

## **EPHING FOREST DISTRICT COUNCIL COMMITTEE MINUTES**

**Committee:** Audit and Governance Committee    **Date:** 26 March 2018

**Place:** Council Chamber, Civic Offices, High Street, Epping    **Time:** 7.30 - 8.55 pm

**Members Present:** J Knapman (Chairman), A Jarvis (Vice-Chairman), L Hughes, R Jennings, A Patel, J M Whitehouse and N Nanayakkara

**Other Councillors:** A Lion and G Mohindra

**Apologies:** -

**Officers Present:** P Maddock (Assistant Director (Accountancy)), S Hill (Assistant Director (Governance)), S Marsh (Chief Internal Auditor), S Linsley (Senior Auditor), G J Woodhall (Senior Democratic Services Officer) and J Leither (Webcasting Officer)

### **48. 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.

### **49. DECLARATIONS OF INTEREST**

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

### **50. MINUTES**

**Resolved:**

(1) That the minutes of the meeting held on 5 February 2018 be taken as read and signed by the Chairman as a correct record.

### **51. MATTERS ARISING**

There were no matters arising from the previous meeting for further discussion.

### **52. AUDIT & GOVERNANCE WORK PROGRAMME 2017/18**

The Chief Internal Auditor reported that it was too early for the Committee to receive the Planning Letter for 2018/19 from the newly appointed External Auditor, and the report on the Corporate Fraud Team Strategy 2018/19 would now be submitted to the next meeting of the Committee due to staff sickness. It was also highlighted that the report listed as unallocated, Information Regarding the Whistle Blowing Policy, had actually been submitted to the Committee in November 2017.

**53. EFFECTIVENESS OF THE ARRANGEMENTS FOR RISK MANAGEMENT**

The Assistant Director of Resources (Accountancy) presented a report on the effectiveness of the arrangements for Risk Management within the Council.

The Assistant Director reminded the Committee that its terms of reference included the consideration of the effectiveness of the Council's Risk Management arrangements. This contrasted with the role of the Finance & Performance Management Cabinet Committee, which was to advise and make recommendations to the Cabinet on Risk Management and Insurance issues. The internal arrangements for Risk Management had not changed during the year. Each Directorate had a nominated '*Champion*' for Risk Management who represented their Directorate at meetings of the Risk Management Group. All Directorates were required to have a section on Risk Management in their Business Plans and have a standing item regarding Risk Management on the agenda of their management team meetings. This was to ensure that Directorate Risk Registers and Action Plans were regularly monitored.

The Director stated that, at the corporate level, the Risk Management Group met quarterly to discuss issues and recommend alterations for the Corporate Risk Register to the Corporate Governance Group. The Corporate Governance Group considered the proposed changes from the Risk Management Group and undertook a separate review of the Corporate Risk Register to ensure that there were not any further risks for inclusion. Recommendations for updating the Corporate Risk Register were then considered by the Finance & Performance Management Cabinet Committee before being recommended for approval by the Cabinet. The key updates to the Corporate Risk Register during 2017/18 were outlined for the benefit of the Committee.

The Director advised the Committee that the internal audit of Risk Management in 2015/16 had been given a rating of substantial assurance. There was just one recommendation that was scored as a priority 2 and this had now been actioned. In addition, there would be an amendment to the Risk Register for Risk 1, Local Plan, to incorporate the Judicial Review and the subsequent revision of dates, plus the risk in relation to the Waste Management Contract would also be reviewed in light of the recent decision by the Chinese Government to increase the quality of imported recycled materials.

In respect of the Transformation Programme, the Chairman felt that a report should be submitted to the Committee on the risks to the Council from the ongoing changes at the top tiers of management and reassuring the Committee that Epping Forest was still a strong Council with strong leadership. Cllr Jennings also wanted reassurance that the newly appointed staff to the statutory positions were appropriately qualified and skilled.

The Assistant Director of Governance responded that the Council was still in a state of flux regarding the senior management restructure, and there would be a further report at the next meeting of the Cabinet. D Macnab was now in post as Acting Chief Executive, and the Heads of Service would replace the current Assistant Directors; it was always envisaged that the Section 151 Officer and Monitoring Officer would be at this (Head of Service) level. The new Section 151 and Monitoring Officers had both been properly appointed and were attending meetings of both the Management Board and Corporate Governance Group: P Maddock was a qualified Accountant and S Hill had previously been the Deputy Monitoring Officer. The Council was now considering the delegated authorities within the Constitution for the two Directors who had left the Council, and there would be further reports on this matter to subsequent

Cabinet meetings in 2018. The Chairman commented that it was rare for the Monitoring Officer to not have a Legal qualification; but the Assistant Director of Governance reassured the Committee that he had access to internal and external advice, and the Council was liable for any costs incurred to support the Monitoring Officer in the discharge of their duties.

The Vice-Chairman was disappointed that certain high profile, recent events at other Councils, such as the failure to deal with an emergency incident and an increase in thefts, had not been referred to and considered when the Council's Risk Register was reviewed. The Assistant Director of Resources reassured the Committee that these type of risks would normally appear in the individual Directorate Risk Registers, and the Council was aware of these category of incidents. The Committee queried whether it was appropriate to have all of the risks in relation to the Transformation Programme under a single umbrella, or whether there should be separate risks for some of the higher profile projects. The Assistant Director of Resources explained that there was a separate Risk Register for each individual project in the Transformation Programme, but this arrangement could be reviewed as part of the regular monitoring of the risks facing the Council and perhaps consideration could be given to the People Strategy and Accommodation Review being listed separately within the Risk Register.

**Resolved:**

- (1) That the arrangements for Risk Management within the Council be considered effective; and
- (2) That the following items be considered and reviewed by Officers to provide the Committee with further reassurance concerning the effectiveness of the arrangements for Risk Management within the Council:
  - (a) the continued strong leadership of the Council following the recent Senior Management changes;
  - (b) support for the Monitoring Officer; and
  - (c) the treatment of the risks associated with the wider Transformation Programme.

**54. INTERNAL AUDIT STRATEGY AND PLAN 2018/19**

The Chief Internal Auditor presented a report on the Internal Audit Strategy and Plan for 2018/19.

The Chief Internal Auditor stated that the draft Audit Plan for 2017/18, and the indicative Plans for the two subsequent years (2018/19 and 2019/20) had included all of the fundamental financial systems, to provide assurance to Management and Members that there were controls in place for good financial management. The annual audit of these systems had been required by the Council's External Auditors in the past, but this was no longer the case. The Plan also included any high risk financial areas identified by the Corporate Risk Register, plus a contingency provision for investigations and other unplanned work identified during the year, as well as references to any cross-cutting or themed audits across the shared Internal Audit Service. There was also flexibility within the Plan to accommodate reviews of areas considered to be of a high risk to the achievement of the Council's objectives. Progress against the Plan would be monitored by the Committee, and any proposed amendments would be subject to the approval of the Committee.

The Chief Internal Auditor advised the Committee that the key deliverables for the Internal Audit Service during 2018/19 would be:

- delivery of the Plan to provide sufficient audit coverage;
- an integrated approach to assurance;
- commitment from management to audit recommendations;
- to develop, improve and deliver a quality service; and
- increased business insight to establish what matters most to the Council.

The Chief Internal Auditor highlighted that, in November 2016, the Service underwent an External Quality Assessment, which covered all three Councils in the Shared Service, and confirmed that the Service complied with the Public Sector Internal Audit Standards. An internal review at the end of 2017/18 reaffirmed this compliance.

The following Service performance targets would be reported on in 2018/19:

- achievement of the Annual Plan;
- issue of draft and final reports;
- management responses to audit reports and implementation of audit recommendations; and
- continuous professional development of team members.

The Chief Internal Auditor reported that the following cross cutting themes had been identified as priority areas for Internal Audit work in 2018/19:

- Change Management;
- Information, Governance and Management, including the General Data Protection Regulation;
- Risk Management;
- Fraud;
- Value for Money; and
- Support for the Audit & Governance Committee.

At the operational level, the key priorities of Internal Audit work would include:

- Transformation;
- Analytical review of data sets such as payroll and inventories; and
- Key financial systems.

The Chief Internal Auditor informed the Committee that 2017/18 had been the first year for the formal, shared Internal Audit Service between Harlow District, Broxbourne Borough and Epping Forest District Councils, with Broxbourne Borough Council becoming the host authority and employer of the shared Internal Audit Staff from 1 April 2017. A Shared Services Board had been established to oversee and implement the Shared Internal Audit Service, and to consider any major changes to the Service. Due to an internal promotion, one of the Auditor positions was currently vacant, and would be filled by an apprentice with a view to make the position permanent if performance was satisfactory. This would allow good use to be made of the Government's Apprentice Levy, as well as help in developing the auditors of the future.

The Chief Internal Auditor proclaimed that the proposed Audit Plan for 2017/18 totalled 512 days, and was based on what needed to be provided for the Council through the use of a number of themes. The Plan included a contingency allocation of 15 days and an allocation of 32 days for support to the Audit and Governance Committee. The Internal Audit Three Year Plan had been attached at Appendix 1 of the report, and was explored in more detail by the Chief Internal Auditor for the benefit of the Committee.

In respect of the planned audit of the planning application process, where the Chairman explained that there a number of concerns around performance, the Chief Internal Auditor confirmed that the terms of reference for the audit would be formulated after identifying the key risks.

The independent member, N Nanayakkara, expressed some concern about the number of deferrals being requested from the Audit Plan. It was pointed out that the Audit Plan would also include 32 days of deferred audits from this year, so it was actually only 480 days not 512 days as reported. The Committee enquired as to whether there was a possible capacity issue for the shared service with the team being too lean, or was the Audit Plan being continually over programmed. The Chief Internal Auditor responded that external Audit resources had been used when required to cover gaps, but the work required for the impending implementation of the General Data Protection Regulation had exploded within all three Councils, which had required more time than originally anticipated as the Internal Audit Service was heavily involved in giving guidance and advice. The Service had also suffered from long-term sickness issues as well as one member being summoned for Jury service after the Christmas period. The Plan was not overstretched but there had been some unforeseen circumstances during 2017/18.

The independent member, N Nanayakkara, expressed further concerns about the shape of the proposed Audit Plan for 2018/19, given the perceived capacity issues and the 50% reduction in the contingency allocation from the Audit Plan for 2017/18. How would the Council avoid the need to defer further audits during 2018/19? The Chief Internal Auditor reassured the Committee that a certain allowance for sick leave was factored into the Audit Plan, but the Audit Plan was monitored closely; however, some audits would always take longer than anticipated and some would take less. The Chief Internal Auditor was confident that the proposed Audit Plan would be delivered next year, but this was why progress with the Audit Plan was reported to the Committee at each meeting.

The independent member, N Nanayakkara, suggested that the Audit Plan could be subject to a critical review after six months to identify any potential issues and possible measures required to keep the Plan on track. It was also suggested that the Committee could make more explicit the criteria for justifying a change to the Audit Plan during the municipal year, as there was a possible limit on the patience of the Council in tolerating the perceived capacity issues within the Shared Service. The Chief Internal Auditor would welcome any discussions with the Committee after six months of the Audit Plan.

Cllr J M Whitehouse understood that there was an increasing demand for internal audit involvement in project work across the Council; however, the work within the Audit Plan also needed to be fulfilled. With respect to the data analytics work being undertaken, did this indicate a return to benchmarking which was popular a few years back. The Chief Internal Auditor indicated that it did not, and the Service was using a package called Idea for data interrogation, whereby the data could be examined to ascertain how robust it was. The Service was taking small steps with this to see what its potential was, and this process was more involved than the data matching exercises previously undertaken to uncover fraud.

In response to a query from Cllr Patel, the Chief Internal Auditor clarified that the prioritisation of one project over another had not been audited; audits were selected according to risk and this was not currently considered a significant risk. Cllr Patel enquired as to whether a value for money assessment was performed when decisions were being taken concerning which project(s) to progress. The Chief Internal Auditor stated that that had been examined, although there was an audit on

project management methodology planned. The Senior Internal Auditor added that an audit was currently being undertaken on the assessment of large capital projects by the Council, and one of the elements of this audit was how one project was chosen over another.

In response to further questions from the Committee, the Senior Internal Auditor confirmed that the Internal Audit Service did not usually take any consideration of the Select Committee work programmes when developing the Audit Plan, although the Work Programmes were monitored to ascertain if there were any issues that the Service should be aware of. The Neighbourhoods Select Committee had received a report at its last meeting on the health and safety issues at Town Mead Depot, and this issue was being closely monitored by the Select Committee.

The Chief Internal Auditor clarified that there was a section in the Plan on Performance Management. Audit work was performed each year on the corporate indicators, and the performance of individual performance indicators was taken account of when performing audits. Cllr Jennings enquired whether Internal Audit had any input on the setting of the targets for performance indicators? Cllr Jennings felt that the Council needed indicators that would stretch the performance of the different services; too many were relatively easy to comply with and seemed to remain at the same level year after year. In addition, some of the indicators did not appear to be particularly relevant anymore. The Chief Internal Auditor reassured the Committee that part of each audit was to challenge the relevant performance indicators, which could also be compared with the performance of similar indicators at the two other Councils in the shared service.

The Chief Internal Auditor confirmed that, as part of the IT Audit programme, the home working and mobile working policies would be examined as part of the Audit Plan next year. Cllr Jennings commented that digital connectivity was crucial for both home working and the wider economy, and the District needed proper broadband capability – preferably fibre not copper wire. The Assistant Director of Governance reminded the Committee that a report on the Superfast Broadband project would be considered by the Cabinet at its next meeting, although many staff did not live within the District so improving the broadband within the District would not necessarily assist them. The Portfolio Holder for Technology & Support Services informed the Committee that the Council was looking to increase the coverage of broadband throughout the District from 97% to 99.7% over the next three years via the superfast broadband project. When the project had been completed then Epping Forest would be one of the best Districts in Essex for broadband availability, and this would include the rural areas. The availability of broadband throughout the District had also been included in the draft Local Plan.

**Resolved:**

- (1) That the Internal Audit Strategy and Plan for 2018/19 be approved, subject to early stage warnings about any capacity issues which could adversely affect the delivery of the Audit Plan; and
- (2) That further consideration be given by the Committee to the criteria for the deferral of audits from the Audit Plan.

**55. INTERNAL AUDIT MONITORING REPORT - FEBRUARY TO MARCH 2018**

The Senior Internal Auditor presented the Internal Audit Monitoring report for the period February to March 2018.

The Senior Internal Auditor advised the Committee that good progress was being made against the Audit Plan for this year, but that the Committee was requested to approve the deferral of three audits to the Plan for next year:

- (i) Safeguarding – to allow the recent service re-structure to fully bed in;
- (ii) North Weald Airfield: Establishment – due to capacity issues within Internal Audit arising from sickness/jury service and the Team's involvement in preparing the Council for the General Data Protection Regulation; and
- (iii) Governance: St John's Road Development – as per (b) above.

In addition, the Committee was requested to approve the removal of an audit regarding Anti-Social Behaviour from the Plan. The latter audit was simply to ensure that there was a consistent approach to Anti-Social Behaviour across the whole of the Council rather than any internal control concerns, and discussions with Senior Management had confirmed that this was the case. Despite the need to defer / remove these audits from the Audit Plan for this year, it was still expected that sufficient audit work would have been undertaken to enable the Chief Internal Auditor to give their annual opinion.

The Senior Internal Auditor informed the Committee that one report had been issued since the previous meeting, which had been given moderate assurance, on Commercial Property Service Charges. The Audit Recommendation Tracker currently contained four recommendations which had passed their due date: one high priority and one medium priority recommendation concerning Health & Safety at Townmead Depot, and two low priority recommendations regarding External Data Transfers. It was highlighted that Fire Safety Training at Town Mead Depot had been arranged for April 2018.

The Senior Internal Auditor reminded the Committee that staff within the Shared Service were represented on a number of business groups and project teams, in addition to less formal meetings to provide advice and guidance. The main focus of the Team's non-audit work had been the implementation of the General Data Protection Regulation (GDPR) across the Council, which was considered a key risk area across the whole of the Council.

The Senior Internal Auditor stated that the Internal Audit Service should ensure that it was compliant with the Public Sector Internal Audit Standards (PSIAS) on an annual basis. The Service was confirmed as being fully compliant with the Standards by an external assessor, and this remained the case as there had been no significant changes to the delivery or operation of the Service nor the role of the Chief Internal Auditor.

The Senior Internal Auditor updated the Committee on the current status of the Service's Performance Indicators, as well as the recent review of the significant issues identified in the 2016/17 Annual Governance Statement.

In respect of the Commercial Property Service Charges audit report, the Chief Internal Auditor reminded the Committee that many of the Council's commercial properties did not have Service Charges as there were no communal areas within them. The Chairman felt that only collecting the Service Charges from 18 out of 86 properties did not look like a good performance by the Council. However, the Senior Internal Auditor reminded the Committee that Service Charges were being levied on all 86 properties, the Audit was concerned with the additional management fee being levied but only collected at 18 properties. The Audit recognised that the Council

collected Service Charges at all 86 properties, but the Audit was specifically examining the management fees levied not the wider lease compliance. The Finance Portfolio Holder added that the average management fee was £12 per property per annum, so it did not involve a large sum of money.

In relation to the audit on Anti-Social Behaviour, which had been proposed for deletion from the Audit Plan, the Chief Internal Auditor informed the Committee that she had spoken to the Assistant Director responsible, who had reassured her that the Council implemented good practice. Therefore, the Chief Internal Auditor had decided to concentrate audit resources on areas with a higher risk profile. However, as the audit had not been performed, the Chief Internal Auditor could not give any assurance about the collaboration work undertaken by the Council with its partners.

The Committee was concerned about the level of deferred audits for the current year – 66 audit days so far. The Chief Internal Auditor stated that she was personally disappointed as she had felt the Audit Plan was achievable. However, the deferred audits, although important, were not of such a high risk and hence they could be deferred until 2018/19. The Internal Audit Team would still have to perform enough audits to inform the Chief Internal Auditor's annual audit opinion. It was suggested that a target could be set for the acceptable number of audits to be deferred during a municipal year, but the Chief Internal Auditor countered that the Audit Plan needed to be fluid in order to react to events, as work in relation to the General Data Protection Regulation was very important at the current time. The Committee was reassured that most Audit Plans suffered deferred audits, and the Team did more in the background than just audit work.

When it was suggested that the Council could use underspends from this year's Budget to provide more audit resource, the Chief Internal Auditor responded that she would use more external audit resource if she had the budget but they would have the disadvantage of not understanding the culture at Epping Forest. Plus, there was not the possibility of additional resources being provided at either Harlow District or Broxbourne Borough Councils. The Chief Internal Auditor felt that the shared Team provided a good service and covered the key areas for the Council. The Committee felt that the Audit Plan for next year should be closely monitored and if project work was proving a distraction to the achievement of the Audit Plan then additional audit resource should be purchased. The Monitoring Officer affirmed that the Corporate Governance Group could consider obtaining additional resources for the Internal Audit Team if required.

**Resolved:**

- (1) That the progress made against the Internal Audit Plan for 2017/18 be noted;
- (2) That the proposal to defer the following three audits from the 2017/18 Audit Plan to 2018/19 be agreed:
  - (a) Safeguarding;
  - (b) North Weald Airfield: Establishment; and
  - (c) Governance: St John's Road Development;
- (3) That the proposal to remove the audit on Anti-Social Behaviour from the Audit Plan for 2017/18 be agreed;

(4) That the Corporate Governance Group be requested to consider whether additional resources should be made available for the Internal Audit Team as necessary during 2018/19; and

(5) That the continued compliance of the Internal Audit Service with the Public Sector Internal Audit Standards be noted.

**56. ANY OTHER BUSINESS**

The Vice-Chairman took the opportunity to extend his gratitude and best wishes to C O'Boyle and B Palmer, the former Directors of Governance and Resources, for all the assistance and guidance that they had provided during the Vice-Chairman's time on the Committee. The Committee wholeheartedly agreed with the comments of the Vice-Chairman.

**57. 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**