

EPPING FOREST DISTRICT COUNCIL COMMITTEE MINUTES

Committee: Audit and Governance Committee **Date:** 21 September 2015

Place: Council Chamber, Civic Offices, High Street, Epping **Time:** 7.00 - 8.25 pm

Members Present: J Knapman (Chairman), A Jarvis (Vice-Chairman), N Nanayakkara and S Weston

Other Councillors: J Philip

Apologies: -

Officers Present: R Palmer (Director of Resources), S Marsh (Chief Internal Auditor), S Linsley (Senior Auditor), S Tautz (Webcasting Officer) and G J Woodhall (Senior Democratic Services Officer)

12. WEBCASTING INTRODUCTION

The 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.

13. DECLARATIONS OF INTEREST

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

14. MINUTES

Resolved:

(1) That the minutes of the meeting held on 29 June 2015 be taken as read and signed by the Chairman as a correct record.

15. MATTERS ARISING

The Vice-Chairman enquired as to why there was not a report on the review of the Committee's Terms of Reference, as requested at the previous meeting. The Chief Internal Auditor reported that this had been scheduled for the next meeting on 30 November 2015.

16. AUDIT & GOVERNANCE WORK PROGRAMME 2015/16

The Director of Resources presented a revised Work Programme for 2015/16 and highlighted the differences from the version within the agenda.

The Director stated that the Quarterly Internal Audit Monitoring Reports had been renamed Internal Audit Progress Reports, the Internal Audit Business Plan (2016/17)

had been renamed the Internal Audit Strategy & Audit Plan 2016/17, and the following new items had been added:

- (i) Review of the Internal Audit Charter – 30 November 2015;
- (ii) Review of the Audit & Governance Committee Terms of Reference – 30 November 2015;
- (iii) Internal Audit Compliance with the Public Sector Internal Audit Standards – 31 March 2016; and
- (iv) Review of the Audit & Governance Committee Effectiveness – currently unallocated.

The Chairman enquired about the number of meetings that the Committee held each municipal year, currently five, and whether this could be reduced to four? The Chief Internal Auditor informed the Committee that Broxbourne Borough Council held three Audit Committee meetings per year in July, November and March, and Harlow District Council held four Audit Committee meetings per municipal year. It was the view of the Chief Internal Auditor that this Council should move to four Audit Committee meetings per year initially, with a view to hold only three meetings per year eventually. The Committee noted that a number of its meetings were quite short in duration, and that a move to four meetings should be considered. The Chief Internal Auditor was requested to submit a report on the feasibility of reducing the number of the Committee's meetings to four per municipal year to the next meeting, scheduled for 30 November 2015.

The Committee queried the timing of the Treasury Management Strategy reports, with the Annual report currently scheduled for September and the Half-Year Report scheduled for the following meeting in November. The Director of Resources stated that it was the nature of the current timetable, and that the Half-Year Report was ready by November; the Annual Report was likely to be considered earlier in the municipal year in future.

Resolved:

- (1) That the revised Audit & Governance Work Programme for 2015/16 be noted; and
- (2) That a report be submitted to the next meeting on 30 November 2015 by the Chief Internal Auditor regarding the reduction of the number of meetings per year for the Committee from the current five to four.

17. INTERNAL AUDIT MONITORING REPORT - APRIL TO SEPTEMBER 2015

The Chief Internal Auditor presented the Internal Audit Monitoring Report for the period April to September 2015, which provided a summary of the work undertaken by the Internal Audit Service during this time.

The Chief Internal Auditor advised the Committee that seven reports had been issued and finalised since the last meeting, and all had been issued with substantial assurance. The proposed new approach for dealing with the monitoring and reporting of audit recommendations was outlined. The new process was designed to ensure that all audit recommendations were monitored by the Committee and implemented within the agreed timescale rather than just the Priority 1 recommendations as per

the current process. It was expected that the new process would reduce the number of follow up audits that were required.

The Chief Internal Auditor outlined the overall performance to date against the Audit Plan for 2015/16. As of September 2015, 13% of the planned audits had been completed against a target for the year of 90%. The Committee was informed that some audits from the previous year had to be completed at the beginning of this municipal year, and the Service still had a staff vacancy which had not yet been filled. The current productivity of Audit staff was 70% against a target of 72% for the year. This figure was calculated to show the average audit days per member of staff, excluding annual leave, training and the such like. A new performance indicator concerning the implementation of agreed audit recommendations from the 2015/16 Audit Plan within the agreed timescales would be reported on in future, but there were no figures available for this meeting.

The Chief Internal Auditor reminded the Committee that the Council had made a commitment to integrate internal audit services with Broxbourne Borough Council and Harlow District Council, with the same Chief Internal Auditor across all three Councils. The Internal Audit Service was in the process of implementing the same audit methodology, document templates and electronic working papers as Broxbourne and Harlow, and this would be closely monitored to ensure that there was no detrimental impact upon audit services within Epping Forest.

The Chief Internal Auditor reported that the Corporate Fraud Team now consisted of a Senior Fraud Investigator and two Fraud Investigators, with a vacancy for a third. Since April 2015, the achievements of the team included:

- Reclaiming £88,000 under the Proceeds of Crime Act from a fraud involving the Right to Buy scheme;
- Recovering seven Council properties through issues with the tenancies;
- Stopping eight further Right to Buy applications;
- Stopping one housing application; and
- Preparing five criminal prosecutions relating to Right to Buy applications and sub-letting.

The Committee was requested to note the progress made against the Internal Audit Plan for 2015/16 and approve the new approach for monitoring and reporting audit recommendations.

In respect of the overdue Audit recommendation regarding Planning Fees, the Chief Internal Auditor reported that the new reconciliation process was being implemented, as detailed in the Appendix, and then monthly reconciliations would be performed in the future.

Resolved:

- (1) That the progress made against the Internal Audit Plan for 2015/16 be noted;
- (2) That the progress made by the Corporate Fraud Team be noted; and
- (3) That the new methodology for the monitoring and reporting of Audit report recommendations be approved and implemented.

18. ANNUAL GOVERNANCE STATEMENT 2014/15

The Chief Internal Auditor presented a report on the Annual Governance Statement for 2014/15.

The Committee was reminded that it had agreed the Annual Governance Statement at its last meeting in June 2015; however, following a review by the External Auditors, it had been agreed to enlarge the Proposed Actions table from two actions to four, to include two further control weaknesses identified in 2014/15. These were Contract Standing Orders and Sundry Debtors. No other changes had been made other than that previously requested by the Committee. The Committee was requested to approve the revised Statement, so that it could be published as part of the Statutory Statement of Accounts.

The Committee requested more information on the “...*robust whistle blowing policy*...” at a future meeting, and agreed the revised Annual Governance Statement for 2014/15.

Resolved:

- (1) That the revised Annual Governance Statement for 2014/15 be approved; and
- (2) That further information on the Council’s ‘Whistle Blowing’ Policy be provided to the Committee at a future meeting.

19. ANNUAL OUTTURN REPORT ON THE TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS 2014/15

The Director of Resources presented the annual outturn report for the Council’s Treasury Management Function and Prudential Indicators in 2014/15.

The Director reported that there had been no breaches of policy throughout the year, and that none of the Prudential Indicators had been breached either. The Council had continued to finance its capital programme through the use of internal resources. At the end of the municipal year, both capital receipts and the Major Repairs Reserve had higher balances than anticipated, and therefore the Council had adequate resources to finance its Capital Programme in the medium term. The Council had borrowed £185.5million to fund the Housing Revenue Account self-financing payment, which had resulted in the Council becoming a debt authority.

When questioned by the Committee, the Director stated that the contract with Arlingclose would be re-tendered in four years time when the current contract expired. It was highlighted that there were only two main companies in the market which offered these services to local authorities – Arlingclose and Capita. There were regular meetings with Arlingclose where suggestions were made about the Council’s investments; the Council was currently looking at some diversification for their portfolio of investments. The Principal Accountant responsible for the Treasury Management Strategy also supervised two Directorates and regularly attended courses run by Arlingclose.

When questioned about the Council’s capital programme, the Director was confident that the Council had sufficient capital reserves, especially as the Epping Forest Shopping Park project was expected to produce significant revenue streams. The current estimate of the cost to construct the Park was £30million. It was acknowledged that some capital investment might have to be made in the Leisure Centres as part of the new Leisure Management Contract procurement process, but the Council would look to gain a revenue return from any capital expenditure.

The Chairman commented that the Treasury Management Strategy appeared risk adverse and a prudent approach was being taken by Officers. It was noted from analysing the Council's capital investments that the projected 5% return from the Shopping Park would be much better than the current 1% return from the Council's cash deposits.

Resolved:

(1) That the Annual Outturn Report on Treasury Management and the Prudential Indicators for 2014/15, and the management of the risks therein, be noted.

20. AUDIT OF ACCOUNTS - ANNUAL GOVERNANCE REPORT 2014/15

The External Auditor presented the Annual Governance Report for 2014/15, 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 that one material misstatement had been identified, which related to incorrect data input into the Asset Management System. As a result of this misstatement, which concerned a historical cost depreciation adjustment, the balance on the Revaluation Reserve had been overstated by £6.554million with a corresponding understatement on the Capital Adjustment Account. It had been agreed to adjust for the error to ensure that both Statements were correctly stated. There had been one unadjusted audit difference identified, relating to the provision made by the Council for Non-Domestic Rates appeals, which would increase the draft surplus on the provision of services in the Comprehensive Income and Expenditure Statement by £88,000 to £15.863million. There was also a further misstatement of £877,000 in respect of Affordable Housing on the Balance Sheet, which should have been reported in the Comprehensive Income and Expenditure Statement.

The External Auditor highlighted the addendum report on the supplementary agenda, in respect of the valuation of the four Leisure Centres owned by the Council. As the figures for the original valuation of the Centres could not be verified, the Council had instructed an external Valuer to carry out a new valuation. The original valuation for the four Centres was £27.162million as at 31 March 2015; however, it was found that the useful remaining lives of three of the centres had been overstated, and the revised valuation had been calculated at £12.335million. This represented a reduction of £14.827million, which had also resulted in a corresponding reduction in the value of the Council's Balance Sheet. Accounting requirements also necessitated that £12.690million of this reduction be charged to the Revaluation Reserve, with the remaining £2.137million charged to the Comprehensive Income and Expenditure Statement.

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 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.

The Committee expressed grave concern over the adjustment for the valuation of the Council's Leisure Centres. It was explained that this situation had arisen due to the working papers for the original valuation not being available to support the figures in the Accounts; the Officer who had performed the original valuations was now on long term sick leave. The Committee was reassured that it was a technical accounting issue and it would not affect the daily provision of services from these Centres or the Council's usable reserves. In reality, it would not affect the Council until the assets were disposed of, although it did have an effect on the Council's Balance Sheet and financial position. The Director of Resources added that there was an ongoing maintenance programme in place and the Council had not experienced a reduction in use or shortfall in income from the Leisure Centres. The valuations for the Leisure Centres had now been rectified to the satisfaction of the External Auditors. The Chairman commented that working papers should be readily available to the External Auditors.

The Committee noted the under-valuation of the Leisure Centres in the Accounts, which had been rectified by the use of external Valuers. The Committee also felt that external Valuers should continue to be used for future valuations of the Leisure Centres to reduce the risk to the Council. The External Auditor confirmed that this would also remove the risk of working papers not being available. The Committee also felt that the internal controls on working papers produced by the Council's in-house Valuers should also be investigated to avoid a repetition of this situation in the future.

In relation to the misstatement for Affordable Housing, the External Auditor added that it involved the receipt of Section 106 monies. The Council had still received the relevant monies, but it had been listed in the wrong place in the accounts; again, it was a technical accounting issue. The Director of Resources added that there was an Officer Group - consisting of Officers from Housing, Legal and Accountancy – which kept all Section 106 Agreements under review, which reported directly to the Council's Management Board. The Committee felt that it would be more open and transparent to both Members and residents if this Officer Group reported to the Governance Select Committee.

In response to further questions from the Committee, The External Auditor explained that the Code of Audit Practice for Local Government specified the evaluation methodology to be used for the valuation of particular assets; Depreciated Replacement Cost would be an acceptable method to use in certain circumstances. The valuations for the Council's Social Housing stock was performed by the District Valuer, and the External Auditors undertook other work to test the valuations. The Bad Debts provision within the Accounts was an estimate; the External Auditor would examine the Council's methodology and test it to determine if it was materially accurate.

The Chairman thanked the External Auditors for their report and stated that he would be pleased to sign the draft Representation Letter.

Resolved:

(1) That the Annual Governance Report for 2014/15 presented by the External Auditor be noted;

- (2) That the initial under-valuation of the Leisure Centres, and the subsequent rectification by the use of external Valuers, be noted;
- (3) That, in order to reduce risk, future valuations of the Leisure Centres be undertaken by external Valuers;
- (4) That the internal controls on working papers produced by the Council's Estates and Valuation Team be reviewed;
- (5) That the Officer Working Group reviewing Section 106 Agreements be requested to submit regular monitoring reports to the Governance Select Committee; and
- (6) That the draft Representation Letter be signed by the Chairman of the Committee and the Director of Resources.

21. STATUTORY STATEMENT OF ACCOUNTS 2014/15

The Director of Resources presented a report on the Statutory Statement of Accounts for 2014/15.

The Director reminded the Committee that one of its key roles was the scrutiny of the Annual Statutory Statement of Accounts, prior to its consideration by the Council on 29 September 2015. There had been no significant changes in accounting policies and practices during 2014/15; the format and the disclosure notes for the Accounts were very similar to those for 2013/14.

With regard to Decisions Requiring a Major Element of Judgement, the Director highlighted that the Council's liability to the Pension Fund had increased by £12.1million to £69.9million. This had arisen from the £13.4million increase in the value of the Scheme's assets being outweighed by an increase of £25.5million in the projected liabilities, due to falling yields in the corporate bond market. Another area highlighted to the Committee was the reduction in value of the Council's Leisure Centres recorded in the Accounts. This had been discussed during the previous item on the External Auditor's report on the Audit of the Accounts, and the necessary changes to the Statutory Statement had been issued as a Supplementary Agenda for the meeting. The third area detailed by the Director was the provision for Business Rates appeals. The Council had made a provision of £3.26million for appeals against the valuations set by the Valuation Office Agency for non-domestic properties. As previously reported, the number of appeals had been increasing in recent years and the Council had engaged external rating experts to assist with the analysis of outstanding appeals. It had become apparent that the District Valuer had used an incorrect methodology for the initial valuation of surgeries and medical premises.

The Director reported that there had been no transactions which had required separate disclosure as Exceptional Items, and no material weaknesses in internal control had been reported by the Internal or External Auditors. The two significant adjustments resulting from the Audit had been already been debated by the Committee under the previous item, but the Director reminded all present that these were: the £6.5million overstatement in the Revaluation Reserve and corresponding understatement in the Capital Adjustment Account arising from a data input error to the Asset Management System; and the misstatement of £877,000 in respect of Affordable Housing on the Balance Sheet, which should have been reported in the Comprehensive Income and Expenditure Statement.

There were some concerns expressed about further incorrect valuations highlighted in the report, but the Director reassured the Committee that these valuations had been undertaken by the District Valuer for Non-Domestic Rates, and formed part of an continuing issue with Business Rate appeals and the subsequent reduction in rateable values.

Resolved:

(1) That the Statutory Statement of Accounts for 2014/15 be recommended to the Council for adoption.

22. ANY OTHER BUSINESS

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

23. EXCLUSION OF PUBLIC AND PRESS

The Committee noted that there was no business which required the exclusion of the public and press from the meeting.

CHAIRMAN