

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

**Committee:** Audit and Governance Committee      **Date:** Monday, 18 September 2017

**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, R Jennings and A Patel

**Other Councillors:** A Lion

**Apologies:** J M Whitehouse and N Nanayakkara

**Officers Present:** R Palmer (Director of Resources), P Maddock (Assistant Director (Accountancy)), S Marsh (Chief Internal Auditor), S Linsley (Senior Auditor), A Hendry (Senior Democratic Services Officer) and S Kits (Social Media and Customer Services Officer)

**Also in attendance:** Z Thompson and N Bernstein (External Auditors)

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### **14. WEBCASTING INTRODUCTION**

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

### **15. DECLARATIONS OF INTEREST**

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

### **16. MINUTES**

#### **RESOLVED:**

That the minutes of the meeting held on 26 June 2017 be taken as read and signed by the Chairman as a correct record.

### **17. MATTERS ARISING**

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

### **18. AUDIT & GOVERNANCE WORK PROGRAMME 2017/18**

The Chief Internal Auditor presented the Audit & Governance Work Programme for 2017/18, and noted that the unallocated item on the Whistle Blowing Policy would be updated at the November meeting.

### **19. STATUTORY STATEMENT OF ACCOUNTS 2016/17**

The Director of Resources, Mr Palmer noted that one of the key roles of this Committee was scrutinising the annual Statutory Statement of Accounts. All Members of the Council would have the opportunity to debate the accounts at Full Council and part of that debate would be to consider the recommendation of this Committee.

He noted that the budget for the general fund was set in February 2016 it was on the expectation that our expenditure would exceed our income by £36,000 which was not taken as a concern as we had ample in reserves to cover this. As it turned out, expenditure exceeded income for that year by £65,000.

A succession of ministers at the DCLG had expressed concerns about local authorities having excessive balances and had threatened to remove or tax these balances in some way. Our balances have been carefully managed over many years and were higher than most other district councils. Given this underspend and the concern of potential government intervention members decided to take the opportunity to increase the contribution from the general fund revenue account to the financing of the Capital Programme by £1million. This left our general fund balance at £6.2million which was £3million higher than the minimum level adopted by members. So despite this transfer the reserve levels were still comfortable. The level of variance as being reported was not unreasonable given that our gross expenditure on the general fund was approximately £70million. It was also better to have an underspend than an overspend. So overall our financial position was good and we do remain in a strong position for the end of the year.

Councillor Knapman noticed that we had a salary underspend and wondered if we had enough people. He gave an example of the land searches section taking longer than other councils. Mr Palmer said that we did not have a recruitment freeze in place. The salary budget was about £20million so a £120,000 underspend was not that much. He could ask the appropriate Assistant Director to clarify.

The meeting noted that there had been one significant change to the annual Statutory Statement of Accounts for 2016/17. For 2016/17, the segmental reporting arrangements for the Comprehensive Income and Expenditure Statement had changed with the introduction of the new Expenditure and Funding Analysis. This analysis brought together the figures as they were presented in the Statutory Statement of Accounts, following proper accounting practice, with the figures more normally seen in the Council's budgets for the General Fund and Housing Revenue Account, based on the statutorily defined charges.

In preparing a set of accounts at a point in time it was inevitable that some of the information required would not yet be available. If an actual amount was uncertain an estimate would be used. The estimate would be based on the assessment of information available at the time the accounts were closed. When the actual figures were determined any difference was usually accounted for in the following year. If the estimate was wrong by a material amount it would be necessary to consider re-stating the figures, this is extremely rare.

The largest creditor on the Balance Sheet was the Council's liability to the pension fund. The Balance Sheet shows that the pension liability for the Council had increased in the year from £66.981 million to £81.121 million. This increased deficit was due to the £36.362 million increase in the value of the projected liabilities being greater than the £22.222 million increase in scheme assets.

The key to calculating the value of the projected liabilities was the discount rate, and as this falls the size of the liability increases. The decrease in the discount rate from

3.5% to 2.7% reflects the decrease in yields in the corporate bond market, which actuaries are required to base discount rates on.

There were two other areas in the Statement of Accounts to bring to Member's attention as having required a major element of judgement. The first of these was asset valuations, Property, Plant and Equipment (PPE), dominates the Balance Sheet with a value of just over £760 million and Investment Properties were the next largest asset with a value of £68 million. Assets were revalued periodically to ensure their valuations are correct and up to date.

This year had seen an increase on revaluation of more than £56 million on PPE, of which more than £48 million relates to Council Dwellings and Garages. As in previous years, the valuation of the Council's Dwellings and Garages was undertaken by the District Valuer. Investment Properties were revalued by The Council's Estates Service and this resulted in an increase of £1 million in the value of industrial estates and £4m in the value of commercial properties.

One other area to note was the provision for business rates appeals, and central government had given local authorities the liability for settling the outstanding appeals. The Collection Fund included a provision for Appeals of £3.5million, which was similar to 2016/17.

Mr Palmer was happy to report that there were no extraordinary or unusual transactions during the year. And that no significant adjustments had arisen from the audit, although this was still to be concluded and any significant adjustments would be reported to this Committee. Neither the Internal nor External Auditor had reported any material weakness in internal controls. If any arose before the conclusion of the audit they would be reported to this Committee.

The Committee then received some tabled papers updating a few pages of the Statement of Accounts 2016/17 with more up to date figures to keep the report in line with what was published in the full Council agenda. These were minor amendments that were noted by the Committee.

Councillor Knapman asked what the strategy was that we had in place to deal with the pension liabilities. Mr Palmer replied that the County Council administered the scheme and would cover it. We were contacted every three years and given a number of options on the deficit recovery period and repayments and ongoing contributions. The last decision was made in December last year. The deficit recovery period was reducing, so the payment strategy that the County Council had put in place seemed to be working.

Councillor Knapman asked Mr Palmer to say why he was not concerned about this at this time. Mr Palmer said that to some extent this was an artificial figure, if the markets moved next year then the size of the deficit would fall again.

The Committee was happy to accept the findings highlighted in the report on the Annual Statement of Accounts.

**RESOLVED:**

That the Audit and Governance Committee recommend to the Council that the Statutory Statement of Accounts for 2016/17 be adopted.

**20. AUDIT OF ACCOUNTS - ANNUAL GOVERNANCE REPORT 2016/17**

The External Auditors introduced the audit report for the year ended 31 March 2017. They had substantially completed their audit procedures in accordance with the planned scope and their objectives had been achieved, subject to resolutions of matters set out in the report. They had identified two further significant risks during their updated risk assessment, which were previously reported as 'normal risk'. The two upgraded risks were Property, Plant and Equipment Valuations and Pension Liability; but given the size and sensitivities of these estimations the risks were considered 'significant'. There were no other changes made to their risk assessments, although they would be making a small number of presentational changes, but nothing of significance.

They still had 10 outstanding matters to consider and would report back on their status at a future Audit and Governance Committee meeting.

They thanked the finance team for their help and for providing the information required.

Councillor Knapman commented that this was as good an audit report that he had come across, but wanted to know if the work would be done on time. He was told that it would be; they had the staff in place to finish it by the end of the week.

**RESOLVED:**

That the external auditors annual governance report for 2016/17 be noted.

**21. ANNUAL OUTTURN REPORT ON THE TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS 2016/17**

The Director of Resources, Mr Palmer introduced the annual outturn report on the treasury management and prudential indicators for 2016/17. This was a requirement of the Council's reporting procedures. It covered the treasury activity for 2016/17 and confirmed that there were no breaches of policy during the year.

It was noted that:

- The Council had planned to borrow to finance the capital programme. However, an underspend on the programme and the availability of sufficient cash had allowed the external borrowing to be deferred.
- The risk involved with the Capital Activity is the impact on reducing the balances of financial reserves to support the capital programme. This risk has the following potential consequences: loss of interest; loss of cover for contingencies; financial strategy becoming untenable in the long run; service reductions required; and Council Tax increases required.
- The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge for the Council's debt position. The Council has borrowed £185.456m to finance the payment to Government for Housing Self-Financing. This resulted in the Council's CFR becoming an overall positive CFR (HRA and Non-HRA). No further borrowing was incurred in 2016/17.

The Council did not breach any of the following indicators:

- (a) the Maximum Upper Limit for Fixed Rate Exposure during 2016/17 was 83% for Debt and 61% for Investments (limit set at 100%) and Maximum

Upper Limit for Variable Rate Exposure during 2016/17 was 17% on Debt and 39% on Investments (limit set at 25% and 75% respectively);

(b) the maximum amount of the portfolio being invested for longer than 364 days was £0m (limit set at £15m); and

(c) the maximum limit set for investment exposure per country outside of the UK was £5m. Average £2m in Sweden. Standard Life MMF is domiciled in Guernsey, so is also Non-UK. Average £5m.

Interest Rate Risk – the risk of fluctuations in interest rates. The Council allows a maximum of 75% of its investments to be invested in variable rates, and the remainder are in fixed rate deposits. This allows the Council to receive reasonable rates, whilst at the same time, gives the Council flexibility to take advantage of any changes in interest rates.

The Council has continued to finance its capital programme through the use of internal resources. Whilst the capital receipts reserve had been fully exhausted, it was anticipated that future right to buy sales would fund some part of the programme, and the Major Repairs Reserve would be available to support the on-going capital maintenance of the housing stock, before the need to borrow arises sometime late into the 2017/18 programme. The Council did not breach any of the treasury prudential indicators during the year.

Councillor Knapman asked for an update on the shopping centre as its one of the two main risks that had been identified. Mr Palmer noted that we had incurred some delays around the highways works and difficulty with the County Council. These issues have all been resolved now. Several of the units are now open and trading, and most of leases have been signed. The park will be fully let and this will conclude in a very favourable outcome for the Council.

Councillor Knapman then asked about HRA borrowing, were we confident that we would be able to finance that for the period of the loan. Was this correct? Mr Palmer agreed saying that the exact repayment strategy would be determined by what members wanted to do with the next phases of the housebuilding programme. A report will be going to Cabinet on this matter. Councillor Knapman asked that Mr Palmer report back to this meeting to inform them of what was going on in this area, as they would like updates on this so they could see how the loan repayments were affecting the housebuilding programme.

Councillor Jennings asked when we would get to a stage where using our reserves would become critical; as interest rates were low and our investments were not yielding that much. Mr Palmer replied that because of the extended period of very low interest rates that members took the decision to invest in capital projects such as the retail park and buy out our initial partner for the site. We have been looking for opportunities, over time, to invest our assets and earn a higher return on them. To use our returns and run down our investment balances.

Councillor Knapman asked what our return would be on the shopping park. Mr Palmer said that the annual value of the rental income would be around £2.5 million, with the construction costs around £30 million. We would also benefit from the national non-domestic rates from the units there. Councillor Knapman said that it was a better return than if we just left it in a bank. Mr Palmer agreed and also noted the economic regeneration that would bring to that area and the district as whole.

The Audit and Governance Committee considered that the risks associated with Treasury Management had been dealt with during 2016/17 and noted that there was more risk now than the Council used to have when it had decent rates of return on interest; the Council had taken some risk as it demonstrated that it got a better return than just investing it in the banks earning low interest; the Committee agreed that it was relatively comfortable with this state of affairs.

They were content with the position as it was now but the Committee would be keeping its eye on HRA borrowing and the housebuilding programme. If this was continued then the committee would have to anticipate what would mean for the district and if the council should rely on market forces to build houses or would the Council have to step in with a clear programme for housebuilding.

**RESOLVED:**

That the Audit and Governance Committee had considered the report and were happy that the Council was not taking undue risks at this time, was in a fairly good financial position and recognised that it would be moving into a period where it may have to borrow. But the Committee was happy the Council was getting a good return for its initial investments.

**22. AUDIT & GOVERNANCE COMMITTEE TRAINING PROGRAMME**

The Chief Internal Auditor introduced the report outlining the training programme for the Committee for the next 12 months. It was proposed that a 30 minute training session was delivered prior to each Audit and Governance Committee. Such training would consist of short topical briefings by Council officers with input where appropriate, from external auditors.

Asked if there was opportunity to work with other councils and share lessons and to see how they worked Mrs Marsh said that in order to maintain maximum benefit from the training provided, all members of the Council would be invited to attend and also where appropriate members from neighbouring Councils. Also training opportunities at Broxbourne and Harlow will continue to be offered to Epping Forest Councillors.

The Committee agreed that it was an excellent idea to provide this type of short course training before meetings.

**RESOLVED:**

(1) That the Committee agreed the training sessions for the next 12 months as set out below:

- (a) November 2017 – Role of the Audit Committee, incorporating an interactive session facilitated by the Chief Internal Auditor in order for the Committee to gauge its own effectiveness;
- (b) February 2018 – Project Management, including a demonstration of the Council's Project Management and Performance System (Covalent);
- (c) March 2018 – Risk Management, to coincide with the Committee's Effectiveness of Risk Management review;
- (d) June 2018 – Assurance Framework, ahead of the Committee's approval of the Annual Governance Statement; and

(e) September 2018 – How to Read a Set of Accounts, ahead of the Committee receiving the Statutory Statement of Accounts for 2017/18.

(2) That the Chairman of the Audit and Governance Committee be given delegated authority to approve the training programme for the Committee in future years.

## **23. INTERNAL AUDIT MONITORING REPORT - JUNE TO SEPTEMBER 2017**

The Senior Auditor, Ms S Linsley introduced the internal audit monitoring report (June to September 2017) updating members on the work completed by the Internal Audit Shared Service. She noted that good progress was being made against the 2017/18 Audit Plan and an additional audit had been included for this year to follow up the Health and Safety at Townmead Depot audit which was carried out in September 2016.

The report gave a summary of the audit reports issued since the last update in June 2017. These reports were about:

- Fire Risk Assessments – audit reviewed the policies and processes around the Fire Risk Assessments (FRAs) in Council owned residential blocks of flats and communal areas. It was found that properties requiring FRAs were complete and accurate and completed within agreed timescales. Following the Grenfell Tower incident, FRAs will now be undertaken every two years in all Council owned residential blocks.
- Cyber Security – this was a non-technical audit designed to assess the adequacy of the Council's framework in relation to both internal and external cyber threats. It was found that the security of the Council's computer network and servers was well managed and there were effective controls in place to detect unauthorised access and suspicious activity. Cyber awareness training was given to new staff and refresher training and security updates ensured existing staff are kept informed of current threats.
- Planning Applications Processes – this reviewed the processes around the external publicity of planning applications submitted to the Council and checked that planning applications were determined in accordance with the Council's Scheme of Delegation. They recommended that the relevant policies, procedures and the Scheme of Delegation were reviewed ahead of adoption of the Local Plan to identify any areas where efficiencies can be made in order that processing times were not affected by any increase in the number of planning applications.

Another item that Internal Audit was involved in was the General Data Protection Regulation (GDPR) working party. In May 2018 the Council will be required to ensure compliance with the principles of the new GDPR legislation and work was in hand to ensure the Council was compliant with the new requirements. Internal Audit was playing a key role in the preparation of a Council-wide Information Asset Register. This involves identifying the Council's information assets (manual records and electronic information) to ensure personal data was recorded and used responsibly.

Internal Audit was also actively involved in improving risk management processes throughout the Authority and as part of this work has revised the risk

management strategy. They were also involved with the Corporate Fraud Team and the work they were doing.

Ms Linsley was asked who carried out the fire risk assessments for the Council. She replied that the high risk properties assessments were carried out by a specialist fire risk firm; the lower risk properties assessments were carried out by Council Officers.

She was then asked if the council needed evacuation plans for its sheltered accommodation sites. She responded that the current risk assessments would pick up on details like this. Mrs Marsh added that she would consult the relevant officers about this.

Councillor Knapman asked about the planning application process, as Internal Audit had said that these processes were operating satisfactorily, but he tended to disagree and wanted to know who she had spoken to. Ms Linsley said they looked at the publicity relating to site applications etc. and its relation to Council Policy. Councillor Knapman then asked if they looked at the length of time it took to make a decision and noting they tended not to make a decision until the last moment that they were allowed, or people were asked to withdraw their application so the clock started again when they re-applied. Was there a culture of delay here? Ms Linsley said that they did not look at the processing times, although they did look whether planning applications were determined in line with the scheme of delegation. They found that if it was referred to Committee then it would take longer and that this Council referred more applications to Committee than other councils. Councillor Knapman was happy for things to be referred to committee but would like them to look at the delegation procedure and if delegation actually sped things up. Also he would like to see how the public could make contact with planning officers as it appeared to be more difficult these days. He agreed that efficiencies could be made to deal with increases in applications.

Mrs Marsh responded that he was asking for a specific piece of work but they looked at work on a risk basis and would have to look at what the specific risks for the Council were, also they have set out their programme for the year so could not promise to take on this piece of work, but they would look at it. Councillor Knapman responded that the whole point of audit was that members could ask Internal Audit to look at things that they thought should be looked at.

Councillor Lion noting the fire risk assessment item said that he had visited some of the blocks of flats in conjunction with the portfolio holder after the Grenfell Tower incident and noted that the fire evacuation routes were not clearly marked and the shared spaces had items placed in them by the residents; something to note for the future. These things had been picked up and were being dealt with. Also, our cyber security was good and there was new IT strategy being considered at present. And lastly on the planning process, one of the things that would be of interest would be planning enforcement and how that was carried out in relationship to planning applications. This maybe something for a future programme.

Councillor Patel asked if the Covalent system was proving useful to audit. Mrs Marsh said that as a project management system was really good and enabled them to monitor projects just by checking the system. It saved time and enables them to focus in on what mattered.

Mr Jarvis noted that there was an earlier item on waste, was there a specific contract management group in the council that was looking any lessons that were learned or does each service manage its own contract. Mrs Marsh said that each service

manages its own contract and that was part of what she did was to go around and talk to people and if she saw things that were going wrong or not work as they should do, then that would be a reason for putting it on the audit programme. Mr Jarvis noted that contract management was a specialist skill that some service managers may or may not have.

Councillor Lion noted that this was a new part to his portfolio and that Internal Audit were a tremendous asset to the Council and the fact that we were auditing on a regular basis was a valuable service and he would like to thank the whole team for doing this. Also the corporate fraud team were doing a tremendous job, and we were making some really good inroads into this area. It was a very valuable service.

**RESOLVED:**

That the Committee noted and commented on the progress made against the 2017/18 Internal Audit Plan and the summary of the work of Internal Audit and the Corporate Fraud Team for the period June to September 2017.

**24. ANY OTHER BUSINESS**

There was no other business to be considered.

**25. 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**