Councils and Broxbourne Borough Council to discuss joint working practices and share best practice.

The Chief Internal Auditor believed that the Council now had sufficient staff to fully investigate Housing Fraud. In addition, ten days had been allocated within the Plan to the audit of the Local Plan for 2015/16, although given the importance of the Local Plan to the District this could increase in the future if necessary. Internal Audit had investigated the North Essex Parking Partnership and problems with cash collection had been highlighted, but new machines were due to be installed in the Council car parks in the near future which were less reliant on cash payments for parking. The Chairman agreed that the Council needed to examine more closely its relationships with third parties in future. The Committee also requested if the allocation from the previous year's Plan for a particular area could be included as an extra column in the following year's Plan to give a year-on-year comparison; this was agreed by the Chief Internal Auditor.

**Resolved:**

(1) That the Internal Audit and Corporate Fraud Investigation Plan for 2015/16 be approved.

**56. ANY OTHER BUSINESS**

The Director of Governance informed the Committee that the Chief Internal Auditor would be retiring on 31 May 2015, and that this would be his last Audit & Governance Committee meeting. The Director thanked the Chief Internal Auditor for his service to both the Council and the Committee over many years.

The Director of Governance also highlighted that the Chairman was not seeking re-election as a Councillor and that, therefore, this was also his last Audit & Governance

Committee meeting. The Director also thanked the Chairman for his service and for raising the profile of the Committee with other Councillors and Officers.

The Chairman thanked the Director for her kind words and also commended the Chief Internal Auditor for his service. As this was also the last meeting of the municipal year, the Chairman thanked all the Officers who had supported the Committee over the last twelve months.

**CHAIRMAN**