EPPING FOREST DISTRICT COUNCIL
COMMITTEE MINUTES

Committee:	Audit and Governance Committee	**Date:**	1 February 2016
Place:	Council Chamber, Civic Offices, High Street, Epping	**Time:**	7.00 - 7.50 pm

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

Other Councillors: -

Apologies: S Weston

Officers Present: C O'Boyle (Director of Governance), S Marsh (Chief Internal Auditor), S Alford (Principal Accountant), G J Woodhall (Senior Democratic Services Officer) and S Tautz (Webcasting Officer)

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36. 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.

37. DECLARATIONS OF INTEREST

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

38. MINUTES

Resolved:

(1) That the minutes of the meeting held on 30 November 2015 be taken as read and signed by the Chairman as a correct record.

39. MATTERS ARISING

In respect of the Terms of Reference for the proposed Audit & Standards Committee, the Director of Governance reported that the Standards Committee was not in favour of the potential merger, at its meeting held on 25 January 2016. A report would now be submitted to the Council on 17 February 2016 to resolve the matter.

The Chairman stated that this issue should not be viewed as a disagreement between the two bodies as this Committee, whilst in favour of a merger, did not have particularly strong views on the matter either way.

40. AUDIT & GOVERNANCE WORK PROGRAMME 2015/16

The Committee noted its Work Programme for 2015/16, which had included some minor updates since the previous meeting.

In response to a question from the Chairman, the Director of Governance reminded the Committee that it did have the authority to call Officers before it. However, it was important that there was a purpose behind calling an Officer before the Committee, and the Audit Recommendation Tracker could be used as a mechanism with the Committee focusing on those audit recommendations that it felt were not being progressed in a timely manner. But the Committee would have to be careful that it was not impinging upon the roles of other Committees, particularly the Select Committees who routinely monitored performance in their particular areas.

The Chairman welcomed the Director's response, and commented that the Committee should consider calling Officers when it felt that responses to audit reports and recommendations were not being provided.

41. TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2016/17 - 2018/19

The Principal Accountant presented a wide-ranging report in respect of the Council's Treasury Management Strategy Statement and Investment Strategy for the period 2016/17 to 2018/19, which was a requirement of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management and covered the authority's treasury activity for the period concerned. The Strategy Statement set out the risks associated with the Council's treasury activity and how these were managed.

The Principal Accountant reported that the Council undertook capital expenditure on long-term assets, funded by capital receipts, grants or borrowing. The Committee noted that the Council planned to borrow to carry out its capital investment, and that the Capital Programme envisaged a balance of £5.207million in capital receipts and £0 in the Major Repairs Reserve on 31 March 2019, from which it was concluded that adequate resources still existed to fund the Capital Programme in the medium-term. The Council's underlying need to borrow was referred to as the Capital Finance Requirement (CFR). As a consequence of the Housing Revenue Account Subsidy reform, and some large projects within the Capital Programme, an authorised limit of £230million had been set for borrowing, rising to £250million by the end of 2018/19.

The Committee was reminded that the Council's current investments were subject to regular advice from it's treasury management advisors, Arlingclose, regarding the use of counterparties. Members noted that the Council currently had an investment portfolio of £54.6million, of which all were invested in the United Kingdom (UK). The Committee noted that the maturity profile of the investments ranged from £13.6million available for instant access, to £10million with a maturity date between nine months and a year; it was important that the cash flow of the Council was carefully monitored and controlled to ensure that sufficient funds were available each day to cover its outgoings. Members were advised that this would become more difficult as the Council used up capital receipts and investment balances reduced.

The Principal Accountant advised members of the key risks associated with the Council's treasury management activity, and how these had been managed throughout the year via the use of prudential indicators:

(i) The Credit and Counterparty risk was the possibility of a counterparty going into liquidation and failing to meet its obligations to the Council. The Council's counterparty list was both prudent and regularly updated by its treasury advisors, and the authority kept its investments fairly liquid within a restricted counterparty list.

(ii) The Liquidity risk was the possibility that sufficient cash would not be available to the Council when required. In mitigation of this risk, a number of Money Market Funds were maintained and the Director of Resources held monthly meetings with treasury staff to review cash flow requirements.

(iii) The Interest Rate risk was concerned with potential fluctuations in interest rates. It was proposed to maintain no more than 75% of the Council's investments in variable rate financial instruments, with the remainder of the investments made in fixed rate deposits. This approach would allow the Council to take advantage of any favourable changes in interest rates whilst also receiving a reasonable return. The Council's treasury management advisors considered that interest rates were unlikely to change significantly in the short to medium term.

The Principal Accountant informed the Committee that the Council had borrowed between the General Fund and Housing Revenue Account (HRA) for many years, and the interest rate charged had been based upon the average investment interest earned for the year. Regulations issued by CIPFA required that this interest rate should be approved by the Council before the start of the financial year, and it was proposed that the average investment interest continue to be used as the rate for any inter-fund borrowing.

The Committee noted that the Treasury Management Strategy Statement and Investment Strategy would be considered by the Council at its meeting on 18 February 2016, and that the views of the Committee in respect of the authority's management of the risks associated with its treasury management activity, would be reported to the Council meeting.

In response to questions from the Committee, the Principal Accountant explained that the expected rise in the Council's need to borrow was based on an estimate including the current size of the Capital Programme, the forecast for the HRA, expenditure in the recent past, plus some flexibility or contingency. It was currently difficult to envisage the Council needing to borrow more than £250million. It was acknowledged that the Balance Sheet on page 25 of the agenda did not strictly show the expected extra borrowing, although it did illustrate that the Council would need to borrow money in 2017/18 when the Resources Available became a negative figure; the Council still expected to borrow the majority of this amount from other Local Authorities at a competitive rate of interest. It was accepted that the wording for the '*Gross Debt and the Capital Financing Requirement*' section could be clearer, and the Principal Accountant agreed to provide Members with a written explanation after the meeting.

The Principal Accountant reiterated that the Council's prime concern was risk and the security of its investments; therefore, it would be correct to imply that the Council was a low risk authority and was careful about where it invested its money. However, the Council needed to diversify from solely investing in Banks, as the Council could lose some of its deposit if the Bank failed as an ongoing business. It was highlighted that there were no material changes to the Strategy Statement and Investment Strategy for this year, but increased levels of borrowing and reduction in investment limits were key themes that were accentuated last year.

The Committee noted the forecast capital expenditure on the Epping Forest Shopping Park, and that this was expected to generate a better return for the Council than if the funds were invested in Money Market accounts. The Committee also felt that the Council was maintaining a relatively low risk strategy, which had been a consistent theme for a number of years for the Council's Treasury Management function. In addition, the Committee also recognised that the Council was currently aiming to:

(i) diversify from solely investing with Banks;

(ii) maintain liquidity; and

(iii) improve its return from capital investments.

Resolved:

(1) That the Council's proposed Treasury Management Strategy Statement and Investment Strategy for the period 2016/17 to 2018/19 be noted;

(2) That the arrangements for dealing with the risks associated with its treasury management activity, as outlined in the Council's proposed Treasury Management Strategy Statement and Investment Strategy, be considered adequate; and

Recommended:

(3) That the proposed Treasury Management Strategy Statement and Investment Strategy for the period 2016/17 to 2018/19 be recommended to the Council for approval and adoption without further amendment.

42. INTERNAL AUDIT MONITORING REPORT - DECEMBER 2015 AND JANUARY 2016

The Chief Internal Auditor presented the Internal Audit Monitoring Report for the period December 2015 and January 2016, which provided a summary of the work undertaken by the Internal Audit Service during this time.

The Chief Internal Auditor advised the Committee that four reports had been issued since the previous meeting, of which 3 had been given Substantial Assurance – Community Partnerships, Council Housebuilding Programme and Licensing – and one had been given Limited Assurance. The Limited Assurance audit had been issued for Planning Fees; the recommendations made in the 2014/15 report had yet to be implemented and the main concern was the ability to ensure that all of the income due was collected and accounted for. The ICT team had been unable to effect regular reconciliations between the Northgate M3 system and the General Ledger, making reconciliations a largely manual process. This issue had been raised with Northgate.

The Chief Internal Auditor reported that the Recommendation Tracker contained three recommendations which had passed their due date, one of which replaced a previous Priority 1 recommendation for the reconciliation of Planning Fees (as outlined above). A Priority 3 recommendation had also been issued for the Planning Fees audit, for invalid applications to be returned to applicants within three months of submission, as per the Council's policy. The final overdue recommendation concerned the management of sickness absence and a pilot exercise was being carried out within the Communities Directorate.

The Chief Internal Auditor highlighted that the Corporate Fraud Team was continuing to focus on the large number of Right-to-Buy applications being received by the

Council, which had resulted in five applications being found as ‘suspicious’. A three-bedroom semi-detached property in Ongar had been recovered following a long investigation and one individual had been successfully prosecuted in relation to Local Council Tax fraud. A housing fraud case was due to commence in February 2016.

The Chief Internal Auditor stated that work had continued on the Audit Plan for 2015/16, but the Committee was requested to approve the deferral of the following audits:

(i) Gifts & Hospitality – to allow for the introduction of a new electronic system;

(ii) Grants to Voluntary Organisations – a bereavement within the section;

(iii) Facilities Management Contracts – to be included in next year’s e-invoicing audit as the new system was being piloted in Facilities Management;

(iv) Equality & Diversity – staffing vacancies, and not deemed a high risk area; and

(v) ICT Asset Management – to be removed as a stock check was being undertaken following an internal theft.

Despite the need to defer/remove the small number of audits outlined above, the Chief Internal Auditor expected that sufficient audit work would be undertaken to give the annual audit opinion for 2015/16.

The Committee was surprised that Equalities & Diversity appeared to be never audited, as it had been deferred in 2014/15 as well; were there other means of assurance available for such areas? The Chief Internal Auditor reassured the Committee that her opinion would be based on discussions with Directors and Assistant Directors, as well as the audit reports issued throughout the year, and she had an impression of the assurance levels in such areas. The Director of Governance added that the Equalities Corporate Working Group also monitored Equalities activities and the minutes from this Group was submitted to the Management Board for monitoring. The Chief Internal Auditor was very confident about being able to give her audit opinion at the end of the year.

In respect of the Limited Assurance audit report for planning fees, the contracted Auditor had reached the same conclusions as the Internal Audit report. The Chairman commented that the planning fees issue was taking a long time to resolve. The Chief Internal Auditor stated that the reporting function in the Northgate M3 system was not designed to perform fee reconciliations; this also was not a priority previously for the Development Management department, but it was now and they would implement monthly reconciliations of the planning fees received. The Director of Governance, as the Director responsible for Development Management, assured the Committee that the planning fees issues would be resolved. In addition, the outstanding Priority 3 action for planning fees was more concerned with the return of the fee within three months to the applicant if their application was invalid, not whether the application was checked for validity within three months.

The Chairman enquired whether the Corporate Fraud Team was providing the Council with a value for money service? The Chief Internal Auditor stated that the team was inaugurated in April 2015 and it was possibly too early to ascertain at the current time, but this could be reported on at the next meeting as part of the

Corporate Fraud Strategy. It was acknowledged that Community Safety Partnerships were not currently included in the Audit Plan; this was being considered for 2016/17, and the Chief Internal Auditor would respond in writing to the Committee when a decision had been made.

Resolved:

(1) That the progress being made both against the 2015/16 Internal Audit Plan and by the Corporate Fraud Team be noted; and

(2) That the following audits in the Audit plan for 2015/16 be either dropped or deferred to 2016/17:

(a) Gifts & Hospitality;

(b) Grants to Voluntary Organisations;

(c) Facilities Management Contracts;

(d) Equality & Diversity; and

(e) ICT Asset Management.

43. ANY OTHER BUSINESS

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

44. 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