

EPPING FOREST DISTRICT COUNCIL COMMITTEE MINUTES

Committee: Audit and Governance Committee **Date:** Monday, 22 June 2009

Place: Committee Room 1, Civic Offices, High Street, Epping **Time:** 7.00 - 9.00 pm

Members Present: A Green (Chairman), Ms M Rickman (Vice-Chairman), Mrs A Haigh, A Watts and R Thompson

Other Councillors: Mrs D Collins, D Stallan and C Whitbread

Apologies: -

Officers Present: R Palmer (Director of Finance and ICT), J Akerman (Chief Internal Auditor), P Maddock (Assistant Director (Accountancy)), P Maginnis (Assistant Director (Human Resources)), B Moldon (Principal Accountant), S Mitchell (PR Website Editor) and G J Woodhall (Democratic Services Officer)

Also in attendance: R Bint and L Clampin (External Auditors)

1. 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.

2. DECLARATIONS OF INTEREST

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

3. MINUTES

RESOLVED:

That the minutes of the meeting held on 30 March 2009 be taken as read and signed by the Chairman as a correct record.

4. MATTERS ARISING

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

5. ANY OTHER BUSINESS

It was highlighted that the Audit Commission produced a number of papers each year, and that the Management of Resources paper might be of particular relevance to the Committee. The Director of Finance & ICT pointed out that the Committee's agendas were already quite lengthy and that the Audit Commission reports could be hundreds of pages in length. It was suggested that such reports should be circulated as background papers but the Committee still felt that it wanted an assurance that the Council was utilising best practice as indicated by the Audit Commission. The

Director of Finance & ICT agreed that, for such reports, the Executive Summary and Recommendations plus any comments to assure the Committee where Officers were implementing the relevant recommendations would be placed as an item on the agenda.

RESOLVED:

That, in order to provide reassurance for the Committee where the Council was utilising best practice, the Executive Summary and Recommendations of the relevant Audit Commission papers, plus some brief comments to highlight their implementation, be placed as items on future agendas of the Committee.

6. CORPORATE GOVERNANCE GROUP - 17 MARCH 2009

The Director of Finance & ICT presented the minutes from the meeting of the Corporate Governance Group held on 17 March 2009. The Committee's attention was drawn to the topics of discussion and actions arising from the meeting.

RESOLVED:

That the minutes of the meeting of the Corporate Governance Group held on 17 March 2009 be noted.

7. CORPORATE GOVERNANCE GROUP - 15 APRIL 2009

The Director of Finance & ICT presented the minutes from the meeting of the Corporate Governance Group held on 15 April 2009. The Committee's attention was drawn to the topics of discussion and actions arising from the meeting.

RESOLVED:

That the minutes of the meeting of the Corporate Governance Group held on 15 April 2009 be noted.

8. CORPORATE GOVERNANCE GROUP - 13 MAY 2009

The Director of Finance & ICT presented the minutes from the meeting of the Corporate Governance Group held on 13 May 2009. The Committee's attention was drawn to the topics of discussion and actions arising from the meeting.

The Committee noted that this was the second consecutive meeting of the Group at which the Chief Executive had tendered his apologies. The Committee felt that the Chief Executive should attend the next meeting of the Group or provide an explanation for his absence.

The Chairman also took the opportunity to remind all present that the Audit and Governance Committee was one of the most important committees within the Council, charged as it was with carrying out the audit function.

RESOLVED:

That the minutes of the meeting of the Corporate Governance Group held on 13 May 2009 be noted.

9. RECRUITMENT ISSUES

The Assistant Director (Human Resources) presented a report upon the issues currently facing the Council in recruiting new members of staff and specifically any areas of concern. This report had been requested by the Committee at its last meeting.

The Assistant Director (Human Resources) advised the Committee that information on vacant posts and recruitment activity for the period 1 April 2008 to 31 March 2009 had indicated that the Council was not experiencing difficulties recruiting to the majority of jobs it advertised, however there were significant problems when recruiting to certain senior, professional or specialist roles. The recession had not improved the labour market in these areas, and the high cost of living plus concerns about educational provision within the District were also issues. The Council did not have a Recruitment Strategy in place, with issues being managed on a case-by-case basis. Some posts were not recruited to by choice, and there were different issues for each of the seven most difficult posts to recruit to.

It was highlighted to the Committee that different Councils had allocated different payscales, and there was a significant gap of up to £10,000 between the salary being offered by the Council and the salaries available elsewhere, particularly at London Borough Councils. The Committee was advised that the vacant posts within the Planning & Economic Development Directorate had been considered at the recent meeting of the Planning Services Scrutiny Panel.

The Leader of the Council agreed that the recruitment of an Assistant Director (Forward Planning) had been difficult and the use of an external agency was being considered to find suitable candidates; using such an approach had generated seven candidates for interview for the vacant Chief Internal Auditor's post.

It was suggested that the Cabinet should consider deleting the long-term vacant posts from the establishment and using the salary savings to increase the salaries on offer elsewhere within the Council. However, the Committee was reminded that the Single Status Agreement precluded the payment of additional salaries for certain posts. The Committee felt that it should be kept informed of progress in recruiting for those vacant posts with internal control responsibilities, especially the Chief Internal Auditor post, and that the Council should consider paying market rates in order to facilitate the recruitment of certain key posts within the Authority.

RESOLVED:

- (1) That the report on the Council's exposure to risk in relation to recruitment issues be noted;
- (2) That the Committee be kept informed of the progress in recruiting to those vacant posts with internal control responsibilities; and
- (3) That consideration be given by the Cabinet to paying market rates for certain key posts within the Council in order to facilitate recruitment.

10. GRANT CLAIM CERTIFICATION 2007/08

The Director of Finance & ICT presented a report upon the Grant Claim Certification for the year ended 31 March 2008 by the External Auditors. This report was a summary of the audit work performed on the various grant claims made by the Council and was being presented for completeness to close the 2007/08 audit

process. The main issues in the report had already been discussed by the Committee at its meetings in September 2008, November 2008 and February 2009.

The External Auditor added that none of the six claims audited were certified without amendment, and additional testing and enquiries had to be undertaken to make the appropriate corrections to the claim. Two of the claims had been qualified due to issues relating to the non-compliance with the Certification Instruction; for example, the HRA Subsidy Base Data return had been qualified due to a lack of detailed survey records regarding the Council's housing stock, and had not provided sufficient evidence that the properties were classified in accordance with Certification Instruction HOU02. It was accepted that this was an historical problem and had been qualified in the past. However, the importance of producing accurate information was emphasised, both in terms of reducing the Council's audit fee and not being required to repay any subsidy. There was scope for the Council to improve its arrangements for the preparation of grant claims; recommendations had been made and a detailed action plan had been agreed with Officers.

The Director of Finance & ICT stated that further work was being undertaken in updating the Council's housing stock records, but the information was of limited value to the Council. It was acknowledged that the Grant Claims in 2007/08 had fallen short of the required standard but the action plan would hopefully improve the situation in future years. The additional cost incurred by the Council in respect of the qualified grant claims was £11,000. The Committee expected the Council's performance for Grant Claim Certification to improve in the future.

RESOLVED:

- (1) That the report upon the Grant Claim Certification for 2007/08 be noted; and
- (2) That the Council's performance in respect of Grant Claim Certification be improved in the future.

11. EXTERNAL AUDITORS - ANNUAL PLANS AND FEES

The Director of Finance & ICT introduced a report from the External Auditors regarding the Annual Audit Fee and Inspection Fee letters, which set out the proposed audit work for 2009/10 and the estimated costs.

The External Auditor advised the Committee that the total Audit Fee for 2009/10 had been estimated at £139,000, which compared favourably to the fees levied for the two previous years. The Use of Resources assessment methodology was changing, and the Council had been assessed as a medium risk, suggesting that an additional three or four indicators should be sampled in addition to the mandated benefits indicator. The initial risk assessment for the Value for Money audit had indicated that the Council had not made sufficient progress against its plans to tackle Health Inequalities within the District; a review of the progress against the action plan would be undertaken. The following four risks, whilst not significant, also merited audit emphasis:

- (i) the implementation of the Academy IT system for Revenues and Benefits;
- (ii) instances where the Council had not complied with its Treasury Management Strategy;
- (iii) some long-term sickness and vacancy issues that had had an impact on capacity; and

(iv) the implementation of the International Financial Reporting Standards in 2010/11, which would require the restatement of some of the figures in 2009/10 for comparison.

The External Auditor also informed the Committee that the audit risk assessment for 2008/09 had been updated. The additional significant audit risks identified were: the implementation of a new Property Management system, the controls put in place by the Council would be reviewed to ensure the accuracy of the data; and the implementation of the Academy system, the internal audit work on the Benefits system would be reviewed to ensure that there had been no lapse in controls. It was not anticipated that these additional measures would impact upon the fee for 2008/09. The following factors were also highlighted as meriting audit emphasis:

- (i) some immaterial unreconciled balances in income streams; and
- (ii) outstanding debts becoming more difficult to collect due to the economic downturn.

The External Auditor added that the planned outputs from the 2009/10 audit were the Use of Resources report in October 2009, the Audit Plan in December 2009, the Annual Governance report in September 2010 and the Annual Audit Letter in November 2010.

In response to questions from the Committee, the Director of Finance & ICT explained that minute 146 of the Corporate Governance Group held on 15 April 2009 referred to the discussion with the Audit Commission concerning the 50% rise in their inspection fee for 2009/10. It had transpired that there was less subsidy available from the Department of Communities & Local Government and hence the Council's portion of the fee had increased. It was acknowledged that the Treasury Management Strategy should be followed at all times; a breach had been reported to the Committee in February 2009 when Internal Audit had noticed a misinterpretation of the counterparty list by Officers. With regard to the investment made with the Heritable Bank, Internal Audit had confirmed that the strategy had been followed for that particular investment. Further work in auditing the Treasury Management Strategy was planned for the coming year by the External Auditors.

RESOLVED:

- (1) That the Annual Audit Fee Letter be noted and approved; and
- (2) That the Annual Inspection Fee Letter be noted and approved.

12. INTERNAL AUDIT MONITORING REPORT JANUARY - MARCH 2009

The Chief Internal Auditor presented the Internal Audit Monitoring Report for the fourth quarter of 2008/09, along with the Work Plan for the first quarter of 2009/10 and the Audit Plan Status Report for 2008/09. The Chief Internal Auditor reported that sickness within the Internal Audit Unit during the fourth quarter of 2008/09 had amounted to 18 days, in comparison with 6, 5, and 10 days respectively in the three preceding quarters. The average level of sickness over the last twelve months had been approximately eight days per member of staff, which was below the current average for the Council.

The Chief Internal Auditor advised the Committee of the audit reports that had been issued during the fourth quarter:

- (a) Substantial Assurance:
 - Accounting & General Ledger.
- (b) Satisfactory Assurance:
 - Creditors;
 - Housing Rents;
 - IT Security Network;
 - Sundry Debtors;
 - Budgetary Control;
 - Development Control;
 - Revenues & Benefits IT; and
 - Leisure Contract Management.
- (c) Limited Assurance:
 - Waste Management Contract;
 - Housing Contract Management;
 - Building Maintenance Unit; and
 - Corporate Procurement.

No reports had been issued without any assurance and a further two audits had been in progress at 31 March 2009 but had not been included in the performance figures.

The Committee's attention was drawn to the Priority 1 Actions Status report, and the Audit Follow Up Status report. The Council's main financial systems had all been audited during 2008/09, and the External Auditors would be reviewing the work of the Internal Audit Unit to ascertain the reliance that could be placed upon it. It was also noted that the Action Plan arising from the Annual Governance Statement had been appended to allow the Committee to monitor progress against the targets.

The Chief Internal Auditor reported upon the current status of the Internal Audit Unit's Local Performance Indicators for 2008/09. The percentage of Planned Audits had exceeded its target for the year, aided by the extra 24 audit days purchased from external resources.

• % Planned Audits Completed	Target 90%	Actual 95%;
• % Chargeable Staff Time	Target 70%	Actual 71%;
• Average Cost per Audit Day	Target £320	Actual £309; and
• % User Satisfaction	Target 83%	Actual 85%.

The External Auditor informed the Committee that substantial reliance could be placed on the work of the Internal Audit Unit during 2008/09.

The Committee expressed concern about the high number of limited assurance audit reports still being issued, and in particular the apparent lack of improvement within the Building Maintenance Unit; the excessive amount of overtime paid for weekend or out of hours working was highlighted. The Housing Portfolio Holder acknowledged that the performance of the Building Maintenance Unit was still not satisfactory, but added that it would improve although it was not possible to give an indication of timescales at the current time. A new Management Panel would be convened in July to consider the issues currently facing the Unit. The Committee felt that a timetable for improvement should be established and requested an update from the Assistant Director (Property).

The Chief Internal Auditor reported that although Corporate Procurement had been issued with a Limited Assurance Audit Report, this had been in relation to specific types of procurement rather than all purchasing undertaken by the Council. A follow-up audit would be scheduled for 2009/10.

RESOLVED:

(1) That the following issues arising from the Internal Audit Monitoring Report for the fourth quarter of 2008/09 be noted:

(a) the Audit reports issued between January and March 2009 and significant findings therein;

(b) the Priority 1 Actions Status Report;

(c) the Audit Follow-Up Status Report;

(d) the Internal Audit Work Plan for April to June 2009;

(e) the Audit Plan Status Report 2008/09; and

(f) the Governance Statement Action Plan for 2007/08;

(2) That the Committee's satisfaction with the effectiveness of the work of Internal Audit during the fourth quarter of 2008/09 be confirmed; and

(3) That the Assistant Director (Property) be requested to attend the next meeting of the Committee and provide an update on the measures being implemented to improve the performance of the Building Maintenance Unit.

13. INTERNAL AUDIT ANNUAL REPORT 2008/09

The Chief Internal Auditor introduced the Internal Audit Annual Report for 2008/09. It had been prepared using the Code of Practice produced by CIPFA and aimed to reconcile the workings of Internal Audit with the Audit Plan. The report formed part of the evidence that underpinned the Corporate Governance Statement published in the Council's Statutory Statement of Accounts. Internal Audit was provided as part of the Council's statutory responsibility to make arrangements for the proper administration of its financial affairs. The Council's External Auditor had a statutory duty to express an independent opinion on the Council's accounts, performance management and the financial aspects of its corporate governance. Internal Audit had worked closely with the External Auditor in order to avoid duplication of effort and to ensure that the Council received a comprehensive audit coverage.

The Chief Internal Auditor reported that the amount of time spent on unplanned work had totalled 14 days, and compared very favourably with the 42 and 47 days respectively in the previous two years. Of the audit reports issued during 2008/09: 10% had substantial assurance; 48% had satisfactory assurance; 40% had limited assurance; and 0% had no assurance. One audit (2%) had been investigated but not rated. There had been no material errors in the audit of the Council's main financial systems, although a number of improvements had been identified during the review of the Treasury Management System. A specific concern had related to the acceptance of gifts and hospitality from external organisations, but no fraudulent activity had been identified. A follow up audit on the use of consultants and agency staff had also indicated that some of the original recommendations had not been implemented; Contract Standing Orders had been amended accordingly.

Overall, the Chief Internal Auditor considered that the Council had a satisfactory framework of internal control in place during 2008/09, which provided reasonable assurance. The Chief Internal Auditor highlighted the four local performance indicators pertaining to Internal Audit (minute 12 refers) and that the average number of days per audit had reduced by 0.5 days to 18.5 in 2008/09.

RESOLVED:

That the Internal Audit Annual Report for 2008/09 be noted.

14. REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT

The Chief Internal Auditor introduced a report on the review of the Effectiveness of the System of Internal Audit. The Accounts and Audit Regulations included a requirement for the Authority to carry out an annual review of the effectiveness of its system of Internal Audit as part of the wider review of the effectiveness of the system of governance. The Committee had previously resolved that the system of Internal Audit be reviewed by the Corporate Governance Group, using information on performance and effectiveness provided by the Chief Internal Auditor in conjunction with a self-assessment based upon the checklist in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice.

The Chief Internal Auditor reported that the performance of Internal Audit had met its key work plan target in 2008/09 and the External Auditor had been able to rely on the work of Internal Audit when conducting their review of the Council's accounts in 2007/08. The Work of the Audit & Governance Committee had also made an important contribution to the securing of further improvements in the Council's system of governance, including internal control, and had complied with the key requirements of an Audit Committee as set out by CIPFA. Internal Audit had demonstrated that it had a good understanding of the Council's functions and the Corporate Governance Group was satisfied that the Council's system of Internal Audit had been effective during 2008/09.

The Chief Internal Auditor highlighted that the annual survey of Directors had been administered by the Performance Management Unit, in order to provide a degree of independence, and the overall average rating was 'Good'. The Audit Commission's Use of Resources assessment had rated the Council as 'performing well' for Internal Control, maintaining the same score as the previous year, within which the Council had increased its component score from 2 to 3 ('performing well' again) for 'maintaining a sound system of internal control'.

RESOLVED:

(1) That the review of the effectiveness of the system of Internal Audit undertaken by the Corporate Governance Group and in the context of the Council's Governance Statement be noted; and

(2) That, in scrutinising the Officer review, the Council's system of Internal Audit be considered effective in 2008/09.

15. ANNUAL GOVERNANCE STATEMENT 2008/09 AND ACTION PLAN

The Chief Internal Auditor introduced a report on the Annual Governance Statement for 2008/09 and the associated Action Plan. The Council's Statutory Statement of Accounts had been prepared in accordance with the Accounts and Audit Regulations

2003 (as amended by the Accounts and Audit Regulations (Amendment) (England) 2006). Within the Regulations, and in accordance with defined 'proper practice', there was a mandatory requirement to publish an Annual Governance Statement. The arrangements were designed to provide the Authority with assurance regarding the adequacy of its governance arrangements, and identifying where those arrangements needed to be improved.

The Chief Internal Auditor reported that the Statement itself was partly derived from reviews by the Service Directors of the effectiveness of the governance arrangements within their Directorates, using a detailed checklist incorporating the key elements within the Local Code of Governance. All of the Directors had provided assurance statements indicating the level of assurance that could be placed on the effectiveness of key controls within their areas of responsibility, and highlighting those areas that required improvement. The most recent Use of Resources assessment in 2008 had rated the Council as 'performing well' (score of 3 / 4) for internal control, which maintained the Council's position from the previous year.

It was highlighted that the Action Plan did not explain how the Council had determined what the Community wanted/needed. A report upon public consultation had been considered at the previous meeting of the Finance & Performance Management Scrutiny Panel. The Leader of the Council added that a countywide consultation had been recently undertaken to gauge the public's perception of district councils within Essex, and the Council had earlier in the year undertaken a public consultation in respect of the Waste Management service which had informed the implementation of the new service in September. It was felt that the role of the Committee should be to both monitor the delivery of the Council's objectives and that the process by which Members made informed decisions included effective scrutiny and the management of risk to deliver its services. It was emphasised to the Committee that the review of Financial Regulations and Contract Standing Orders was continuous, hence no specific target date had been stipulated within the Action Plan.

RESOLVED:

- (1) That, as part of the Statutory Statement of Accounts, the draft Annual Governance Statement for 2008/09 be approved for consideration by the Council; and
- (2) That, as attached at appendix 2 to the report, the Action Plan to address the issues identified within the Annual Governance statement be approved.

16. STATUTORY STATEMENT OF ACCOUNTS 2008/09

The Director of Finance & ICT presented a report concerning the Statutory Statement of Accounts for 2008/09. Consideration of the Accounts was a key role for the Committee prior to their adoption by the Council.

The Director of Finance & ICT reported that there had been no major changes in the content of the Statutory statement for 2008/09, and that it comprised the same five core financial statements as the previous year. However, there had been two changes to critical accounting policies and practices. The first was that Deferred Charges were now referred to as 'Revenue Expenditure Charged to Capital under Statute' and covered those capital expenditures which did not result in the acquisition of a fixed asset. The second was the revaluing of fixed assets prior to disposal, and the prohibition on revaluing fixed assets immediately before disposal to limit any gain or loss within the accounts. The Statement also contained a loss of £32million for the

impairment of some of the Council's properties and had been classified as a decision requiring a major element of judgement due to the valuations having been carried out by the District Valuer.

The Director of Finance & ICT advised the Committee of the unusual transactions that had affected the Statement. The first was the Council's investment in the Heritable Bank, a subsidiary of an Icelandic Bank, which was now being held by the Administrators. A creditor progress report issued in April 2009 had indicated a return to creditors of 80p in the £1, and it was possible that the Government would issue regulations that would limit the impact of such losses on the Council Tax. The second unusual transaction was the application to the Secretary of State to capitalise the movement of £2.5million from the Useable Capital Receipts Reserve to the Pension Deficit Reserve. The Council's current liability in respect of the Pension Fund had reduced slightly to £41.5million as of 31 March 2009.

The Director of Finance & ICT stated that any significant adjustments to the Accounts arising from the audit would be reported to the Committee, and that no material weaknesses in the Council's internal control had been reported so far.

In response to questions from the Committee, the Assistant Director (Accountancy) explained the reasons behind the increases in the Consolidated Expenses. Central Services had been affected by a reduction in Local Land Charge fee income and deferred charges, hence the 60% increase. The net expenditure for Housing had almost trebled due to the effect of deferred charges, financial assistance to Registered Social Landlords, increased costs for Housing Benefit Administration, impairment charges and the cessation of Reinstatement Grants in 2007/08.

The Committee was concerned about the number of insurance claims that had been lodged with the Council's insurers and requested a summary of all outstanding insurance claims at its next meeting in September 2009. The Finance & Economic Development Portfolio Holder stated that the Statement illustrated that the Council's finances were in good order, which had enabled the Council Tax to be kept as low as possible.

RESOLVED:

(1) That the Statutory Statement of Accounts for 2008/09 be recommended to the Council for adoption; and

(2) That a summary of the outstanding insurance claims against the Council be presented to the Committee at its next meeting.

CHAIRMAN