

EPPING FOREST DISTRICT COUNCIL COMMITTEE MINUTES

Committee:	Audit and Governance Committee	Date:	Monday, 24 September 2018
Place:	Council Chamber, Civic Offices, High Street, Epping	Time:	7.00 - 7.40 pm
Members Present:	Councillor J Knapman (Chairman), N Nanayakkara (Vice-Chairman), Councillor P Bolton, Councillor L Hughes, A Jarvis, Councillor R Jennings, Councillor J M Whitehouse		
Other Councillors:	Councillors A Patel, J Philip, D Sunger		
Officers Present:	S Hill (Service Director (Governance & Member Services)), J Bell (Principal Accountant), S Marsh (Chief Internal Auditor), S Linsley (Senior Auditor), A Hendry (Senior Democratic Services Officer), A Rose (Webcasting Officer)		

15. 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.

16. DECLARATIONS OF INTEREST

No interests were declared by members of the Committee in any item on the agenda for the meeting, pursuant to the Council's Code of Conduct.

17. MINUTES

RESOLVED:

That the minutes of the meeting of the Committee held on 30 July 2018 be taken as read and signed by the Chairman as a correct record.

18. MATTERS ARISING

There were no matters arising from the minutes of the previous meeting of the Committee.

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

The Chief Internal Auditor presented the work programme for the Audit and Governance Committee for 2018/19. Members noted that the annual audit letter for 2017/18 was to be considered later in the meeting, having been brought forward from the next cycle of meetings as a result of changes to the timetable for the final accounts process for the year. The Committee was also advised that the Chief Internal Auditor was to provide appropriate training on the Council's assurance framework before the next meeting of the Committee.

RESOLVED:

That progress towards the completion of the work programme for the Audit and Governance Committee for 2018/19, be noted.

20. ANNUAL AUDIT LETTER 2017/18

The Committee further considered the Annual Audit Letter for 2017/18, which summarised the key issues arising from the work undertaken by the Council's external auditor during the past year.

Members were reminded that the Committee had considered the Annual Audit Letter in detail at its previous meeting although, at that time, it had not been possible to report the assurances of the external auditor in terms of the matters required to be reflected within the audit letter.

The Committee was advised that relevant assurances had now been received from the external auditor and that the Annual Audit Letter confirmed that the financial statements gave a true and fair view of the Council's financial affairs and that the Annual Governance Statement was not misleading or inconsistent with other information. Members noted that the Annual Audit Letter also confirmed that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources and that the external auditor had therefore issued an unqualified value for money conclusion. It was reported that the auditor had not exercised any statutory powers in relation to the financial statements and had no other matters to report.

The Committee enquired whether there were any implications arising from changes to the Essex Pension Fund that should be considered, as the financial statement within the Annual Audit Letter indicated that the Council's pension fund liability had increased by £2.9 million in 2017/18. The Principal Accountant reported that the Essex Pension Fund had made incorrect assumptions about the valuation of the pension fund in terms of the number of members of the fund and life expectancy and that revaluation had therefore been requested by the auditors of the Pension Fund. The Committee was advised that the revaluation of the Pension Fund had not left the Council exposed in any way and that the increase in the it's pension fund liability was considered to be insignificant in terms of its existing liability of £75 million. The Principal Accountant reported that the increase in the Council's pension fund liability would be met by additional contributions to the Essex Pension Fund, or by an extension to the term of repayment, which would be required to be agreed by Essex County Council as administrators of the Fund.

RESOLVED:

That the Annual Audit Letter for 2017/18 noted.

21. INTERNAL AUDIT MONITORING REPORT

The Committee considered the internal audit monitoring report for the period from August to September 2018, which updated members on work undertaken by the Internal Audit Shared Service and the Corporate Fraud Team since the previous meeting.

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 four issues included in the tracker, the majority of which required the development of long-term solutions.

The Committee raised concern with regard to a medium-priority item contained in the Internal Audit Recommendation Tracker (Management of Council Housing Voids; Report No. 09.16/17 (June 2017)), for which the recommended action appeared to have been left unaddressed for over a year and which would not now be completed until April 2019. The Chief Internal Auditor advised members that the recommended action in this case had now been carried out, but that the Service Director (Housing property) was to further review the process for transferring keys for void properties once the Housing Repairs Depot had relocated to Oakwood Hill in Loughton and that this was the reason for the revised implementation date.

The Committee also expressed concern with regard to a further medium-priority item contained in the Internal Audit Recommendation Tracker (Leisure Management Contract; Report No. 18.17/18 (May 2018)), where financial monitoring and contract payment processes in relation to the Council's leisure management contract were not documented to ensure business continuity and that the documentation of such processes appeared to have been delegated to an administrative assistant. Members considered that this approach was unacceptable, given the significant value and complexity of the leisure management contract. The Chief Internal Auditor assured the Committee that the audit process had established that appropriate financial and contract payment monitoring was taking place in regard to the contract, and that it was considered important that relevant monitoring processes and procedures were fully documented to support the contract manager, who was currently working on his own, particularly in terms of ensuring continuity.

Members drew attention to the discussion at a previous meeting of the Committee, about the Council's corporate approach to contract management, which was currently delivered within each relevant service area. The Committee was concerned that the delivery of effective contract management by a Contact Manager working on their own did not provide good internal control arrangements. The Chief Internal Auditor emphasised that the audit had received substantial assurance and had indicated that contract management processes for the leisure management contract were operating effectively, and that the Contact Manager was now undertaking formal training to support the recommendations of the audit. The Chief Internal Auditor confirmed that, as a result of the findings of the audit, the Corporate Governance Group would be considering the Council's requirements for effective contract management across all relevant contract areas, particularly in view of the overall issue of capacity in organisations such as the Council and the need for the appropriate transfer of skills and succession planning.

The Chief Internal Auditor updated the Committee on the work of Corporate Fraud Team, which had prevented the completion of five fraudulent Right to Buy applications since the previous meeting, that had saved the Council approximately £393,000 in potential discounts.

Members were advised that the report of the Debtors Audit had been issued since the previous meeting of the Committee, which had provided substantial assurance that relevant processes were well managed across the Council. The Chief Internal Auditor was requested to clarify and amend as necessary the period for the completion of the recommendations of the proposed Payroll Audit, which members assumed was actually to commence in November 2018.

The Chief Internal Auditor advised the Committee that compliance with the General Data Protection Regulation (GDPR) was integrated into all Internal Audit activity and that compliance with the GDPR was monitored by the Corporate Governance Group. Members noted that it was intended to establish an officer-level Information Governance Group to oversee continued compliance with the GDPR framework. The

Chief Internal Auditor confirmed that the Council had appointed a Data Protection Officer as required by the GDPR and that Internal Audit had worked with the Data Protection Officer to organise a successful data 'de-clutter' day to support the GDPR, which it was intended be held on a regular basis.

The Chief Internal Auditor advised the Committee that some slippage had occurred in the delivery of the Internal Audit Plan for 2018/19 over the recent summer holiday period and that the delivery of the Plan was behind schedule at the end of the second quarter of the year. The Chief Internal Auditor reported that, whilst she was concerned at the current stage of progress with the achievement of the Internal Audit Plan, it was still hoped to complete the agreed programme of audit work by the end of the year. Members were advised that external resources had been commissioned to support the delivery of the Audit Plan and that, as a result, it was hoped that there would not be a need for the Committee to consider the deferral of audit work. The Chief Internal Auditor advised the Committee that criteria for the deferral of audit activity would be developed on a risk-based basis, but that no such criteria had yet been established to prioritise proposed audits. Members considered that any criteria for the proposed deferral of audit activity should be developed for consideration by the Committee.

Notwithstanding the arrangements implemented by the Chief Internal Auditor, the Committee was concerned that it would not be possible for the Council to complete the planned programme of audit work by the end of the year, whether due to over-programming of audit activity or under-resourcing of the Internal Audit Unit. Members emphasised that they had previously expressed a wish to avoid the deferral of audit work in the current year and stressed the hope that the internal audit resources available, together with the external support commissioned by the Chief Internal Auditor, would be sufficient to secure the delivery of the ambitious Audit Plan for the year, whilst accommodating the current level of slippage in the delivery of the Plan. The Committee considered that it would be helpful for the Chief Internal Auditor to undertake an assessment of the elements of the Internal Audit Plan that could now be realistically delivered in the current year, in order to avoid members being requested to agree the deferral or re-prioritisation of specific audit activity late in the year and that this exercise should include the reprioritisation of planned audit activity where necessary.

Members questioned whether the activities of the new Community Police Hub, where these complemented the work of the Corporate Fraud Team, should be included within future reports to the Committee. The Chief Internal Auditor was requested to consider this issue and to report further to the Committee at a future meeting.

RESOLVED:

- (1) That progress against the Internal Audit Plan for 2018/19 for August to September 2018 and the work of the Corporate Fraud Team, be noted;
- (2) That the concerns of the Committee with regard to the successful delivery of the adopted Internal Audit Plan for 2018/19 and the resources available to the Chief Internal Auditor in this regard, be noted;
- (3) That the Chief Internal Auditor undertake an assessment of the elements of the Internal Audit Plan for 2018/19 that could realistically be delivered by the end of the year, for consideration by the Committee at its next meeting;

- (4) That the Chief Internal Auditor develop appropriate criteria for the deferral of audit activity from the Internal Audit Plan for 2018/19, for consideration at the next meeting of the Committee; and
- (5) That, subject to (4) above, the Chief Internal Auditor develop a reprioritised Internal Audit Plan for 2018/19, for consideration by the Committee at its next meeting.

22. TREASURY MANAGEMENT & PRUDENTIAL INDICATORS - OUTTURN REPORT 2017/18

The Committee was advised that the Council's treasury activities were strictly regulated by statutory requirements and a professional code of practice (the CIPFA Code of Practice on Treasury Management), which includes a requirement for reporting on the treasury outturn on the financing and investment activity for the previous year

The Principal Accountant introduced the annual outturn report on the Treasury Management and Prudential Indicators for 2017/18, covering treasury activity for the year. Members noted that there had been no breaches of treasury management policy during the year. The Committee noted that:

- the Council had planned to borrow to finance the Capital Programme. However, an underspend on the programme and the availability of sufficient cash had allowed the external borrowing to be deferred;
- the risk involved with capital activity was the impact on reducing the balances of financial reserves to support the Capital Programme. This risk had the potential consequences of a loss of interest; loss of cover for contingencies; the financial strategy becoming untenable in the long-term; service reductions; and Council Tax increases;
- the Council's underlying need to borrow (the Capital Financing Requirement (CFR)), gauged its debt position. The Council had borrowed £185.456m to finance payment to Government for Housing Self-Financing, which had resulted in the CFR becoming an overall positive CFR (Housing revenue Account ((HRA) and Non-HRA). No further borrowing was incurred in 2017/18; and
- the Council did not breach the Authorised Limit (set at £250m for 2017/18) or the Operational Boundary (set at £240m for 2017/18) and the Maturity Structure of Fixed Rate Borrowing (restricted to 30 years and below).

The Committee sought an example of the credit and counterparty risk where a risk of failure of a third-party might occur. The Principal Accountant advised members that the credit and counterparty risks were reviewed on a regular basis by the Council's treasury advisor, who also advised the authority on what risks or companies, banks etc. it should avoid. Members also raised the issue of the working capital balance, which was a lot lower than budget, and whether this reflected a snapshot balance or was a typical level of balance. The Principal Accountant reported that the working capital fluctuated on a regular basis.

Members noted that non-HRA capital expenditure showed a significant variation between the original budget and the actual spend. The Principal Accountant advised that this could relate to slippage from previous years as the original budget was already set, or that it could be that further investment had been sought. The Committee also noted that HRA expenditure was underspent by roughly the same amount, which balanced the variation and the Principal Accountant confirmed that he would provide a separate explanation of these issues to all members of the Committee.

The Committee considered interest rate risks and the Council's ability to receive 'reasonable' rates on investments at fixed rates, and queried the level of a reasonable rate given that rates were currently low. The Principal Accountant advised the Committee that the Council was trying to keep its investments as short-term as possible, but that this approach did give a minimal amount of investment income in return. Members were advised that, by not going out into the borrowing market, the Council was saving money by not having to borrow at a higher rate than on investments. The Committee suggested that the word 'reasonable' was ambiguous and requested that an explanation of the significant variations between the initial budget proposal and actual outcome, be provided when the Treasury Management and Prudential Indicators report was considered by the Finance and Performance Management Cabinet Committee.

The Committee considered that it would also be helpful for members to be provided with a clearer narrative on how treasury management activity complemented the Council's investment strategy and risk appetite, as otherwise it was difficult to evaluate the information and how appropriate it was for the Council given its existing strategy. The Principal Accountant confirmed that such information would be included in future reports to be made to the Committee.

RESOLVED:

- (1) That the risks associated with the Council's treasury management activity during 2017/18 be noted;
- (2) That the Chief Finance Officer provide an explanation of the significant variation between the initial budget proposal and the actual outcome, to the next meeting of the Finance and Performance Management Cabinet Committee; and
- (3) That no other comments or suggestions on the Council's treasury management activity during 2017/18 be made to the Finance and Performance Management Cabinet Committee.

23. ANY OTHER BUSINESS

No other business was raised for consideration by the Committee.

CHAIRMAN