

EPPING FOREST DISTRICT COUNCIL COMMITTEE MINUTES

Committee: Audit and Governance Committee **Date:** Thursday, 31 March 2016

Place: Council Chamber, Civic Offices, High Street, Epping **Time:** 7.35 - 8.15 pm

Members Present: J Knapman (Chairman), L Hughes and A Jarvis

Other Councillors: S Stavrou and C Whitbread

Apologies: N Nanayakkara

Officers Present: R Palmer (Director of Resources), S Linsley (Senior Auditor), M Crowe (Senior Corporate Fraud Investigator), G J Woodhall (Senior Democratic Services Officer) and J Leither (Democratic Services Officer)

Also in attendance: Z Thompson (External Auditor)

45. 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.

46. DECLARATIONS OF INTEREST

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

47. MINUTES

Resolved:

(1) That the minutes of the meeting held on 1 February 2016 be taken as read and signed by the Chairman as a correct record, subject to the following amendment:

(a) that it was the contracted Auditor who had reached the same conclusions as the Internal Audit report, not the External Auditor (minute 42 refers).

48. MATTERS ARISING

The Committee enquired about the current progress with the possible merger of the Audit & Governance and Standards Committees, which had been discussed by the Committee on 30 November 2015.

The Director of Resources responded that the proposal was due to be considered by the Constitution Working Group on 22 March 2016, with a final decision to be made by the Council at its meeting scheduled for 26 April 2016. The decision of the Council would be reported back to the Committee at its next meeting in June 2016.

49. AUDIT & GOVERNANCE WORK PROGRAMME 2015/16

The Committee noted its Work Programme for 2015/16.

The Director of Resources highlighted that the Grant Claims Audit Report for 2014/15 was originally scheduled for the previous meeting on 1 February 2016, but had been deferred to be considered at tonight's meeting.

50. REPORTS FROM THE EXTERNAL AUDITOR

The External Auditor presented three reports to the Committee.

Audit Plan 2015/16

The External Auditor presented the Audit Plan for 2015/16, which summarised the significant risks that could impact on the audit. There were detailed sections setting out the scope of the audit, a risk assessment and the proposed audit fee.

The External Auditor reported that the Audit Plan summarised the proposed work to be undertaken for the audit of the 2015/16 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 three significant risks which would impact upon the Audit, these being: Management Override; Revenue Recognition; and Sustainable Finances. Management Override was concerned with those matters where a judgement had been made. The Plan set out the proposed fee for the Audit as £83,205 plus VAT, which was a reduction of £3,024 in comparison to the fee previously reported in the Planning Letter, although the fee for audit related services had yet to be confirmed.

The External Auditor stated that there had been a change in the criteria for the Use of Resources work, set by the National Audit Office. The new, single criterion was:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people."

The External Auditor advised the Committee that the thresholds for materiality and triviality had been raised to £1.9million and £76,000 respectively.

The Committee noted that there were currently no serious issues for the Council to be concerned with in respect of the audit.

Planning Letter 2016/17

The second report presented by the External Auditor was the Planning Letter for 2016/17, which summarised the proposed fee and audit arrangements for the 2016/17 financial year.

The proposed core audit fee would remain at £64,672, whilst the proposed Certification Fee had yet to be set; as an indication, this was currently proposed to be £18,533 for 2015/16. 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 2016/17 were as follows:

- a detailed Audit Plan in March 2017;

- a report on any significant deficiencies in internal controls arising from the interim audit in June 2017;
- the final report to those charged with governance in September 2017;
- the opinion on the financial statements, the value for money conclusion, and certificate in September 2017;
- the consistency opinion on the summarisation schedules in October 2017;
- the Annual Audit Letter in October 2017; and
- the Grant Claims and Returns Certification report in December 2017.

Grant Claims & Returns Certification 2014/15

The final report presented by the External Auditor was the Grant Claims and Returns Certification Report, which had been previously circulated to Members of the Committee.

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 a decrease of £559 in the amount payable to the Department of Works & Pensions. For the Pooled Housing Capital Receipts Return, an issue was identified relating to the recording of quarterly amounts arising from the disposal of dwellings which took place before 1 April 2012 under the Right-to-Buy scheme. One amount was recognised as being incorrect, which had resulted in an £8 increase in the total housing capital receipts subject to pooling. There were two recommendations for future action, both of which had been accepted by Officers.

The External Auditor reassured the Committee that it was not unusual for the Housing Benefit Subsidy to be qualified; the Subsidy itself was very complicated with a raft of regulations that had to be complied with, so there was a high risk of error.

Resolved:

- (1) That the following reports from the External Auditor be noted:
 - (a) the Audit Plan for the audit of the 2015/16 financial year;
 - (b) the Planning Letter outlining the proposed fees and programme of work for the 2016/17 financial year; and
 - (c) the Grant Claims & Returns Certification for the year ended 31 March 2015.

51. EFFECTIVENESS OF THE ARRANGEMENTS FOR RISK MANAGEMENT

The Director of Resources 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 2015/16 were detailed for the benefit of the Committee.

The Vice-Chairman commented that there was very little reassurance on the actions taken to mitigate large risks, and whether this could be included in future reports. The Director of Resources reminded the Committee that Existing Controls, the Effectiveness of Controls and Required Further Management Action were detailed in the Corporate Risk Register, but Officers could add further detail to the covering report if the Committee so desired. The Committee felt that this would be a desirable course of action and the next step in the Risk Management process as the Council was very good at identifying potential risks.

Resolved:

- (1) That the arrangements for Risk Management within the Council be considered effective; and
- (2) That future reports to the Committee provide reassurance on the actions taken to mitigate large risks to the Council.

52. INTERNAL AUDIT STRATEGY AND PLAN 2016-17

The Senior Internal Auditor presented a report on the Internal Audit Strategy and Plan for 2016/17.

The Senior Internal Auditor reported that the Internal Audit Service supported and contributed to the achievement of the Council's objectives by supporting good governance, with the outcomes from Internal Audit work feeding into the Annual Governance Statement. Following changes to the International Professional Practices Framework by the Global Institute of Internal Auditors, the Internal Audit Service had adopted a Mission and ten Core Principles for the first time. The purpose, authority and responsibility of the Internal Audit Service was formally defined in the Internal Audit Charter, which had been approved by the Committee in November 2015.

The Senior Internal Auditor stated that the draft Audit Plan for 2016/17, and the indicative Plans for the two subsequent years (2017/18 and 2018/19) 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, as well as references to any cross-cutting audits across the shared Internal Audit Service. 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, and any proposed amendments would be subject to the Committee's approval.

The Senior Internal Auditor advised the Committee that the longer term plan was to formalise the shared Internal Audit Service between Harlow District, Broxbourne Borough and Epping Forest District Councils, and this process would commence with all Internal Auditors working across all three Councils to deliver each of the 2016/17 Audit Plans.

The Committee welcomed the adoption of a mission and felt that the Core Principles were comprehensive.

Resolved:

(1) That, including the level of Internal Audit resources required, the Internal Audit Strategy and Plan for 2016/17 be approved.

53. INTERNAL AUDIT COMPLIANCE WITH THE PUBLIC SECTOR INTERNAL AUDIT STANDARDS

The Senior Internal Auditor presented a report on the Internal Audit Service's compliance with the Public Sector Internal Audit Standards.

The Senior Internal Auditor stated that new Public Sector Internal Audit Standards (PSIAS) came into effect on 1 April 2013, and replaced the Code of Practice for Internal Audit in Local Government in the United Kingdom (UK) that had been produced by the Chartered Institute of Public Finance & Accountancy in 2006 as the mandatory guidance. Previously, compliance with the Standards had been confirmed in the Chief Internal Auditor's Annual Report. Now, with the establishment of a shared Internal Audit Service across Broxbourne Borough and Harlow and Epping Forest District Councils, a single self-assessment to cover all three Councils had been completed by the Chief Internal Auditor. This assessment had examined the Definition of Internal Audit, the Code of Ethics, Attribute Standards, and Performance Standards.

The Senior Internal Auditor reported that, from the evidence gathered during the review, the shared Internal Audit Service was considered to be compliant across all three Councils. An Action Plan had been drawn up following the Review, but only the action relating to internal and external Quality Assurance assessments was relevant to this Council.

The Vice-Chairman commented that the evidence mentioned in paragraph 6 of the report had not been shown. The Senior Internal Auditor reiterated that a comprehensive checklist had been used for all three Councils, which showed that all three were compliant.

Resolved:

(1) That the compliance of the Shared Internal Audit Service with the Public Sector Internal Audit Standards be acknowledged; and

(2) That the resultant Action Plan arising from the Review be agreed.

54. AUDIT ASSURANCE AND RECOMMENDATION RATINGS

The Senior Internal Auditor presented a report on the adoption of revised audit assurance and recommendation ratings.

The Senior Internal Auditor explained that both Broxbourne Borough and Harlow District Councils used three levels for the priority rating of audit recommendations ('Fundamental', 'Significant' and 'Merits Attention') and five levels of assurance for audit reports ('Full', 'Substantial', 'Moderate', 'Limited' and 'No'); Epping Forest also used three levels for rating audit recommendations but numbered them 1 to 3 instead, and had four levels of assurance for audit reports – 'Full', 'Substantial', 'Limited' and 'None'. The Public Sector Internal Audit Standards stipulated that the Internal Audit Service should be risk based, and it was proposed that the criteria used by Broxbourne Borough Council for recommendation priorities and audit assurance levels be adopted by Harlow and Epping Forest District Councils to ensure consistency across all three Councils.

The Senior Internal Auditor added that each recommendation should be linked to a risk category, with most recommendations being either 'High', 'Medium' or 'Low'. Only in exceptional circumstances would a recommendation be categorised as 'Critical/Catastrophic', and Senior Management would be informed immediately if such a serious control failing was suspected. No system of control could give absolute assurance; therefore it was proposed to discontinue the use of the 'Full' assurance rating for audit reports and use the 'Substantial', 'Limited' and 'No' assurance ratings only. If agreement was reached on the new approach by all three Audit Committees then the new levels of assurance and priority would be implemented for audits undertaken as part of the Audit Plan for 2016/17.

The Committee welcomed the new approach as it would be useful when making comparisons between the three Councils, and requested that the current and new definitions be used simultaneously for the next Internal Audit Monitoring report to assist the understanding of Members in the future.

Resolved:

(1) That the proposed revised audit assurance levels and recommendation priority ratings be approved and implemented for the Audit Plan in 2016/17.

55. CORPORATE FRAUD STRATEGY 2016/17

The Senior Corporate Fraud Investigator presented a report on the Corporate Fraud Strategy for 2016/17.

The Committee was informed that the Corporate Fraud Team became operational on 1 April 2015 and was created in order to bring together the Council's investigative teams to create a uniform approach to anti-fraud activities and to ensure sufficient resilience in the future following the loss of a number of Benefit Investigation staff to the Department of Work and Pensions. The first year had resulted in a number of successes:

- 27 Right-to-Buy (RTB) applications had been stopped or withdrawn (some of which had significant issues over the origin of the funding) resulting in the saving of approximately £2.1million of potential RTB discount with the properties remaining as valuable public assets;
- 18 council properties had been recovered so that they could be re-let to priority cases on the waiting list, saving approximately £324,000;

- 6 Grant applications had been stopped due to irregularities saving approximately £60,000;
- An internal investigation which had resulted in the dismissal of a staff member for gross misconduct; and
- 2 criminal prosecutions were currently in the courts, 1 for RTB fraud, and 1 for the illegal subletting of a Council property.

The Senior Corporate Fraud Investigator stated that the Corporate Fraud strategy set out the main focus of work that would be undertaken by the team during 2016/17. The Plan allowed for a mix of both proactive work, primarily targeting areas that had not traditionally been the focus of anti-fraud initiatives but represented a significant risk to the Council's financial position, and reactive work including the roll out of an ongoing Fraud Awareness Programme. Members of the public were continuing to be encouraged to report fraud and an advertising campaign had been undertaken whereby "*Know a Cheat in your Street*" leaflets had been included in every Council Tax and Business Rates bill.

The Senior Corporate Fraud Investigator added that the team was continuing to provide training and advice to external organisations, and areas showing the potential for joint working or shared service arrangements were continuing to be explored, thus creating possible revenue raising opportunities. A significant step forward for the coming year and beyond was that the team now had the ability to undertake financial investigations under the provisions of The Proceeds of Crime Act 2002. This would enable the team to fully investigate serious criminal activity and robustly pursue any financial losses. These investigations could also be utilised in other areas of the Council's work such as Planning Enforcement as well as being provided on a "paid for" basis to other local authorities and / or organisations.

The Chairman commented that the Corporate Fraud Strategy was very impressive and the results clearly indicated that it provided value for money to the Council. The Leader of Council added that the Strategy protected the Council and residents, and was a very fundamental piece of work.

Resolved:

- (1) That the Corporate Fraud Strategy for 2016/17 be approved.

56. INTERNAL AUDIT MONITORING REPORT - FEBRUARY/MARCH 2016

The Senior Internal Auditor presented the Internal Audit Monitoring Report for the period February to March 2016.

The Senior Internal Auditor advised the Committee that four reports had been issued since the previous meeting, of which three had been given Substantial Assurance – Commercial Properties Management, Business Rates and Housing Benefits & Local Council Tax Support – and one had been given Full Assurance – Right-to-Buy.

The Senior Internal Auditor reported that the Recommendation Tracker contained two recommendations which had passed their due date. They both related to the Planning Fees audit: a priority 1 recommendation for the reconciliation of Planning Fees but significant progress had been made; and a Priority 3 recommendation for invalid applications to be returned to applicants within three months of submission, as per the Council's policy.

The Senior 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 three further applications being found as 'suspicious'. A Housing fraud case had commenced in February 2016 and would go to trial in the Summer. The Team was currently engaged in a number of criminal investigations focusing on illegal subletting and Right-to-Buy fraud.

The Senior Internal Auditor stated that work had continued on the Audit Plan for 2015/16 and ten audits had been contracted out to Mazars to cover a Vacancy in the Internal Audit Team. Eight of these audits had been completed and the remaining two would be carried out in April. The Committee was requested to approve the deferral of the following audits:

- (i) Access Controls – to be included in next year's Audit Plan, although some Access Controls had been included in some of the key financial audits already carried out;
- (ii) Payroll – to be deferred to next year as a new ICT system was being implemented;
- (iii) Treasury Management – this area had been audited each year with no significant issues identified;
- (iv) Recruitment & Selection – to be carried out next year following a review of documentation by the Personal Data Working Group.

The Senior Internal Auditor added that, despite the need to defer the four audits outlined above, the Chief Internal Auditor expected that sufficient audit work would be undertaken to give the annual audit opinion for 2015/16. Current progress with the Audit Plan was:

- Fieldwork Started 34;
- Reports issued to Management 21; and
- Reports Finalised 17.

In response to questions from the Committee, the Senior Internal Auditor emphasised that all deferred audits were scheduled for the first quarter of 2016/17, and the Internal Audit Service was confident that it would clear the backlog of outstanding audits.

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 Internal Audit Plan for 2015/16 be deferred to 2016/17:
 - (a) Access Controls;
 - (b) Payroll;
 - (c) Treasury Management; and
 - (d) Recruitment & Selection.

57. ANY OTHER BUSINESS

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

58. 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