

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

**Committee:** Audit & Governance Committee      **Date:** Monday, 22 November 2021

**Place:** Council Chamber - Civic Offices      **Time:** 7.00 - 8.30 pm

**Members Present:** A Jarvis (Vice-Chairman in the Chair), Cllrs S Heap, B Vaz, M Owen and R Morgan

**Other Councillors:** Cllr J Philip

**Apologies:** Cllr I Hadley

**Officers Present:** L Kirman (Democratic Services Officer), 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), A Buckley (Higher Level Apprentice (Internal Communications)) and A Hendry (Democratic Services Officer)

---

### **17. Webcasting Introduction**

The Democratic Services Officer 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.

### **18. Declarations of Interest**

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

### **19. Minutes**

#### **Resolved:**

That the minutes of the meeting held on 15 July 2021 be taken as read and signed by the Chairman as a correct record.

### **20. Matters Arising**

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

### **21. Audit Plan 2020/21**

Mr M Ramzan, Director Deloitte (External Auditors), presented the audit plan for the year ending 31 March 2021. He highlighted the scope of the audit and the key risks as: valuation of properties; capitalisation of expenditure; and management override of controls which had been included in the annual statement. The planning work had identified 'fraud in revenue recognition' as a significant risk due to Covid 19 grants terms and conditions, a risk that was consistent with other local authorities. There was additional scope around value for money. Timelines were detailed in the report and it was noted that there was a sector wide pressure on audits that meant that only 1 in 10 audits had been completed by the September deadline. The audit plan further detailed the: scope of work, significant risks; materiality, other areas of focus around pensions deficit; value for money in relation to financial sustainability, governance and improving economy, efficiency and effectiveness; and revisions to auditing standards.

The Committee queried the level of reporting misstatements, set at £100k; the risk related to Brexit; and if risk associated with Qualis was specifically included. They were advised that: £100k was the bar that was set, a cumulative effect was taken into account, below that level would be discussed with management; a narrative in relation to the relevant risk associated with Brexit was expected; and from an audit perspective risk associated with Qualis would need to be considered in the group accounts, and risks would be picked up through the consolidated accounts. The Chairman requested that detail on the approach to the group audit was presented at a future meeting.

The Strategic Director Corporate and Section 151 Officer, A Small advised the Committee that there was a delay the accounts sign off, due on 30 September 2021, and highlighted that this was part of a wider national picture in relation to capacity and auditing guidelines and complexity of local government.

**Resolved:**

The Committee approved the planning report for the 2020/21 audit provided by the External Auditor.

**22. Audit & Governance Committee - Work Programme**

The Committee noted its Work Programme for 2021/22.

**23. Review of the Audit and Governance Committee Terms of Reference.**

The Chief Internal Auditor, S Marsh, advised the Committee that a review of the terms of reference and the Committee's effectiveness had been carried out in line those as prescribed by the Chartered Institute of Public Finance and Accountancy (CIPFA). She detailed a change to the Audit and Governance Committee Terms of Reference which had been approved by Council on 28 October 2021 and delegated authority to this Committee for the adoption of the annual Statement of Accounts. The self-assessment had shown the Council demonstrated compliance with recommended best practice for an effective audit committee and there were no areas that required improvement. The results of the skills and knowledge questionnaire had been used to inform a training programme for the Committee, which would be open to all councillors.

**Resolved:**

The Committee:

- 1) agreed the changes to its Terms of Reference, and
- 2) considered the results of the review of effectiveness of the Audit Committee and noted progress against last year's action plan.

**24. Treasury Management Annual Outturn Report 2020/21**

The Interim Chief Financial Officer, C Hartgrove reminded the Committee that three year Treasury Management Strategy was considered by the Committee on 28 January 2019 and agreed by full Council on 21 February 2019, this report was the outcome of that strategy for 2021/22 and it considered investment, borrowing and performance against relevant indicators.

Borrowing had increased from £224.5m to £261.7m in the year to 31 March 2021, £23m of the borrowing was short term borrowing from other local authority and the remainder was long term borrowing exclusively from the Public Works Loan Board (PWLB). Investments had reduced from £24.7m to £11.8m during the same period, £9.1 m was held in Money Market Funds and £2.7m in the Council's main bank account. Non-treasury investments were detailed, commercial property investments were £147.3m up from £138m the previous year, with a net income of £6.8m an

increase from £6.2m the previous year. Prudential and treasury management indicators were met, excepting the investment limit of £3m which was breached due the impact of Covid on the anticipated cash requirements and the receipt of a major government funding allocation.

The Committee queried if there was an inconsistency on the short term borrowing increasing by £48.7m in the treasury management summary (Table 2 of the report) and the short term borrowing position (table 3 of the report) increasing by £9m, and if repayment was required after the 83 days maturity. Loans were repayable at maturity, these could be agreed to be rolled over as they would be replaced.

#### **Post meeting update**

“the two tables are correct and were showing different things. Table 2 provided an analysis between long-term and short-term borrowing whereas Table 3 analysed the borrowing by lender. The big ‘difference’ relates to a substantial variable rate loan that is due to mature in March 2022. Because that loan is within 12 months of maturity, it’s classification changes from long to short term borrowing, but of course the lender remains constant; this is what created the impression of an apparent inconsistency”

The Committee asked why borrowing was high, what the interest rates were and how much was paid in interest. The majority of borrowing was taken out in 2012 as part of the housing subsidy settlement when local authorities took on external borrowing, there were a range of different, mainly fixed, rates of interest that reflect the time the loan was taken out, and absolute figure would be provided.

#### **Post meeting update**

“The following sums in interest were paid in 2020/21:

• General Fund -	£1,084,537
• Housing Revenue Account	£5,403,235
• Total -	£6,487,772”

The Committee sought clarity on the refinancing of a loan that matured in March 2022s. The loan would be redeemed and the nett position would be that this loan would reduce and there would be a lower interest rate by refinancing through short term loans.

The Committee asked in the unlikely event that there was no access to short term borrowing could long term funds be used or money be taken back from Qualis. The Committee was advised that it was highly improbable that lending could not be accessed through short term inter authority borrowing or PWLB, and that money from Qualis could not be called back as this would be in breach of a legal agreement.

#### **Resolved:**

The Committee noted and recommended the Treasury Management Outturn Report for 2020/21 to full Council.

#### **25. Treasury Management Mid-Year Report 2021/22**

The Interim Chief Financial Officer, C Hartgrove presented the Treasury Management Mid-Year Update 2021/22 and highlighted that external borrowing increased from £261.7m to £270.8m and investments increased from £11.8m to £19.1m during the period April to September 2021. The commercial property

investments showed a balance sheet value of £147m and an estimate income of £3.3m. Technical issues had occurred between the financial management system and the new debtors systems and only estimates were available, precise figures would be present in the outturn report. All treasury management indicators had been met in the first six months of this year. The Committee requested a list of all loans and the interest rate of each loan to be included in the next report.

**Resolved:**

The Committee noted and recommended the Treasury Management Mid-Year Update 2021/22 to full Council.

**26. Update on Prudential and Treasury Management Codes**

The Interim Chief Financial Officer, C Hartgrove updated the Committee on the imminent changes to CIPFA's Prudential and Treasury Management codes of practice. The consultation on the revised prudential code made it clear that debt for yield investments were no longer permissible, the principle of proportionality and a 10-year liability benchmark had been introduced. The revised treasury management code strengthened the requirements for skills and training, and non-treasury investments. The detailed implications of these proposals were being considered and updated capital and treasury management strategies for 2022/23 would be presented to the January meeting of this Committee. The Council had ceased entering into debt for yield agreements and the skills and knowledge requirement was compatible with the finance department's recruitment and development strategy.

The Committee sought clarity on the impact of the proposals and debt to yield agreements and were advised that the Council were compliant with the proposals and that debt to yield agreements involved borrowing from the PWLB to pass on exclusively for a profit with no other benefit to the locality or community. The Committee requested that the PWLB rules should be incorporated into next year's Strategy.

**Resolved**

The Committee noted the updated changes to CIPFA's Prudential and Treasury Management Codes of Practice.

**27. Risk Management Report**

The Strategic Director Corporate and Section 151 Officer, A Small, presented a report on Risk Management, the risk register and risks the Council faced at a corporate level. The accommodation project risk had been removed from the risk register as the project was completed. The risk rating associated with 'Economic Development' and 'Delays in Issuing Planning Permissions' had been reduced to reflect the range of actions that had taken place.

The Committee challenged why the Climate Change rating was not classified as A1; the potential risk associated with the Council becoming a unitary authority, especially in relation to Qualis; and the reason for delays in planning permission. A Small acknowledged that on a global scale Climate Change was a critical risk, but at a local level this was associated with what the Council could achieve; if Epping did become part of a Unitary Authority Qualis would become a controlled company of the new authority; and Cllr Philip advised that Natural England had instructed that planning permissions should not be issued until there was an agreed position, the planning applications were now being assessed and the backlog was being addressed.

**Resolved**

- (1) The Committee reviewed and noted the risk register

**28. Internal Audit Progress Report**

The Senior Auditor, S Linsley, presented the Internal Audit Monitoring Report and advised that good progress had been made on the 2021/22 audit plan. Two final reports for gas safety and payroll had been issued with substantial assurance. The number of overdue recommendations had increased and actions detailed in the recommendation tracker were in train. Internal Audit had worked on other projects and led on the ICT asset lists which was resource intensive and had provided a completed IT asset register. An update on the corporate fraud team and progress against the Annual Governance Statement was included in the report. The Whistleblowing Policy had been reviewed and updated to provide additional contact details to make reporting concerns easier for all staff. The Council's Anti-Fraud and Corruption Strategy had minor changes that strengthened the overall framework. The Internal Audit Charter had been updated to cross reference the definitions for senior management and the audit committees in the audit charter to the Public Sector Internal Audit Standards (PSIAS) definitions, this Charter was still fit for purpose and was fully compliant with the PSIAS.

The Committee asked how comprehensive the Qualis register of interest would be and were advised this would be a complete and comprehensive register of interest. The Committee sought clarity in relation to the whistleblowing policy: could the CEO obtain access the details on a case against them, when would the police be involved; and how many cases there had been. They were advised that investigations into CEO would remain confidential until the allegation had to be put to them, this was normally carried out by the Chief Internal Auditor and the Monitoring Officer; the police would be involved on a case by case basis and if appropriate at the start of investigations. The Chief Internal Auditor's annual report would detail all whistleblowing cases, which amounted to 1 or 2 every couple of years.

**Resolved:**

The Committee

- (1) noted the summary of the work of Internal Audit and the Corporate Fraud Team for the period July to November 2021
- (2) noted the revised Whistleblowing Policy
- (3) considered the revised Anti-Fraud and Corruption Strategy and recommended this strategy to Council for approval
- (4) approved the revised Internal Audit Charter, and
- (5) reviewed the progress of actions taken to address issues identified in the 2020/21 Annual Governance Statement

**29. External Quality Assurance of Internal Audit**

The Chief Internal Auditor, S Marsh, detailed that an External Quality Assurance of Internal Audit against the Public Sector Internal Audit Standards had been carried out and the overall conclusion of the report was that Internal Audit fully conformed to the Public Sector Internal Audit Standards (PSIAS) and clients valued the professional and objective way the service fulfilled their role. Some minor actions had been identified by the external assessor which would enhance service provision, but these do not affect the overall level of compliance with the PSIAS.

The Committee commended the Chief Internal Audit and the Audit Team for the provision of an effective internal audit service.

**Resolved:**

The Committee noted that Internal Audit fully conformed to the Public Sector Internal Audit Standards (PSIAS).

**30. Appointment of External Auditor**

The Strategic Director Corporate and Section 151 Officer, A Small, presented a report on the appointment of the external auditors and highlighted the two options which were: to continue to opt into the national auditor appointment arrangements established by Public Sector Audit Appointments Limited (PSAA); or to establish an independent audit appointment panel with an independent chair and tender this service directly to a limited market. He detailed some of the pressure on the public sector audit market and suggested that a collective approach through the PSAA would be the most cost-effective approach and could be used to improve the quality and performance of the sector. He advised the Committee that this decision would need to be approved by Council.

The Committee asked if savings from the collective approach could be quantified, A Small advised that this was difficult to quantify but the collective bargaining power did achieve lower prices.

**Resolved:**

The Committee

- (1) Recommended the continued participation in the national procurement process led by Public Sector Audit Appointments (PSAA) for the appointment of external auditors to full Council, and
- (2) Recommended that delegated authority be granted to the Section 151 Officer to formally give notice of the Council's intention to opt into the PSAA procurement agreement.

**31. Any Other Business**

No other business was raised for consideration by the Committee.

**32. 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**