

EPPING FOREST DISTRICT COUNCIL COMMITTEE MINUTES

Committee: Audit and Governance Committee **Date:** 19 September 2016

Place: Council Chamber, Civic Offices, High Street, Epping **Time:** 7.00 - 8.20 pm

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

Other Councillors: R Bassett and C Whitbread

Apologies: R Jennings and J M Whitehouse

Officers Present: R Palmer (Director of Resources), P Maddock (Assistant Director (Accountancy)), S Marsh (Chief Internal Auditor), A Osei-Boateng (Internal Auditor) and G J Woodhall (Senior Democratic Services Officer)

13. WEBCASTING INTRODUCTION

The Committee noted that this meeting would not now be webcast due to technical issues.

14. DECLARATIONS OF INTEREST

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

15. MINUTES

Resolved:

(1) That the minutes of the meeting held on 27 June 2016 be taken as read and signed by the Chairman as a correct record.

16. MATTERS ARISING

The Committee noted that there were no matters arising from the previous meeting for discussion.

17. AUDIT & GOVERNANCE WORK PROGRAMME 2016/17

The Committee noted its Work Programme for 2016/17.

The Chief Internal Auditor confirmed that the report regarding the Review of the Audit & Governance Committee Effectiveness would be considered at the Committee's meeting scheduled for 28 November 2016.

18. UPDATED ANNUAL GOVERNANCE STATEMENT 2015/16

The Chief Internal Auditor reminded the Committee 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. The arrangements were designed to provide the Authority with assurance regarding the adequacy of its governance arrangements, and identifying where those arrangements needed to be improved. The Committee at its meeting on 27 June 2016 approved the 2015/16 Annual Governance Statement, subject to the addition of a conclusion that the Council's arrangements continued to be regarded as 'fit for purpose' in accordance with the Council's governance framework.

The Committee welcomed the amendment and noted that the Statement was very easy to read.

Resolved:

- (1) That the revised Annual Governance Statement for 2015/16 be approved.

19. ANNUAL OUTTURN REPORT ON THE TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS 2015/16

The Director of Resources presented the annual outturn report for the Council's Treasury Management Function and Prudential Indicators in 2015/16.

The Director reminded the Committee that the annual Treasury Management outturn report was a requirement of the Council's reporting procedures, and covered the treasury activity for 2015/16. There had been no breaches of policy during the year, and the risks associated with the Treasury Management function were highlighted along with how these risks were managed during the year.

The Director stated that, in constructing the Treasury Management Strategy Statement and Investment Strategy for 2016/17 to 2018/19, some very prudent restrictions had been applied to some classes of investments. It had become evident that these restrictions were too prudent and caused operational difficulties in managing the Council's cash flow. Some minor changes had been proposed to the current limits for Local Authorities, Money Market Funds and the Council's Banker, NatWest Plc, that would ease the operational difficulties without adding significantly to the risk profile of the Council's investments.

The Director reported that this report was considered by the Finance and Performance Management Cabinet Committee at its meeting on 15 September and the Cabinet Committee was content to recommend the proposed changes to the Council's Treasury Management Strategy Statement and Investment Strategy to Cabinet, pending comments from the Audit & Governance Committee this evening.

The Committee noted that the Council had continued to finance its capital programme through internal resources. The combined balances on Capital Receipts and the Major Repairs Reserve at the end of the year were broadly similar to the anticipated closing balances, which meant that the Council still had adequate resources going forward to finance its medium-term capital programme. The Council had procured no new borrowing and did not breach any of the treasury prudential indicators during the year.

It was felt that the report lacked evidence for the proposed changes to the Council's Treasury Management Strategy Statement and Investment Strategy. The Director acknowledged this and explained that if the current limits were maintained than the Council would spend more time than was necessary managing its cash flow and undertaking transfers between accounts that were not really necessary. The main operational difficulty was trying to contain the balance on the NatWest account below the current limit of £2.5million, and increasing this limit to £5million would reduce the work needed to manage the cash flow. The Council's Treasury Management Consultants, Arlingclose Limited, had no objections to the proposed changes provided the money was only left overnight and no fixed term deposits were made with NatWest Plc. The Director reassured the Committee that the Council had no fixed term deposits with NatWest Plc and did not intend to start doing so. It was highlighted that counterparty limits were reviewed each month.

The Chairman felt that the existing Strategy Statement was now possibly too risk adverse, and proposed that an annual review of the prudence levels within the Treasury Management Strategy Statement and Investment Strategy should be undertaken in future. The Committee concurred with this suggestion.

Resolved:

- (1) That the Annual Outturn Report on Treasury Management and the Prudential Indicators for 2015/16, and the management of the risks therein, be noted;
- (2) That the following changes to the Council's Treasury Management Strategy Statement and Investment Strategy be recommended to the Council for approval:
 - (a) an increase in the group limit for Local Authorities from £20million to £25million;
 - (b) an increase in the group limit for Money Market Funds from £15million to £20million; and
 - (c) an increase in the limit for NatWest (the Council's banker) from £2.5million to £5million; and
- (3) That an annual review of Prudence Levels within the Council's Treasury Management Strategy Statement and Investment Strategy be undertaken in future.

20. AUDIT OF ACCOUNTS - ANNUAL GOVERNANCE REPORT 2015/16

The External Auditor presented the Annual Governance Report for 2015/16, the purpose of which was to advise the Committee of the significant findings arising from the audit of the Council's financial statements and arrangements to secure economy, efficiency and effectiveness in the use of resources.

The External Auditor advised the Committee of the key matters that had arisen during the course of the audit. Following a review of infrastructure and community assets, a number of assets had been identified for which the Council was no longer responsible, and these had been written out of the accounts. The initial treatment of these assets was found to be incorrect, but no working paper had been prepared by Officers to support the initial treatment. The financial statements had been amended to reflect the correct treatment. A third Balance Sheet for the 2014/15 financial year had been prepared to show the restated opening balances and an audit recommendation had been raised regarding the preparation of working papers. The related parties identified in the draft financial statements had not met the definition for

such transactions in the accounting standards. No formal assessment of the relationships disclosed had taken place, and the incorrect disclosures had been removed. An audit recommendation had been raised regarding related parties. Finally, the Council had been unable to confirm the location of some works relating to off-street parking associated with Council dwellings, due to the time elapsed since the expenditure was incurred. The total value was such that the issue identified was not indicative of a material overstatement of the value of Council dwellings, but an audit recommendation had been raised regarding the existence of assets.

The External Auditor reported that the Council's key financial systems were considered generally adequate as a basis for preparing the financial statements, with no significant deficiencies identified in the Council's internal controls during the course of the audit. The Annual Governance Statement was not considered misleading and complied with the necessary guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). It was also intended to issue an unqualified value for money conclusion as it was felt that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources for the year. Subject to the adjustments outlined above, the External Auditors expected to issue an unqualified true and fair opinion on the Financial Statements for the year ended 31 March 2015. The External Auditor thanked staff from the Council for their co-operation and assistance during the audit.

The External Auditor added that the progress made with the Transformation Programme, introduced to combat the threat to the Council's finances from the continuing reductions in funding from the Government, was understood and any issues identified would be raised during the External Auditor's regular reviews. However, the role of the External Auditor was to identify threats and not to monitor the progress of the Programme itself. The Chairman suggested that the Committee should receive regular reports from the Chief Executive regarding the progress of the Transformation Programme and any threats identified, as well as the implications for the Programme to provide financial savings. This was agreed by the Committee.

The Chairman stated that he was satisfied to sign the draft Representation Letter if the Committee was in agreement. The Vice-Chairman suggested that the sentence confirming the financial statements were free of material misstatements, should end "...as far as we are aware." The External Auditor stated that the Council's accounts had been signed off and were free of material misstatements. The Director of Resources reassured the Committee that the threshold for material misstatements had been set at £1.9million, and he was fairly certain that the Council's accounts were free of such misstatements. The External Auditor suggested that the sentence should be amended to read "...material misstatements, including *material* omissions." And this was agreed by the Committee.

Resolved:

- (1) That the Annual Governance Report for 2015/16 presented by the External Auditor be noted;
- (2) That the Chief Executive be requested to submit regular reports to the Committee concerning the Transformation Programme, the progress made, the threats to the Council identified by the Programme and the implications for providing financial savings to the Council; and
- (3) That the draft Representation Letter be signed by the Chairman of the Committee and the Director of Resources, subject to the following amendment:

- (a) “We confirm that the financial statements are free of material misstatements, including *material* omissions.”

21. STATUTORY STATEMENT OF ACCOUNTS 2015/16

The Director of Resources presented the Statutory Statement of Accounts for 2015/16, an addendum sheet containing two notes for events after the Balance Sheet date, and the restatement of the Balance Sheet as at 1 April 2014.

The Director reminded the Committee that one of its key roles was scrutinising the annual Statutory Statement of Accounts. All Members of the Council would have the opportunity to debate the Accounts at the Council meeting scheduled for 27 September 2016 and part of that debate would be to consider the recommendation of this Committee. There had been no substantial changes to the annual Statutory Statement of Accounts for 2015/16. The format of the accounts and the disclosure notes within them were very similar to those for 2014/15. Also, following the significant changes to the system of local authority finance in 2013/14, 2015/16 had been a year of consolidation with no other significant changes.

The Director stated that there were three decisions made which required a major element of judgement. The first of these was that the pension liability for the Council had reduced from £69.929million to £66.981million, due to a £1.57million increase in the value of the scheme’s assets and a reduction of £1.378million in the projected liabilities. £66.981million was the extent of the Council’s liability if the pension fund was to close on 31 March 2016, and did not mean that this amount would have to be paid to the pension fund in the near future.

The second of these was asset valuations. Property, Plant and Equipment had a value of just under £700million in the Balance Sheet, an increase of £101million during the year. £99million of this increase related to Council Dwellings and Garages, which had been valued by the District Valuer. Investment Properties had a value of £63million in the Balance Sheet, and had risen by £9million for Industrial Estates and £11million for commercial properties; these properties had been valued by Deloitte LLP. The External Auditors were satisfied that the asset values had not been materially misstated.

The third of these was the provision for Business Rates Appeals. This had risen from £3.26million to £3.57million and had been calculated with the assistance of an external firm of rating experts. The Valuation Office had made some progress in settling appeals, but there were still over 400 appeals outstanding for the District, including some of the largest non-domestic premises in the District. It was highlighted that one outstanding appeal was for a property with a rateable value of £5.83million.

The Director reported that, during the year, the Council had reviewed some of its asset categories due to new accounting arrangements relating to the Highways Network Asset. It was found that some of the assets held under the headings of Infrastructure, Community Assets and Assets under Construction were either transport related and belonged to Essex County Council, or were related to the former waste disposal site at Bobbingworth which was now a park. Consequently, a retrospective restatement had been made to the Balance Sheet as at 1 April 2014 which had resulted in a reduction of £8.421million to the value of assets under Property, Plant and Equipment with a corresponding adjustment to the Capital Adjustment Account and reflected in the Unusable Reserves figure in the Balance Sheet. This adjustment would not impact upon the Council’s Usable Reserves and would not influence any subsequent decisions on financing or the level of Council Tax.

The Director concluded by stating that no significant adjustments to the Accounts had arisen from the audit, and that neither the Internal nor External Auditors had reported any material weaknesses in internal controls.

In response to questions from the Members present, the Director confirmed that action had been taken to reduce the Pension Scheme liability. The Local Government Pension Scheme was no longer a 'final salary' scheme and contributions had been increased, so the liabilities for the Council should continue to reduce over a period of time. In respect of the outstanding appeals for Non-Domestic Rates, it was felt that there was no end in sight. The revised list due in 2015 had been deferred until 2017, but progress on outstanding appeals by the Valuation Office had been suspended to produce the 2017 list. The Council was likely to receive fresh appeals when the 2017 list was implemented.

The Director acknowledged that the Statutory Statement of Accounts should have been watermarked as 'Draft' as they had yet to be agreed by the Council, and this would happen next year. When asked why items from the Transformation Programme had not been highlighted within the Accounts, the Director explained that the budget for the Transformation Programme was set as part of the regular budget setting process and progress with the Programme was regularly monitored by the Cabinet.

Resolved:

(1) That the Statutory Statement of Accounts for 2015/16 be recommended to the Council for adoption.

22. INTERNAL AUDIT MONITORING REPORT - JUNE TO SEPTEMBER 2016

The Chief Internal Auditor presented the Internal Audit Monitoring Report for the period June to September 2016.

The Chief Internal Auditor advised the Committee that 3 reports had been issued since the previous meeting, of which 2 had been given Substantial Assurance – Langston Road Development and Conflicts of Interest and Gifts & Hospitality – and one had been given Limited Assurance – Health & Safety at Townmead Depot. The audit at the Depot had identified a number of significant health & safety issues for staff and customers, but Management were currently taking appropriate action.

The Chief Internal Auditor reported that the Recommendation Tracker contained seven recommendations which had passed their due date; five of which were priority two and two were priority three. Monitoring had demonstrated that progress continued to be made on all of these outstanding recommendations. The only priority one recommendation on the Tracker related to the Health & Safety issues at Townmead Depot, which was not currently overdue.

The Chief Internal Auditor stated that the Corporate Fraud Team had stopped a further three fraudulent Right-to-Buy applications and had recovered another property as a result of fraud. The team was engaged in a number of criminal investigations, including an active money laundering investigation linked to a Right-to-Buy application. Anti-fraud training had been provided to Harlow District Council through the shared Internal Audit Service, and the Team had participated in a Radio 4 documentary on Right-to-Buy fraud.

The Chief Internal Auditor added that the Service was also represented on a number of business groups and project teams to provide advice and guidance, including:

- Project & Programme Management;
- Electronic Invoicing;
- Customer Self Service Kiosks; and
- Information Management.

In relation to the Langston Road Development, the Director of Resources explained that the Council had had external Project Managers and Quantity Surveyors involved in the tender evaluation process, and there had not been a huge difference in the financial bids received for the main construction contract. For Phase I of the Council Housebuilding Programme, the lowest tender received did not allow for potential problems or groundworks which the other tenders did, and the company concerned was relatively small for a project of this size. The Chief Internal Auditor added that the Langston Road Development and the Council Housebuilding Programme were two separate projects and there had not been much cross-cutting learning. The Committee raised concerns about the number of different consultants doing different roles for the Langston Road Development; not only was this complex to manage but the different consultants had to work in the best interest of the Council.

The Committee welcomed the intervention of the Internal Audit team at Townmead Depot and requested an update on the situation at the next meeting showing significant progress. The Chairman also commented that the Recommendation Tracker was showing too many actions as 'overdue' with too many revised dates. It gave the impression that nothing was ever achieved, and the Chairman suggested that Officers should be requested to provide an explanation to the Committee if a Recommendation had had more than one revised date. The Chief Internal Auditor expressed her support for this idea, and the Committee agreed to implement it in future.

Resolved:

- (1) That the progress made both against the 2016/17 Internal Audit Plan and by the Corporate Fraud Team be noted;
- (2) That an update report on progress with the Health & Safety issues at Townmead Depot be submitted to the next meeting for the Committee to consider; and
- (3) That Officers be requested to attend and provide explanations to the Committee for any audit recommendations listed on the Recommendation Tracker with more than one revised date of implementation.

23. ANY OTHER BUSINESS

The Chairman suggested that the Committee could invite Heads of Service to attend and provide an explanation for the performance of their service areas to the Committee.

The Director of Resources reminded the Committee that the Select Committees already provided scrutiny of the various different Council functions, and the External Auditor suggested that an analysis of where there were assurance gaps could be undertaken to avoid duplication of effort with one of the Select Committees.

The Committee noted that the Select Committees were not webcast, and that scrutiny undertaken by the Committee would be more transparent to the public.

The Chairman stated that he would bring forward a paper to the next meeting for consideration, which would include suggestions for possible areas of service to investigate.

24. EXCLUSION OF PUBLIC AND PRESS

The Committee noted that there was no business for consideration which necessitated the exclusion of the public and press.

CHAIRMAN