

EPHING FOREST DISTRICT COUNCIL COMMITTEE MINUTES

Committee: Audit & Governance Committee **Date:** Thursday, 15 July 2021

Place: Conference Suite - Civic Offices **Time:** 7.00 - 8.35 pm

Members Present: Cllrs I Hadley (Chairman), S Heap, B Vaz and M Owen
Co-opted Member: Mr A Jarvis (Vice-Chairman)

Other Councillors: J Philip

Apologies:

Officers Present: S Marsh (Chief Internal Auditor), M Crowe (Corporate Fraud Team Manager), S Linsley (Senior Auditor), A Small (Strategic Director Corporate and 151 Officer), C Hartgrove (Interim Chief Financial Officer), T Carne (Corporate Communications Team Manager), S Jennings (Team Manager - Infrastructure and Security), J Leither (Democratic Services Officer), V Messenger (Democratic Services Officer), S Mitchell (PR Website Editor), P Seager (Chairman's Officer), C Wisdom (External Auditor) and K Gopalakrishnan (External Auditor)

1. 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.

2. Election of Chairman and Vice-Chairman

The Democratic Services Officer advised the Committee that it needed to elect a Chairman and Vice-chairman for 2020/21, and that under the Terms of reference for the Committee, where the Chairman was an elected Member then the Vice-Chairman had to be a Co-Opted Members and vice versa. Nominations were invited from the Committee for the role of Chairman for the forthcoming municipal year.

Following the election of the Chairman, Cllr I Hadley, invited nominations for the role of Vice-Chairman for the forthcoming municipal year.

Resolved:

- (1) Cllr I Hadley be elected Chairman of the Audit and Governance Committee for 20220/21; and
- (2) Mr A Jarvis be elected Vice-Chairman of Audit and Governance Committee for 2020/21.

3. Declarations of Interest

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

4. Minutes**RESOLVED:**

That the minutes of the meeting held on 22 March 2021 be taken as read and signed by the Chairman as a correct record.

5. Matters Arising

There were no matters arising from the minutes of the previous meeting which warranted further discussion.

6. Audit & Governance Committee - Work Programme

The Committee noted its Work Programme for 2021/22. The Committee agreed that the next meeting could be postponed to align with the statutory requirements for the presentation of accounts.

7. Audit Report to Audit & Governance Committee for the year ended 31 March 2020

The External Auditor, C Wisdom a partner at Deloitte, acknowledged the delays in the completion of the 2019/20 audit, explained in part by the impact of the Covid pandemic and historic issues in relation to the loss of key financial staff which had been resolved. The external auditor detailed the key points of the report as:

- The scope of the audit had not changed but there had been impacts from Covid on the audit. The key impact on the accounts were:- the additional narrative; the material uncertainty over the valuation in relation to property, plant and equipment; investment properties; and volatility in relation to pension fund investments.
- Significant risks: The valuation of property assets was identified as a significant risk due to the amount of judgement and external valuation, a material uncertainty clause had been included by the Council's valuer due to the volatility and uncertainty caused by Covid. This was specifically referred to in the opinion as an 'Emphasis of Matter', this was not a qualification or modification of the audit opinion. Capital expenditure and management override of controls work was completed satisfactorily.
- Other matters included: the defined benefit pension scheme liability, which was an area of focus due to the defined pension liability, the complexity of the actuarial valuation, and two legal cases. One of which, the Goodwin case, emerged late in the process and was not included in the report received by Deloitte, an independent assessment of the impact was included as a material adjustment. The NNDR appeals provision had a material mis-posted journal reversed.
- Arrangements to secure economy, efficiency and effectiveness in the use of resources was considered satisfactory and a unqualified value for money conclusion would be issued.
- Control observations has shown substantial improvements, some areas required further improvements

The External Auditor summarised that he expected to issue an unmodified opinion when the Council had approved the 2019/20 accounts.

Resolved:

The Committee considered and noted the Deloitte audit report for the year ended 31 March 2020.

8. Statement of Accounts 2019/20

The Interim Chief Financial Officer, C Hartgrove, introduced the Statement of Accounts 2019/20 and advised the Committee that the Council was required to prepare annual financial statements that comply with the CIPFA Code of Practice on Local Authority Accounting. This was different to the management account reports presented to Committee on a regular basis. The management accounts for 2019/20 showed an underspend of £908k on the General Fund whereas the Comprehensive Income and Expenditure Statement showed a £19.5m deficit on the provision of services. The difference was explained as range of notional charges made on the Income and Expense account which were reversed out, as shown in the movement in reserves statement, these included depreciation and pension costs.

The Financial Review 2019/20 showed a General Fund underspend of £908k, the General Fund Capital and the Housing Revenue Account, revenue and capital were disclosed. The attention of the Committee was drawn to the Collection Fund position, which had an overall deficit of £5,013m for 2019/20 due to pressures on Council Tax and Business Rates. The Balance Sheet showed a stable position, the level of Usable Reserves had declined from £48.266m to £42.846m in the year, this was offset by an increase in Unusable Reserves, and included the decline in the General Fund Unallocated Balance of £1.02m. The Committee were advised that the factors behind the General Fund reduction were, the correction of the transparency issue associated with pension costs, being allocated against reserves, which had now been corrected, and a Business Rate payment levy of £780k missed in 2018/19m, which had been corrected and paid in 2019/20. Significant adjustment to the accounts were as recommended by the Section 151 officer, where detailed in pages 49-51 of the Agenda.

Cllr Owen queried the £5m loss on the Epping Forest Retail Park and was advised this was relatively new acquisition and the revaluation had taken place during pandemic which had a negative impact on the valuation. He was also advised that no assets or capital were transferred to Qaulis in 2019/20 and interest was not paid on unusable reserves, which were accounting adjustments.

Cllr Philp commented that the adjustments proposed by the Section151 officer were sensible to mitigate this impact of the missed item in 2018/19 accounts, and commended officers for their work.

Cllr Hadley queried a remuneration of over £230k, Cllr Philip advised that this had related to a contractor, but included services provided by their company. Cllr Hadley thanked all parties for their input and commended the report.

Resolved:

The Committee considered the audited Statement of Accounts 2019/20 in the context of the Deloitte audit report for the year ended 31 March 2020 and

1. approved the proposed accounting adjustments
2. recommended the Statutory Statement of Accounts for 2019/20 to the Council for adoption.

9. Annual Report of the Chief Internal Auditor 2020/21

The Chief Internal Auditor, S Marsh, detailed the importance of this annual report which summarised the internal audit work for 2020/21 and provided an opinion on the adequacy of internal controls. She advised this report was an independent opinion that fed into the Annual Governance Statement which then featured in the Annual Statement of Accounts. The report provided a summary of the work completed by

Internal Audit and the assurance required. She stated that her overall opinion was that the Council had adequate and effective governance, risk management arrangements and control processes. Where there had been significant issues these had been accepted by Management and promptly corrected. The exception to this, was disaster recovery and the Council was addressing the weaknesses identified. The Committee had been advised of this through the tracker presented at each Audit and Governance Committee meeting.

She reminded the Committee that the focus of Internal Audit's work had changed over the year, in response to Covid and a revised audit plan for 2021 was approved by the Committee in June. Internal Audit had completed eight audits as well as value added work including: grants; advice on process change including the use of wet signatures in light of Covid restrictions; project work and joint working with the fraud team. Relevant KPIs had been met.

S Marsh advised the committee that investigations of corporate fraud could be considered at all levels of the organisation and if required be carried out on Quails. Cllr Hadley queried the low level value, £1,000, of the purchase cards and was advised this was a starting value which would be reviewed if appropriate.

Resolved:

The Committee:

1. Noted the Annual Report of the Chief Internal Auditor for 2020/21 and the assurance level given, and
2. Agreed that for the 12 months ended 31 March 2021, the Council had operated adequate and effective governance, risk management arrangements and control processes. The exception to this, being disaster recovery and the Council was already addressing the weaknesses identified.

10. Audit and Governance Committee Annual Report 2020/21

The Chief Internal Auditor, S Marsh detailed that the Annual Report of the Audit and Governance Committee outlined the Committee's work and achievements over the year ending 31 March 2021. The Annual Report helped to demonstrate to residents and the Council's other stakeholders the vital role carried out by the Audit and Governance Committee and the contribution that it makes to the Council's overall governance arrangements.

Resolved:

The Committee

1. Agreed the Annual Report for the Audit and Governance Committee for 2020/21 and referred to the Council.

11. Draft Annual Governance Statement 2020/21

The Chief Internal Auditor, S Marsh advised the Committee that the Annual Governance Statement (AGS) provided detail of how governance arrangements had been working for 2020/21 and, in line with regulations, would accompany the Statement of Accounts.

The AGS set out the governance framework which had remained fit for purpose despite changes in working practices associated with Covid. The areas that required monitoring in 2021/22 were identified as: Ensuring the Health and Safety of everyone, Financial Management Code; Statement of Accounts and Disaster recovery (DR). Assurance statements from service areas for: Risk management and business/service planning; and Financial Regulations identified other areas that required monitoring.

Cllr Hadley queried the project methodology used by the Council and was advised that bespoke system that was based on Prince methodology was used.

Resolved:

1. The Committee reviewed, commented and recommended on the draft Annual Governance Statement for 2020/21

10. Corporate Fraud Team Annual Summary 2020/21

The Corporate Fraud Team Manager, Martin Crowe, outlined the Corporate Fraud Team Annual Summary for 2020/21. He highlighted the success rate of 48% for fraud proven in 2020/21 a 5% increase on the previous year. 100% of right to buy applications were vetted, using remote techniques. Purchases had not moved forward on twenty four properties, i.e. 51% were stopped or withdraw, this gave savings of £2m of right to buy discount and an ongoing revenue stream of £1.5m. There had been nine successes in relation to tenancy succession, and seven fraudulent housing applications. There were no instances of fraud for student exemptions of Council Tax and this area had a high level of fraud resilience. Checks had been carried out in relation to Covid 19 business grant applications and there had been three internal investigations.

Cllr Own asked if cases of fraud were referred to the police and for clarity on actions that could be taken in relation to housing fraud. M Crowe advised that the fraud team had powers to prosecute and for fraudulent housing application the applicant would normally be removed from the waiting list.

Cllr Hadley asked about performance in relation to other authorities. M Crowe advised that EFDC were successful and had a relatively large team, some cost were recovered from other authorities but this did not cover the salary costs.

Resolved:

1. That the Committee noted the Corporate Fraud Team Annual Summary for 2020/21.

13. Risk Management Report

The Section 151 Officer, A Small advised the Committee the officer risk management group had reviewed the risk register and there had been no changes in risk scoring since March 2021. The highest risks identified for the Council were associated with the Local Plan, Economic Development and the Climate Emergency.

Cllr Heap suggested that as there was no agreement with Natural England this could impact on the issuing of planning permissions. Cllr Philip advised the Committee, the Main Modification Consultation, including the interim air quality mitigation strategy had started and Natural England were comfortable that this could be used.

Cllr Owen queried why no corporate risks were rated as A1, the highest category, and suggested that Climate Emergency could be rated in this category. The Section 151 Officer explained that the categorisation was about likelihood of occurrence and the impact if the risk occurred. The officer group had determined that none of the risks would be deemed A1 and would not cause the Council to fall. He highlighted that the Committee needed to be comfortable with the assessment and the action taken for the mitigation of risks. Cllr Philip suggested that risk ratings could change over time and stated that he did not feel any risk currently warranted the highest risk rating. He reminded the Committee that at the time of the Icelandic bank crash the Council had A1 risks that had decreased over time as funds had been recuperated.

Mr Jarvis, queried if the level of risk in the matrix could be monetarised, and suggested that there was an issue as some items could have the same risk but be of a higher cost to the Council. There was a discussion in relation to the impact of risk being more than financial, and the difficulty in the encapsulation of risk purely financial terms. The Chief Internal Auditor advised that the Risk Management Strategy contained the detail of the risk matrix. The Section 151 officer suggested that the significance of risk held subtleties relating to communities but officers would attempt to provide some indication of the financial values of major risks.

Resolved.

The Committee:

- (1) reviewed and endorsed the risk register, and
- (2) requested more guidance on the financial values associated with major risks in future reports.

14. Internal Audit Progress Report

The Senior Auditor, S Lindsey, detailed the progress made against the audit plan and advised the Committee that six audit reports had been issued since the last meeting. She highlighted that Qualis Group Governance audit had been given substantial assurance. This audit was to ensure the Council investment was adequately protected, and had included discussion with Quails and Council staff, and a review of lessons learnt from governance failures in other Local Authority Trading Companies. Recommendations had been made and agreed these included member training and a skills and knowledge audit would be carried out by Qualis. The IT disaster recover audit was given limited assurance, key aspects had already been addressed through a third party contract for a cloud based secondary data centre facility, this would be tested to ensure critical systems could be restored and disaster recovery plans would be documented, evaluated and tested. The internal audit tracker was monitored, two overdue high priority actions had been delayed due to IT equipment shortages in UK.

The Committee were advised that external assessment of the Internal Audit function needed to be undertaken at least once every five years and that the last assessment had taken place 2016/17. The proposed approach was that a self-assessment with external independent validation to comply with the public sector internal audit standard would be carried out and the results reported to the next meeting of the Committee

The update on the Corporate Fraud Team highlighted that four right to buy cases had been withdrawn and one stopped, and two tenancy successions had been stopped..

Cllr Owen queried the release of funds to Qualis without a written agreement and wanted confirmation that that all loans to Qualis had formal agreements. S Lindley confirmed that the initial loan now had an agreement in place and that all loans would have a written agreement which would be sealed. Mr Jarvis raised concerns over the risks associated with the multi-agency Harlow Glisten Garden Town (HGGT) project and asked if the Council could be financially exposed. Cllr Philip detailed the structure of the HGGT Board and provided assurance that Epping Forest District Council had only provided financial commitment that had been fully accounted for. Cllr Heap suggested that the planning department should be subject to an audit, S Marsh advised that there had been previous audits on the planning service and a risk-based approach was used for to develop the audit plan. Cllr Hadley asked for further information on the server upgrade and was advised that the Windows 2008 servers would be upgraded this year and the long term plan was to move to the cloud.

Resolved:

The Committee:

- (1) noted the summary of the work of Internal Audit and the Corporate Fraud Team for the period March to July 2021, and
- (2) Agreed the scope of the External Quality Assessment of the Internal Audit service.

15. Any Other Business

No other business was raised for consideration by the Committee.

16. 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