

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

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

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

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

**Other Councillors:** None

**Apologies:** None

**Officers Present:** J Bell (Principal Accountant), M Crowe (Corporate Fraud Manager), S Hill (Service Director (Governance & Member Services)), S Linsley (Senior Auditor), P Maddock (Chief Finance Officer), S Marsh (Chief internal Auditor), S Tautz (Democratic Services Manager) and S Mitchell (Webcasting Officer)

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### **24. 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.

### **25. DECLARATIONS OF INTEREST**

Councillor J. M. Whitehouse declared a personal interest in item 9 (Internal Audit Monitoring Report) of the agenda for the meeting, by virtue of being a member of Epping Town Council and a resident of St. John's Road, Epping. Councillor Whitehouse had determined that his interest was not prejudicial and indicated that he would remain in the meeting for the consideration of the report and voting thereon.

### **26. MINUTES**

#### **RESOLVED:**

That the minutes of the meeting of the Committee held on 24 September 2018 be taken as read and signed by the Chairman as a correct record.

### **27. MATTERS ARISING**

The Chief Finance Officer confirmed that an explanation of the variation between the initial budget proposal and the actual outcome relating to fixed rates of return on investments (Minute 22 (2)), had been issued to the Chairman of the Committee and to the Finance and Performance Management Cabinet Committee, following consideration of the Treasury Management and Prudential Indicators outturn report at the previous meeting.

**28. AUDIT & GOVERNANCE COMMITTEE - WORK PROGRAMME 2018/19**

The Committee reviewed progress against the achievement of its work programme for 2018/19.

The Chief Internal Auditor reported that a revised version of the Council's Anti-Fraud and Corruption Strategy would be considered later in the meeting as part of the regular Internal Audit progress report.

Members were advised that a combined review of the terms of reference of the Committee and its ongoing effectiveness, was also included in the agenda for the meeting. The Chief Internal Auditor reported that reference to the Annual Audit Letter within the work programme related to the audit letter for 2017/18, which had been considered by the Committee at its meeting in September 2018.

**29. EXTERNAL AUDITORS**

The Committee was reminded that Deloitte LLP had been appointed as the Council's external auditors for the audit of its accounts for the 2018/19 financial year. The Chairman welcomed Craig Wisdom (Risk Advisory Partner) of Deloitte to the meeting.

**30. AUDIT & GOVERNANCE COMMITTEE - REVIEW OF TERMS OF REFERENCE & EFFECTIVENESS**

The Committee considered a review of its terms of reference and effectiveness, in order to ensure that it satisfied the core functions of an audit committee as prescribed by the Chartered Institute of Public Finance and Accountancy (CIPFA) and remained effective as a key component of the Council's assurance and governance framework. The Chief Internal Auditor reported that no changes to the terms of reference of the Committee were proposed as a result of the review and that an action plan had been developed to address minor weaknesses identified as part of the review process.

Members were advised that the Committee normally reviewed its terms of reference and effectiveness on an annual basis, but that the review for 2017 had been deferred to await the issue of new guidance on the operation of local authority audit committees by CIPFA. The Committee noted that such guidance, which had been published in Spring 2018, updated the core functions of audit committees in relation to governance, risk management, internal control and audit, and included new legislation affecting audit committees in combined authorities, alongside revisions to regulations, standards and statutory guidance.

The Chief Internal Auditor reported that the Committee had last reviewed its terms of reference in November 2016 and had proposed that no changes be made, as it had been considered that they remained fit for purpose at that time. Members noted that the Chief Internal Auditor had recently carried out a comparison of the current terms of reference of the Committee with the latest model terms of reference recommended by and had undertaken appropriate benchmarking with the terms of reference of the audit committees operated by Broxbourne Borough Council and Harlow District Council. The Committee was advised that no changes to the current terms of reference were proposed as a result of the latest review, as they were considered to continue to remain fit for purpose.

The Chief Internal Auditor indicated that effective audit committees were characterised by a membership that was balanced, objective, independent of mind, knowledgeable and properly trained to fulfil its role, whilst also achieving a mix of apolitical expertise. Members were advised that CIPFA endorsed the appointment of independent members to audit committees, although there appeared to be little consistency in the size of audit

committees across the local government sector. Members noted that the Council had five councillor members on its committee, which was fewer than both Broxbourne Borough Council and Harlow District Council, although neither authority currently appointed independent members to their committees.

The Chief Internal Auditor reported that the current terms of reference for the Committee provided that co-opted members serve for a period of three years from appointment and could serve for a total of two such terms as of right, but might be considered for two further three-year terms, provided they were successful after open competition. The Committee noted that both current co-opted members were in their second three-year term of membership and that Mr. T. Jarvis could be considered for a further three-year term of membership in October 2019, subject to open competition and that it would be necessary to consider arrangements for public advertisement of Mr. Jarvis' position in early 2019. The Chief Internal Auditor reported that no statutory guidance existed in relation to the membership of audit committees.

Members were advised that a review of the effectiveness of the Audit and Governance Committee had last been undertaken in November 2016 and that the review had identified several minor areas for improvement, all of which had been completed. The Chief Internal Auditor reported that checklists developed by CIPFA supported assessment against recommended practice to inform and support the Audit and Governance Committee and that the results of such self-assessment indicated that the Council was able to demonstrate compliance with recommended best practice for an effective audit committee. Members noted that, arising from the review, two areas for improvement had been identified around skills and knowledge analysis and committee engagement. The Committee was advised that a skills and knowledge analysis had last been undertaken in September 2017 and would be repeated as soon as possible, as the membership of the Committee had changed in the interim period. The Chief Internal Auditor reported that the Committee was most effective in supporting internal accountability when it discussed governance, risk or control issues directly with responsible managers and that arrangements to achieve both areas for improvement had been included within an appropriate action plan. Members were advised however that it was a matter for the Committee to determine the extent to which it required engagement with officers of the Council in relation to the results of audit activity.

The Committee suggested that its effectiveness, particularly in terms of the development of internal audit priorities and the annual Audit Plan, would be improved through greater understanding of the key corporate and strategic risks identified by the Council and its arrangements for monitoring the effective operation of risk management in relation to the priorities of the authority.

**RESOLVED:**

- (1) That the current terms of reference of the Audit and Governance Committee be endorsed and that no recommendation for changes be made to the Council;
- (2) That the results of the review of the effectiveness of the Committee be noted;
- (3) That the proposed action plan for improvement arising from the review of the effectiveness of the Committee, be agreed; and
- (4) That the Council's corporate Risk Register be supplied to the Committee as a standing agenda item, to support the development of internal audit priorities and the annual Audit Plan.

**31. INTERNAL AUDIT MONITORING REPORT (SEPTEMBER-NOVEMBER 2018)**

The Committee considered the internal audit monitoring report for the period from September to November 2018, which updated members on work undertaken by the Internal Audit Shared Service and the Corporate Fraud Team since the previous meeting and detailed the current position in relation to overdue recommendations arising from internal audit activity.

The Chief Internal Auditor reported that she was currently encountering difficulties with regard to the delivery of the Audit Plan for 2018/19, as a result of resource and capacity issues within the Internal Audit Unit. The Committee was advised that specialist external support had been engaged to deliver elements of the Audit Plan, but that it was likely that the deferral of some audit activity into 2019/20 would need to be sought, for which criteria had been developed for consideration by the Committee, alongside the seeking of additional resources from the Cabinet to facilitate the delivery of the Audit Plan in full.

Members were advised that five audits had been completed since the last meeting of the Committee, four of which had received moderate assurance and one of which (St. John's Road, Epping - Redevelopment) had received limited assurance. The Committee queried why the review of the governance arrangements and project management processes employed for the St. John's Road project had raised concerns that did not appear to have arisen in relation to other similar projects supported by the Council, including the development of the Epping Forest Shopping Park. The Chief Internal Auditor advised members that the project management of the Epping Forest Shopping Park development had been outsourced to specialist external consultants, but that the St. John's Road project had been managed by an in-house project management team and that a number of learning points had been identified from this arrangement. The Committee raised concern with regard to the findings of recent audit activity with regard to software licensing, which it considered to be unacceptable for an authority of the size of the Council and should be addressed as a matter of urgency. Members expressed disappointment that none of the recent audits had received substantial assurance, but were advised that there were no underlying themes behind the findings of each report, although the Chief Internal Auditor would keep this situation under review.

The Committee endorsed the need for additional resources to be directed to the activities of the Internal Audit Unit to support the achievement of the audit plan, particularly in view of the level of assurance awarded to recent areas of audit. The Chief Internal Auditor emphasised that the development of the annual Audit Plan was designed to reflect all of the Council's high-risk priorities and that the plan retained flexibility to react to developing situations that might arise during the year.

The Chief Internal Auditor reminded the Committee that it received details of all overdue recommendations and high-priority recommendations arising from audit activity, as part of its regular review of the Internal Audit Recommendation Tracker. Members were advised that there were currently nine issues included in the tracker, although none of these contained high-priority recommendations and that the progress of all outstanding recommendations was regularly monitored in liaison with the relevant service director to ensure completion at the earliest opportunity. The Committee was advised that many of the outstanding recommendations had not been completed as a result of resource and capacity issues within service areas. The Chief Internal Auditor reported that revised completion dates for the outstanding recommendations were agreed in consultation with the relevant service manager, on a risk-based arrangement. Members raised concern that the level of overdue recommendations had more than doubled since the last meeting of the Committee and that performance on the implementation of Internal Audit recommendations appeared to be in decline. The Committee requested that, for the purposes of assurance, evidence should be provided to support the inability of service

managers to implement recommendations to an agreed deadline or the seeking of additional resources to address recommendations by a revised deadline. The Chief Internal Auditor agreed to consider these matters in the development of the recommendation tracker.

The Committee was advised that since September 2018, five Right To Buy applications had been prevented as a result of intervention by the Corporate Fraud Team, which had resulted in a discount saving of approximately £399,000 and ongoing rent revenue streams of around £200,000. The Corporate Fraud Manager reported that two Council properties that had been the subject of tenancy related fraud investigations, had been recovered, saving around £186,000. Members were advised that areas of potential fraud relating to Council Tax discounts and exemptions were currently being investigated, focussed on Single Persons Discount, Second Home Premiums and Student Discounts and that savings as a result of this work were currently around £32,000. The Corporate Fraud Manager reported that the Council was working with the Police Hub to establish information sharing protocols to assist joint investigations and that the investigation of social housing tenancy fraud and safeguarding concerns was currently ongoing. The Committee was advised that the joint fraud service arrangements with Brentwood Borough Council was operating well and that a number of successful investigations had been concluded.

The Committee considered a revised version of the Council's Anti-Fraud and Corruption Strategy, which incorporated amendments around the prevention of bribery introduced by the Public Contracts Regulations 2015 and strengthened anti-corruption elements in light of the United Kingdom Anti-Corruption Strategy for 2017 to 2022, which set out a long-term framework for tackling corruption. Members were advised that the Chartered Institute of Public Finance and Accountancy had identified that growth areas in public sector fraud also included business rates and cyber-crime and suggested that these issues should be afforded appropriate significance in the Anti-Fraud and Corruption Strategy, alongside the importance of the Council's whistleblowing and reporting arrangements. The Corporate Fraud Manager reported that business rates fraud was already included within the Corporate Fraud Team Plan for 2018/19 and that specialist investigation experience would be necessary to assess and mitigate risk related to cyber crime.

The Committee considered that the Anti-Fraud and Corruption Strategy should specify the Council's arrangements for mitigating fraud risk and identify relevant criteria and evaluation measures to determine the success of the Strategy and that the potential for fraud in the planning application process should be incorporated within Section 3 (Prevention) of the Strategy. Members also considered that the Strategy should be available to all stakeholders and contain links to associated policies and procedures.

**RESOLVED:**

- (1) That progress against the Internal Audit plan for 2019/19 and the work undertaken by the Internal Audit Unit and the Corporate Fraud Team for the period from September to November 2018, be noted;
- (2) That the Cabinet be requested to provide appropriate additional resources to facilitate the full delivery of the adopted Audit Plan for 2018/19, in light of slippage in the delivery of the Audit Plan for the current and previous year; and
- (3) That the Anti-Fraud and Corruption Strategy be further amended as agreed at the meeting and, subject to the prior circulation of the revised version of the Strategy to the Chairman of the Committee, be referred to the Council for adoption.

**32. TREASURY MANAGEMENT - MID-YEAR REPORT 2018/19**

The Chief Finance Officer presented a report in relation to the Council's treasury management activities for the first half of the 2018/19 financial year, which was a requirement of the Code of Practice on Treasury Management issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and informed the Committee about the risks associated with treasury management activity and how the Council had sought to manage such risks. The Committee considered the mid-year position of the treasury function in accordance with the revised CIPFA Treasury Management Code and Prudential Code.

Members were advised that during the first half of the year, the Council had continued to finance all capital expenditure from within internal resources. Members noted that the average net investment position had been approximately £19.75m and there had been no significant breaches of the prudential indicators. The Chief Finance Officer reported that the Council's treasury management activities were regulated by statutory requirements and a professional code of practice, which included a requirement for the determination of a treasury strategy on the likely financing and investment activity for the current year.

The Committee questioned whether any treasury management risks were likely to arise in the event of the United Kingdom leaving the European Union on a 'no deal' basis. The Chief Finance Officer confirmed that Brexit-related issues, including risks to investments and the effect on income received from commercial property, were currently included in the Council's risk 'watch-list' and would be assessed for likely impact as further detail concerning the departure of the United Kingdom from the European Union became clearer. Members were advised that the Council's treasury management advisors had not currently made any recommendations for the re-alignment of the authority's investments to address Brexit eventualities.

**RESOLVED:**

- (1) That the management of risks associated with the Council's treasury management activity in the first half of the 2018/19 financial year, be noted; and
- (2) That no comments or suggestions on the management of risks associated with treasury management activity in the first half of the year be made to the Finance and Performance Management Cabinet Committee.

**33. S. HILL - SERVICE DIRECTOR (GOVERNANCE & MEMBER SERVICES)**

On behalf of the Committee, the Chairman expressed the appreciation of members to Simon Hill (Service Director (Governance and Member Services)), the current lead officer for the Audit and Governance Committee, who was shortly to leave the Council after many years of service to the authority.

**34. ANY OTHER BUSINESS**

No other business was raised for consideration by the Committee.

**CHAIRMAN**