

EPPING FOREST DISTRICT COUNCIL COMMITTEE MINUTES

Committee: Audit and Governance Committee **Date:** Thursday, 6 February 2014

Place: Council Chamber, Civic Offices, High Street, Epping **Time:** 7.00 - 7.55 pm

Members Present: A Watts, R Thompson, A Jarvis, Ms H Kane and L Leonard

Other Councillors: D Stallan and C Whitbread

Apologies:

Officers Present: R Palmer (Director of Resources), B Bassington (Chief Internal Auditor), S Alford (Principal Accountant), S Mitchell (PR Website Editor) and G J Woodhall (Democratic Services Officer)

Also in attendance: D Eagles and C Reed

44. WEBCASTING INTRODUCTION

The Vice-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.

45. APOLOGIES FOR ABSENCE

The Chairman had given his apologies for lateness, so the Vice-Chairman opened the meeting.

46. DECLARATIONS OF INTEREST

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

47. MINUTES

Resolved:

(1) That the minutes of the meeting held on 28 November 2013 be taken as read and signed by the Chairman as a correct record.

48. MATTERS ARISING

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

49. AUDIT AND GOVERNANCE WORK PROGRAMME - 2013/14

The Committee noted the Work Programme for 2013/14.

50. AUDIT COMMISSION - LOCAL GOVERNMENT STUDIES & REPORTS

The Director of Finance & ICT presented three National Local Government Reports from the Audit Commission that were relevant to the Council's responsibilities, functions or areas of service provision.

The Director introduced the first report "*Income from Charging – Using Data from the Value for Money Profiles*", published in September 2013, which was the Audit Commission's analysis of the £10.2 billion raised by English Councils through charging for services in 2011/12. The Committee noted that there was Member review and involvement in the Council's income from fees and charges via the Finance & Performance Management Cabinet Committee and Scrutiny Panel, as well as the Cabinet. The Director explained that the Council was always keen to improve its income from fees and charges, especially in the current economic climate, and highlighted the report produced by Price Waterhouse Coopers three years ago on maximising the Council's income stream.

The Director offered the second report "*Business Rates – Using Data from the Value for Money Profiles*", published in October 2013, which was the Audit Commission's analysis of English Councils' collection rates and the cost of collecting Business Rates. The Committee noted that from April 2013, Councils had been able to retain some of the Business Rates they collected under a new retention scheme and this was making up a greater percentage of the Council's income. The Quarterly Financial Monitoring Reports considered by the Finance & Performance Management Cabinet Committee and Scrutiny Panel included a section on collection rates and changes in the rating list.

The Director proffered the third report "*Tough Times 2013: Councils' Responses to Financial Challenges from 2010/11 to 2013/14*", published in November 2013, which indicated Councils had demonstrated a high degree of financial resilience over the last three years, despite a 20% reduction in funding from the Government and a number of other financial challenges. The Committee noted that this Council had experienced a 36% reduction in spending during this period. The Medium Term Financial Strategy predicted that the Council's financial resilience would be maintained until at least 2018 with anticipated reserves of 50% of the net budget requirement. The Housing Revenue Account was in a very healthy position as the Council was in a position to both initiate a Housebuilding Programme and repay the £185.456 million of loans that had been taken out to finance the Housing self-financing initiative.

The Committee enquired as to whether any comparative information for this Council could be provided with future reports, and the Director of Finance & ICT was happy to provide this information if required. The Director also reiterated that both the Scrutiny Panel and Cabinet Committee for Finance & Performance Management monitored the Council's Income and Business Rates very closely.

Resolved:

- (1) That the National Local Government reports and studies recently published by the Audit Commission be noted; and
- (2) That no appropriate action for the Council to take had been identified from the recommendations made by the Commission.

51. REPORTS FROM THE EXTERNAL AUDITOR

The External Auditor presented the Grants Claims and Certification report for 2012/13, which highlighted the key issues arising from the survey, along with recommendations for the future and an action plan.

The External Auditor reported that of the three claims or returns tested, two were neither qualified nor required amendment. However, for the third return, Housing and Council Tax Benefit subsidy claim, an adjustment was required, which had led it to being qualified. The impact of this amendment was a decrease in the sum of £5,652 in the amount payable to the Department of Works & Pensions, although the External Auditor acknowledged that the amendment required was very small when compared against a claim worth nearly £47million. There were two recommendations for future action, which had been accepted by Officers.

The Committee noted that all claims were qualified if an error was found; there was no materiality threshold for Grant Claim Certification work. The Director of Finance & ICT highlighted the significant progress that had been made by the Council in recent years in respect of its Grants Claims and Returns Certification work.

Resolved:

(1) That the Grant Claims and Returns Certification report from the External Auditor for the year ended 31 March 2013 be noted.

52. INTERNAL AUDIT MONITORING REPORT - OCTOBER TO DECEMBER 2013

The Vice-Chairman relinquished control of the meeting to the Chairman, who apologised for his lateness.

The Chief Internal Auditor presented the Internal Audit Monitoring report for the third quarter of 2013/14, which provided a summary of the work undertaken by the Internal Audit Unit between October and December 2013. The report detailed the overall performance to date against the Audit Plan for 2013/14 and also enabled the Committee to monitor the progress of Priority 1 actions issued in previous reports.

The Chief Internal Auditor advised the Committee of the audit reports that had been issued during the period:

- (a) Full Assurance:
 - Housing Contracts;
- (b) Substantial Assurance:
 - Budgetary Control;
 - Risk Management & Insurance;
 - General Ledger;
 - National Non Domestic Rates;
 - Countrycare;
 - Waste Management & Recycling;
 - Recruitment & Selection;
 - Commercial Property Portfolio;
 - Fleet Operations Income; and
 - Contracts / Procurement (Fraud Prevention & Detection);
- (c) Limited Assurance:
 - None; and

- (d) No Assurance:
- None.

The Committee's attention was drawn to the Outstanding Priority 1 Actions Status report, all of which would be reviewed in follow-up audits, and the Limited Assurance Audit Follow Up Status report. It was also noted that the Audit Plan for 2013/14 had been appended to allow the Committee to monitor progress against the Plan.

The Chief Internal Auditor reported upon the current status of the Internal Audit Unit's Local Performance Indicators for 2013/14:

- | | | |
|------------------------------|-------------|------------------|
| • % Planned Audits Completed | Target 90% | Actual 64%; |
| • % Chargeable Staff Time | Target 72% | Actual 70%; |
| • Average Cost per Audit Day | Target £245 | Actual £232; and |
| • % User Satisfaction | Target 90% | Actual 90%. |

There were two Outstanding Priority 1 Actions listed as at January 2014. The first concerned the full documenting of the Recruitment & Selection process and the second concerned the validation of rent review dates for the Council's Commercial Property Portfolio. Both actions had not yet exceeded their target date.

The Vice-Chairman highlighted the recent improvement in the reducing number of Limited Assurance Audit reports being issued as well as the reduction in the number of outstanding Priority 1 Actions, and warned that, while this trend was to be welcomed, the Council should be careful not to get complacent. The Director of Finance & ICT acknowledged the recent improvement in performance but accepted that mistakes were still made on occasion which the audits tried to pick up. The wider improvements in performance were illustrated by the Council's Key Performance Indicators, which were currently reviewed by both the Finance & Performance Management Cabinet Committee and Scrutiny Panel.

In response to questions from the Committee, the Chief Internal Auditor stated that aspects of the recent Directorate restructure would be considered when the Audit Plan for 2014/15 was being drawn up, and the amended Job Descriptions for Directors and Assistant Directors would be incorporated into a review of the Directorate Risk Registers. It was acknowledged that the "% of Planned Audits Completed" performance indicator would fall a little short of its 90% target and some low priority audits would be carried forward into 2014/15. However, there was no available budgetary resources for a contract Auditor to make up the shortfall in the Plan's progress.

Resolved:

(1) That the following issues arising from the Internal Audit Monitoring Report for the third quarter of 2013/14 be noted:

- (a) the Audit reports issued between October and December 2013 and significant findings therein;
- (b) the Priority 1 Actions Status Report;
- (c) the Limited Assurance Audit Follow-Up Status Report; and
- (d) the 2013/14 Audit Plan Status Report.

53. AUDIT COMMISSION REPORT - PROTECTING THE PUBLIC PURSE 2013

The Chief Internal Auditor presented a report on the Audit Commission publication "*Protecting the Public Purse 2013*", which aimed to inform those responsible for governance in local government how they could fight fraud more effectively. Fraud had cost the public sector in the UK in excess of £20billion per annum and local government more than £2billion. In a time of economic austerity, preventing fraud was even more important as every pound lost to fraud could not then be spent on providing services. The report included a number of recommendations for Councils to consider for implementation.

The Chief Internal Auditor reported that the Council had effective benefits fraud and housing fraud teams that provided prevention and detection services relating to housing and council tax benefit fraud, housing tenancy and right to buy fraud. Within the Internal Audit team, a part-time member of staff had been recruited specifically to work on fraud prevention and detection. The Government proposal to set up a Single Fraud Investigation Service (SFIS) to combat benefit fraud could potentially result in the loss of the Council's benefit fraud investigation team to that service. Current indications were that the service would be set up over an 18-month period between October 2014 and March 2016, and it was considered prudent for the Council to draw up an action plan to mitigate the risk of the possible loss of trained fraud staff to the SFIS.

The Chief Internal Auditor stated that the Council had continued to use Datatank which had resulted in the removal of 664 single person discounts in the last year and additional revenue of £225,270 for the Council. In addition, the Council's Housing Fraud Investigators had been successful in 17 cases which had resulted in the recovery of ten properties for re-letting. The Corporate Fraud Investigation team included in the Directorate restructuring would enable the Council's robust fraud response to be further developed to best protect the Council's resources. The Internal Audit Quarterly Monitoring reports would also include a fraud element in the future.

In relation to the checklist for those responsible for governance referenced within the report, the Committee felt that it would be useful to have sight of it each time the report was considered, especially for new Members of the Committee; this was agreed. The Chief Internal Auditor reaffirmed that it was not yet known if the Council would lose staff to the SFIS; the fraud staff currently employed by the Council wished to remain with Epping Forest. The Chairman commented that, unfortunately, fraud was a growing area and that the more you looked, the more you found!

Resolved:

- (1) That the summary of the Audit Commission publication, "*Protecting the Public Purse*", provided by the Chief Internal Auditor be noted; and
- (2) That the checklist for those responsible for governance be included with the report whenever the issue was considered in the future.

54. TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2014/15 - 2016/17

The Principal Accountant presented a report on the Treasury Management Strategy Statement and Investment Strategy 2014/15 to 2016/17, which was a requirement of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management and covered the treasury activity for the financial years

2014/15 to 2016/17. This included the risks associated with the Council's treasury activity and how they were being managed.

The Principal Accountant stated that the Council undertook capital expenditure on long-term assets, which could be funded by capital receipts, grants or borrowing. The Council currently did not plan to borrow to carry out its capital investment, and the Capital Programme envisaged a balance of £3.864million in capital receipts and £4.143million in the Major Repairs Reserve on 31 March 2017. Therefore, it could be concluded that adequate resources existed to fund the Capital Programme in the medium term. The Committee was reminded that the Council had borrowed £185.456million from the Public Works Loan Board to pay for the Housing Revenue Account self-financing initiative. The borrowing portfolio had been based on the Housing Revenue Account (HRA) 30-Year Financial Plan and the maturities were linked to when the HRA would have the resources to repay the loans.

The Principal Accountant reported that, in respect of the Council's current investments, all were denominated in Sterling and the Council received regular advice from Arlingclose, the Council's Treasury Management consultants, regarding the use of counterparties. The Council currently had an investment portfolio of approximately £61million, of which £51million was invested in the UK, £2million in Money Market Funds that were based in Ireland and £8million in Sweden. The maturity profile ranged from £16million available for instant access to £10million with a maturity date exceeding one year. The continued low interest rates, the use of fewer counterparties and the shorter durations of the Council's investments had reduced the estimated investment income for 2014/15 to £399,000.

The Committee was advised of the three key risks associated with the Council's Treasury Management function, and how these had been managed throughout the year:

- The Credit and Counterparty risk was the possibility of a counterparty going into liquidation and failing to meet its obligations to the Council, but the Council's counterparty list was both prudent and regularly updated by the Council's treasury advisors. The Council was currently keeping its investments fairly liquid within a restricted counterparty list.
- The Liquidity risk was the possibility that sufficient cash would not be available to the Council when required, however a number of Money Market Funds were maintained and the Director of Finance & ICT held monthly meetings with treasury staff to review the required cashflow.
- The Interest Rate risk was concerned with potential fluctuations in interest rates. It was proposed to maintain no more than 75% of its investments in variable rate financial instruments, with the remainder of its investments in fixed rate deposits. This would allow the Council to take advantage of any favourable changes in interest rates whilst also receiving a reasonable return. It was felt that interest rates were unlikely to change significantly in the short to medium term.

The Principal Accountant informed the Committee that the Council had borrowed between the General Fund and Housing Revenue Account for many years, and the interest rate charged had been based upon the average investment interest earned for the year. Draft regulations issued by CIPFA had proposed that this interest rate should now be approved by the Council before the start of the financial year, and it was suggested that the average investment interest continue to be used as the rate for any inter-fund borrowing.

The Director of Finance & ICT added that there were a number of different development opportunities around the District, which could lead to capital expenditure by the Council. Therefore, it was felt appropriate to increase the boundaries for debt and borrowing at the current time; it was proposed to increase the authorised limits for borrowing and external debt to £230million and the operational boundaries to £219million. The Chairman was concerned that if the borrowing limit was increased to allow for anticipated capital expenditure then it should be reviewed again for possible reduction if the capital projects did not proceed as planned. The Director reassured the Committee that the borrowing limits were routinely monitored against the perceived need for expenditure and the progress of any capital schemes which required additional borrowing would be reported to the Committee through the Mid-Year report on Treasury Management, normally considered at the November meeting.

Resolved:

- (1) That the Council's proposed Treasury Management Strategy Statement and Investment Strategy for the period 2014/15 to 2016/17 be noted;
- (2) That the arrangements for dealing with the risks associated with Treasury Management activity, as outlined in the Council's proposed Treasury Management Strategy Statement and Investment Strategy, be considered adequate; and

Recommended:

- (3) That the proposed Treasury Management Strategy Statement and Investment Strategy for the period 2014/15 to 2016/17 be recommended to the Council for approval without further amendment.

55. ANY OTHER BUSINESS

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

CHAIRMAN