

EPPING FOREST DISTRICT COUNCIL COMMITTEE MINUTES

Committee: Audit and Governance Committee **Date:** Monday, 30 November 2015

Place: Council Chamber, Civic Offices, High Street, Epping **Time:** 7.00 - 8.05 pm

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

Other Councillors: C Whitbread

Apologies: -

Officers Present: C O'Boyle (Director of Governance), R Palmer (Director of Resources), S Marsh (Chief Internal Auditor), S Linsley (Senior Auditor), G J Woodhall (Senior Democratic Services Officer) and J Leither (Webcasting Officer)

Also in attendance: D Eagles (External Auditor)

24. 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.

25. DECLARATIONS OF INTEREST

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

26. MINUTES

Resolved:

(1) That the minutes of the meeting held on 21 September 2015 be taken as read and signed by the Chairman as a correct record.

27. MATTERS ARISING

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

28. AUDIT & GOVERNANCE WORK PROGRAMME 2015/16

The Committee noted its Work Programme for 2015/16, which had included some minor updates from the previous meeting.

29. ANNUAL AUDIT LETTER 2014/15

The External Auditor presented the Annual Audit Letter for 2014/15.

The External Auditor stated that the Annual Audit Letter summarised the key issues arising from the audit work carried out during the year. In respect of the Financial Statements, one material misstatement was identified and corrected relating to the incorrect input of data into the Asset Management System. As a result of this misstatement, the balance on the Revaluation Reserve was overstated by £6.6million with the balance on the Capital Adjustment Account understated by the same amount. There were also two unadjusted differences identified by the Audit, mainly relating to the incorrect treatment of grant income which was recognised as a credit on the Balance Sheet rather than as income in the Comprehensive Income and Expenditure Statement. These would increase the surplus on the provision of services by £1million to £14.6million, and were not considered to have a material impact on the financial statements. An unqualified true and fair opinion on the financial statements was issued on 30 September 2015 and it was confirmed that the Annual Governance Statement was neither misleading nor inconsistent with other information arising from the Audit.

Aside from the financial statements, the External Auditor reported that they were satisfied the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources; therefore, an unqualified Value for Money conclusion had been issued. The External Auditors had found no reason to exercise their statutory powers and that there were no matters to report to the Committee. The review of Grant Claims and Returns was in progress and a number of errors was highlighted to the Committee. However, the results would be reported to the Committee upon completion of this work at its next scheduled meeting. An Audit Certificate to close the Audit for the year ended 31 March 2015 was issued on 30 September 2015.

In response to questions from the Committee, the External Auditor stated that it was perfectly normal for the Housing Benefit Subsidy Claim to highlight a number of issues. It was a multi-million pound claim and issues were highlighted every year. The detailed report to be considered by the Committee at its next meeting would indicate the small scale of the issues identified by the Audit. The Committee was pleased to note that an unqualified opinion had been given by the External Auditors.

Resolved:

- (1) That the Annual Audit Letter issued by the External Auditor for 2014/15 be noted.

30. INTERNAL AUDIT MONITORING REPORT - SEPTEMBER TO NOVEMBER 2015

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

The Senior Auditor advised the Committee that four reports had been issued since the previous meeting, of which three had been given Substantial Assurance – Member Allowances, Local Land Charges and Grounds Maintenance - and one had been given Limited Assurance. The Limited Assurance Audit had been issued for Bed & Breakfast Accommodation for Homeless Persons; the contracts in place for providing Bed and Breakfast accommodation had not been extended to cover the period to 31 March 2016, although this had subsequently been carried out. A weakness had also been identified in the systems for monitoring and collecting Bed & Breakfast arrears, which had now been addressed.

The Senior Auditor reported that the Recommendation Tracker contained two recommendations which had passed their due date. The reconciliation of the Development Control fees was in progress and resources were being concentrated on bringing these up to date. In respect of Corporate Procurement, the recruitment process for an individual within Human Resources, whose work would include existing agency worker framework agreements across the Council, had not been successful and would be repeated again in the near future.

The Senior Auditor stated that work had continued on the Audit Plan for 2015/16, and a total of ten audits had been outsourced to Mazars – an outsource provider of Internal Audit services. This was because the Internal Audit function currently had an Auditor vacancy, and all of these Audits had been scoped and timings agreed with the relevant Assistant Director. The Corporate Fraud Team had also made significant progress since the last meeting, with all Officers now settled in their new roles.

In respect of the shared Internal Audit service with Broxbourne Borough Council and Harlow District Council, the Senior Auditor informed the Committee that a second joint team meeting had been held in November 2015 where common working practices were further consolidated and initial discussions took place concerning Audit Plans for 2016/17. It was noted that the Internal Audit Plan and Strategy for 2016/17 would be considered by the Committee at its meeting scheduled for 31 March 2016. In addition, Human Resource departments at Broxbourne and Harlow had liaised with Epping Forest on possible joint training arrangements, and Epping Forest and Harlow were sharing insights from ongoing reviews of their respective customer service strategies.

In response to questions from the Committee, the Chief Internal Auditor explained that the Internal Audit Service could be provided by Internal Auditors directly employed by the Council, or by outsourced third party Internal Audit companies. In this particular instance, there had been a vacancy since April 2015, and in accordance with Contract Standing Orders three quotes were obtained before Mazars was chosen based upon their price quoted and the quality of their work in the past. Control over all aspects of outsourced audits was retained by the Chief Internal Auditor.

The Director of Governance explained that some members of the Corporate Fraud Team had transferred from the old Housing Directorate as part of the recent restructure to create a central Corporate Fraud Team. The Corporate Fraud Team routinely investigated all Right-To-Buy applications received by the Council.

The Director of Governance also mentioned that the Corporate Debt Working Group had recommended that smaller debts, those below £500 in value, should be pursued by individual Directorates rather than Legal Officers. It was found that early dialogue with Debtors was an effective tactic, and assistance for Debtors was also available including referrals to Debt Advice Agencies.

Resolved:

- (1) That the progress being made both against the 2015/16 Internal Audit Plan and by the Corporate Fraud Team be noted.

31. AUDIT AND STANDARDS COMMITTEE - PROPOSED TERMS OF REFERENCE

The Chief Internal Auditor presented a report on the proposed terms of reference for the Audit and Standards Committee.

The Chief Internal Auditor advised the Committee that many local authorities had combined their Audit and Standards Committees, especially as the workload of the Standards Committee had dwindled over recent years since the introduction of the Localism Act 2011. The proposal was to combine the Standards Committee with the Audit and Governance Committee and have a combined Terms of Reference that followed good practice from the Chartered Institute of Public Finance and Accountancy (CIPFA). The Committee was reassured that there were no new functions in the proposed Terms of Reference that were not already being performed by one of the two Committees.

The Chief Internal Auditor highlighted one issue concerning oversight of Treasury Management. Currently, it was the Audit & Governance Committee which provided Member monitoring of the Council's Treasury Management function, and the Committee received three reports per year, in September, November and February. If this function was provided by the Resources Select Committee instead, then the number of meetings for the Audit & Governance/Standards Committee could be reduced from the current five to four each year.

The Chief Internal Auditor stated that if the Committee was in agreement then final approval for the merger of the Audit & Governance and Standards Committees would need to be sought from the Council following formal consultation with the Standards Committee and possibly the Resource Select Committee as well depending on the outcome of discussions regarding the oversight of Treasury Management.

The Director of Governance added that the Council needed a facility to deal with complaints if necessary, and that vehicle was the Standards Committee. The Standards Committee had more issues to deal with in the past, but the Localism Act 2011 delegated authority to the Monitoring Officer to deal with Member behaviour issues and report the outcomes to the Standards Committee. And although it still had a role in examining and commenting upon protocols and procedures, it no longer had enough business to merit being a separate Committee. There would be a standing item on each agenda of the new Committee for Standards issues, and this approach had worked well at other Councils. It was also highlighted that the Independent Members would not have voting rights on any Standards issues considered by the new Committee.

The Director of Resources reminded the Committee that the Council used Arlingclose for Treasury Management advice, and Member training events for Treasury Management were held each year. It was acknowledged that Member knowledge of Treasury Management would vary each year, and that the Independent Members of the Audit & Governance Committee had provided the on-going expertise.

The Committee welcomed the report and were in general agreement that the Committees should merge as it would be more efficient. It was felt that oversight of the Treasury Management function should remain with the new Committee. It was highlighted that Treasury Management would be reported to Audit in the private sector and it would be expected that Audit would have some oversight. In an ideal world, the Committee would have some investment experience as well.

Resolved:

- (1) That the proposal to merge the Audit & Governance Committee with the Standards Committee be approved in principle;
- (2) That, subject to them being achievable, the proposed Terms of Reference for the Audit & Standards Committee be agreed;

- (3) That oversight of the Council's Treasury Management function be retained by the Audit & Standards Committee;
- (4) That the views of the Standards Committee on the proposed merger be sought; and
- (5) That the Constitution Working Group be requested to consider the necessary constitutional amendments and report to the Council accordingly.

32. INTERNAL AUDIT CHARTER 2015

The Chief Internal Auditor presented a report on the Internal Audit Charter for 2015.

The Chief Internal Auditor stated that the Public Sector Internal Audit Standards adopted throughout the UK Public Sector from 1 April 2013, required the purpose, authority and responsibility of the Internal Audit activity to be formally defined in an Internal Audit charter, which the Chief Internal Auditor had to periodically review and present to Senior Management as well as the Audit and Governance Committee for approval. The previous Internal Audit Charter was presented and approved by the Audit and Governance Committee on 25 September 2014. It was emphasised that there had been no substantial changes to the content from that presented last year, however, the format had been revised to match those in place at Broxbourne and Harlow Councils. The key principles required by the Public Sector Internal Audit Standards had remained unchanged including:

- (i) the purpose, authority and responsibility of Internal Audit;
- (ii) Internal Audit independence and objectivity;
- (iii) the scope of Internal Audit activities;
- (iv) planning and reporting; and
- (v) Internal Audit resources.

Resolved:

- (1) That the revised Internal Audit Charter 2015, attached at Appendix A of the report, be approved.

33. TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS - MID-YEAR REPORT 2015/16

The Director of Resources presented the mid-year progress report on Treasury Management and Prudential Indicators, which covered the treasury activity for the first half of 2015/16, and was a requirement of the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Treasury Management.

The Director reported that, during the first half of the year, the Council had continued to finance all capital expenditure from within internal resources. The estimate for the Capital Programme during 2015/16 had indicated expenditure of £26.428million, which would be financed by capital grants, capital receipts and revenue. The Capital Programme for the three-year period ending 31 March 2018 had predicted expenditure of £72million, with £3million available in usable capital receipts and

£2million in the Major Repairs Reserve. Therefore, it was considered that adequate resources existed for the Council's Capital Programme in the medium term.

The Director advised the Committee that the Council had £53.1million under investment at 30 September 2015, and the average net investment position of the Council had been approximately £61.9million throughout the first half of 2015/16. The Council's investments as at 30 September 2015 had consisted of £45.5million in fixed investments, £2.6million in variable investments and £5million in long-term investments. The Council had also received a further dividend from the administrators of the Heritable Bank; the Council had now received 98% of the value of its deposits. No further update had been received from the Administrator. The importance of carefully monitoring and controlling the Council's cash flow to ensure enough funds were available each day to cover outgoings was highlighted; this would become more difficult as the Council used up its capital receipts and reduced its investment balances.

The Director stated that the Council held loans totalling £184.7million at 30 September 2014, the majority of which had funded the self-financing of the Housing Revenue Account. It was not anticipated that the Council would require further loans in 2015/16, but it was expected that further borrowing would occur in 2016/17 to fund capital projects such as the Epping Forest Shopping Park. The revised Capital Programme for the five-year period to 2019/20 would be considered by the Cabinet at its meeting on 3 December 2015.

Finally, the Director added that there had been no breaches of any of the prudential indicators relating to capital activity, the indebtedness for capital purposes and the Council's overall Treasury position.

In response to questions from the Members of the Committee, the Director of Resources stated that the return on the Epping Forest Shopping Park would be significantly higher than the rates currently available on the Money Market. The forecast was that the Council would receive approximately £2.5million in rent each year for an estimated build cost of £30million. Councils were generally looking to invest in property to increase their financial resilience.

The Director acknowledged that the Council's total investments had decreased a little over the period, and a longer term trends table could be provided for Members if they wished. It was clarified that the 98% return from the Council's investment with Heritable Bank included both the initial deposit and interest due. The Council had not breached any of its Prudential Indicators previously, and the 'cost of carry', i.e. the cost of borrowing in advance of need, was explained for the benefit of the Committee.

The Committee noted that, with only very low interest rates available on the money markets, the Council had embarked on a strategy of capital investment in order to obtain better returns for its money. It was accepted that the report did not indicate any real cause for concern with the management of the Council's Treasury Management function at the current time.

Resolved:

- (1) That the mid-year progress report on Treasury Management and the prudential Indicators for 2015/16, and the management of the risks therein, be noted.

34. ANY OTHER BUSINESS

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

35. 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