

EPPING FOREST DISTRICT COUNCIL COMMITTEE MINUTES

Committee: Audit and Governance Committee **Date:** 8 February 2010

Place: Committee Room 1, Civic Offices, High Street, Epping **Time:** 7.00 - 8.50 pm

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

Other Councillors: C Whitbread, B Rolfe and D Stallan

Apologies: -

Officers Present: D Macnab (Deputy Chief Executive), I Willett (Assistant to the Chief Executive), R Palmer (Director of Finance and ICT), B Bassington (Chief Internal Auditor), B Moldon (Principal Accountant), D Clifton (Principal Housing Officer [IT]) and G J Woodhall (Democratic Services Officer)

44. 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.

45. DECLARATIONS OF INTEREST

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

46. MINUTES

RESOLVED:

That the minutes of the meeting held on 30 November 2009 be taken as read and signed by the Chairman as a correct record, subject to the correction of a typographical error.

47. MATTERS ARISING

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

48. ANY OTHER BUSINESS

In accordance with Section 100B(4)(b) of the Local Government Act 1972, together with paragraphs (6) and (24) of the Council Procedure Rules, the Chairman had permitted the following item of urgent business to be considered following the publication of the agenda:

- (i) Data Protection Breach – Licensing Sub-Committee 3 December 2009.

49. DATA PROTECTION BREACH - LICENSING SUB-COMMITTEE 3 DECEMBER 2009

The Assistant to the Chief Executive presented a report concerning a breach of Data Protection Act requirements in respect of the Licensing Sub-Committee meeting on 3 December 2009.

The Assistant to the Chief Executive reported that the agenda for this particular meeting was published on 20 November 2009 but included exempt information of a personal nature relating to five applicants for Hackney Carriage and Private Hire Drivers licences. The agenda was corrected and re-published after only a few days, however these disclosures had been detected externally and subsequently became the subject of press reports.

The Assistant to the Chief Executive stated that it was a most regrettable circumstance and an informal warning had been given to the member of staff concerned. After the discovery, each of the applicants had been phoned and a letter of apology sent; there had been no further complaints from them. A range of measures had been agreed between Democratic Services and the Licensing Section to avoid a recurrence of this scenario; further Data Protection training had been organised for both sections following the incident. The breach had been reported to the Information Commissioner who had initiated an investigation. An initial acknowledgement letter had been received by the Council but no final decision yet.

The Assistant to the Chief Executive reminded the Committee that the Council was honour bound to report any such Data Protection breaches to the Information Commissioner as it was a public authority. A further report would be submitted for the Committee's consideration when the Information Commissioner had made its decision. The status of risk number 18, loss and theft of data, had been revised from a rating of 'D' (low likelihood) to 'C' (significant likelihood). The Committee expressed their satisfaction with the response to the incident outlined by the Assistant to the Chief Executive.

RESOLVED:

- (1) That the Data Protection Act breach discovered after the agenda for the Licensing Sub Committee on 3 December 2009 had been published on Wednesday 25 November 2009 be noted;
- (2) That the action taken in response to the Data Protection Act breach by the Assistant to the Chief Executive be noted;
- (3) That the report of the Data Protection Act breach be noted; and
- (4) That the outcome of the Information Commissioner's investigation be awaited and a further report submitted to the Committee when the Information Commissioner had reported back.

50. CORPORATE GOVERNANCE GROUP - 25 NOVEMBER 2009

The Director of Finance & ICT presented the minutes from the meeting of the Corporate Governance Group held on 25 November 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 25 November 2009 be noted.

51. CORPORATE GOVERNANCE GROUP - 23 DECEMBER 2009

The Director of Finance & ICT presented the minutes from the meeting of the Corporate Governance Group held on 23 December 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 23 December 2009 be noted.

52. AUDIT COMMISSION - NATIONAL LOCAL GOVERNMENT STUDIES

The Chairman presented a report regarding National Local Government Studies published by the Audit Commission.

Details were provided of the recent National Local Government Studies published by the Audit Commission, that were relevant to the Council's areas of service provision. The only report for consideration on this occasion was entitled "Nothing But The Truth? A Data Quality Discussion Paper". The Audit Commission had not published an executive summary for this report, so therefore a full copy of the report had been attached to the agenda for the Committee to consider.

The Director of Finance & ICT acknowledged that the report had been included on the agenda as an information item and was possibly of limited value as there were no recommendations. In response to questions from the Committee, it was confirmed that all reports were cleared by either an Agenda Planning Group or the Corporate Executive Forum before being published as part of an agenda, and consequently Officers felt that there were proper processes in place to clear reports and check the data therein. The Director was not aware of any register that detailed all spreadsheets used within the Council to inform decisions. The External Auditor added that any key recommendations and examples of good practice within Audit Commission reports would be used when the Council's Use of Resources and Data Quality was assessed.

The Committee felt that there was a possible issue with the Council's method of data collection, and that this should be examined. It was felt that an analysis of the usefulness of these Audit Commission reports should be undertaken, with examples provided of where the recommendations could be utilised by the Council.

RESOLVED:

That the National Report "Nothing But The Truth? A Data Quality Discussion Paper" published by the Audit Commission be noted as relevant to an area of the Council's service provision.

53. REPORTS OF THE EXTERNAL AUDITOR - ANNUAL AUDIT LETTER 2008/09 & ANNUAL AUDIT PLAN 2009/10

The Committee considered a report from the External Auditor on the Annual Audit Letter for 2008/09, which summarised the key issues and findings from the work of

the External Auditor, and the Annual Audit Plan for 2009/10, which highlighted key risks and issues for the 2009/10 Audit.

In respect of the Annual Audit Letter for 2008/09, the key findings had been that an unqualified opinion on the financial statements had been issued, an unqualified value for money conclusion had been issued, the overall score for the Use of Resources assessment had been 2 with constituent scores of 2 for all three Key Lines of Enquiry (KLoE), and the Council had been making good progress in the area of Health Inequalities in conjunction with the Local Strategic Partnership. An in-depth follow-up review of Health Inequalities would be undertaken early in 2010. The Committee were reminded of the key issues arising from the audit, namely:

- (i) an error of £1.05million related to the valuation and impairment of the Council's housing stock (book value of £500million);
- (ii) corrections to the financial statements had increased the deficit on the Income & Expenditure Account by £721,000 and increased the General Fund Balance by £246,000; and
- (iii) additional testing of the Council's investments with Heritable Bank totalling £2.5million had concluded that the investment and its impairment had been appropriately accounted for and the impact of the investments on the Council's financial standing had not been significant.

The External Auditor reminded the Committee that the Use of Resources assessment scores, both overall and for each KLoE were not comparable with the scores from earlier years. It had been determined that the Council had adequate arrangements in place to secure value for money and an unqualified conclusion had been issued for 2008/09. Although it was noted that there had been improvements in the preparation of Grants Claims, two of the six had been qualified and a further two amended before an unqualified opinion could be issued. A further report would be considered at the Committee's next meeting.

A number of emerging issues had been identified. It was acknowledged that action had been taken to mitigate the risks from the current economic climate and any financial impact upon the Council from the recession was being actively monitored. The Council's Treasury Management arrangements had been considered satisfactory, and action had been taken to strengthen this area following the collapse of the Icelandic Banks. In the light of recent publicity surrounding the payment of expenses for Members of Parliament, the Council had disclosed the amounts paid to each individual Member within the financial statements even though it was not mandatory. Finally, the Committee were reminded that International Financial Reporting Standards (IFRS) were due to be adopted in Local Government from 2010/11; the Council had plans in place to implement this change, however there was still considerable work outstanding to identify all areas of the accounts that required restatement and the calculation of the resultant effect upon the Accounts.

In response to questions from members of the Committee, the External Auditor confirmed that the KLoEs which made up the Use of Resources score had different weightings, and that the new framework was more demanding than before. The forthcoming detailed report on the Use of Resources Assessment would contain comparisons between this Council and other Councils.

The External Auditor introduced the Annual Audit Plan for 2009/10, which updated the Audit Fee letter issued in April 2009. The Audit Fee for the year was £145,290. This represented an increase of £8,290 on the figure quoted in the Audit Fee Letter,

due to the additional work performed on the extra risk identified on the protracted discussion concerning the structure of the Senior Management Team. An additional £2,500 was being charged for the work performed on the Council's grants control environment. A triviality level of £48,750 had been set for the 2009/10 audit. The External Auditor added that the Statement of Recommended Practice (SORP) did not require the costs of collecting the other precepts within the Council Tax to be taken into consideration.

The Director of Finance & ICT reassured the Committee that the adoption of the IFRS was proceeding smoothly; members of Accountancy had attended seminars and training provided by the Chartered Institute of Public Finance & Accounts (CIPFA). However, the guidance was not being issued until the summer, which was a risk.

The Committee was pleased to note that Internal and External Audit had identified similar risks, and requested that evidence and examples of good practice be obtained from second tier Councils who had scored well on their Health Inequalities assessment. The External Auditor stated that the information would become available when all the Health Inequalities assessments across Essex had been completed, probably in mid-2010.

RESOLVED:

- (1) That the Annual Audit Letter for 2008/09 be noted; and
- (2) That the Annual Audit Plan for 2009/10 be noted.

54. PRUDENTIAL INDICATORS 2010/11 TO 2012/13 & TREASURY MANAGEMENT STRATEGY 2010/11

The Principal Accountant presented a report concerning the Treasury Management Strategy for 2010/11 and the Prudential Indicators for the period 2010/11 to 2012/13.

The Cabinet Committee were informed that following the collapse of the Icelandic Banks, there had been two national reports produced, which had resulted in a revised Chartered Institute of Public Finance & Accountancy (CIPFA) Treasury Management Code of Practice and CIPFA Prudential Code. A key change to the Code was the recommendation that the Prudential Indicators and Treasury Management Strategy be scrutinised by a named Committee before being approved by Full Council. The Audit & Governance Committee was considered the most appropriate Committee as it was within the purpose but not explicitly part of the role and responsibilities of this Committee. Consequently, a report would be considered by the Constitution and Members Services Scrutiny Standing Panel on 22 March 2010 to amend the Committee's Terms of Reference accordingly.

The Committee were of the opinion that they did not want to scrutinise individual decisions within the Council's Treasury Management function. The Committee also felt that they were not knowledgeable enough to recommend the Strategy to the Council for approval, despite the recommendation from CIPFA, and that this process should be led by the Portfolio Holder for Finance & Economic Development.

The Director of Finance & ICT confirmed that the Treasury Management Strategy had already been considered by the Finance & Performance Management Cabinet Committee and Scrutiny Panel, as well as the Cabinet as part of the budget-setting process before being recommended to the Council for approval. Examination of the Treasury Management Strategy had not been included within the Terms of

Reference for any Committee previously, and it was felt that this Committee would be the most appropriate to consider the risks within the Strategy. The Director confirmed that provision had been made for members of the Committee to be trained in Treasury Management.

The External Auditor explained that the Use of Resources assessment would examine whether the Strategy was being followed, whilst the Assistant to the Chief Executive reminded the Committee that responsibility for the Strategy would remain with the Portfolio for Finance & Economic Development, with final approval reserved for the Council.

The Committee maintained that the Strategy could not be recommended to the Council for approval, but did agree that its role in future would be to ensure that the controls within the Strategy were being followed. Training would be required for the Committee but their primary role should be to examine the policies and procedures, not individual decisions.

RESOLVED:

(1) That the Council's Prudential Indicators for 2010/11 to 2012/13 and the Treasury Management Strategy for 2010/11 not be recommended to the Council at this time as the Committee did not feel that it was sufficiently knowledgeable to make an informed judgement; and

(2) That the report to the Constitution & Member Services Scrutiny Panel on 22 March 2010 requesting the addition of the scrutinising of the policies and procedures within the Strategy to the Committee's Terms of Reference following suitable training be noted.

55. INTERNAL AUDIT MONITORING REPORT - OCTOBER TO DECEMBER 2009

The Chief Internal Auditor presented the Internal Audit Monitoring Report for the third quarter of 2009/10, along with the Work Plan for the fourth quarter of 2009/10 and the current Audit Plan Status Report for 2009/10.

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

- (a) Satisfactory Assurance:
- Payroll;
 - Human Resources/Payroll Integration (ICT);
 - Performance Indicators;
 - Inventory Control;
 - Cash Receipting and Income Control;
 - Members Gifts and Hospitality;
 - Non Housing Repair Account Repairs and Maintenance;
 - Asset Management; and
 - Verification of Cash Floats.

No reports had been issued with either substantial assurance or no assurance. The Chief Internal Auditor highlighted that no audits had been issued with Limited Assurance during the quarter. Two audits had been in progress at the end of the quarter, Housing and Council Tax Benefits and Council Tax Billing and Collection, and had not been included in the performance figures.

The Committee's attention was drawn to the Priority 1 Actions Status report, and the Limited Assurance Audit Follow Up Status report. 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 2009/10.

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|------------------------------|-------------|------------------|
| • % Planned Audits Completed | Target 68% | Actual 57%; |
| • % Chargeable Staff Time | Target 72% | Actual 68%; |
| • Average Cost per Audit Day | Target £320 | Actual £318; and |
| • % User Satisfaction | Target 85% | Actual 90%. |

Two of the targets had been met or exceeded during the quarter. The shortfall for the Planned Audits Completed Indicator could be attributed to the 0.8 FTE vacancy within the Unit, and the two audits that were still outstanding at the end of the quarter. It was envisaged that an improved position would be reported at the end of the next quarter due to the addition of the contracted out work.

In response to questions from the Committee, the Chief Internal Auditor added that the two outstanding reports at the end of the quarter had now been completed. One of these was the first report compiled by Deloitte & Touche, and both had received a Substantial Assurance. The tender submitted by Deloitte & Touche and accepted by the Council had generated a £4,000 saving against the agreed budget. The External Auditor reminded the Committee that the work of the Internal Audit Unit could generally be relied upon; the audits produced by Deloitte & Touche would also be reviewed.

Sick Leave within the Internal Audit Unit was still a concern with one member suffering from a long-term illness. The Chief Internal Auditor reported that sickness within the Internal Audit Unit during the third quarter of 2009/10 had amounted to 10 days, in comparison with 18, 6 and 26 days respectively in the three preceding quarters. The Committee noted again that sickness for the whole team continued to be managed in accordance with the Council's Management of Absence policy.

The Committee felt that a higher proportion of the audits should attain Substantial Assurance, which would generate better Comprehensive Area Assessment scores; it was suggested that the Council was perhaps being a bit too complacent in accepting so many reports with a Satisfactory Assurance. It was also felt that all data for Performance Indicators should have been submitted by January 2010. The Chief Internal Auditor explained that evidence was required before an outstanding Priority 1 Action could be signed off, however it was agreed that the comments section would be updated for the next monitoring report.

RESOLVED:

(1) That the following issues arising from the Internal Audit Monitoring Report for the third quarter of 2009/10 be noted:

- (a) the Audit reports issued between October and December 2009 and significant findings therein;
- (b) the Priority 1 Actions Status Report;
- (c) the Limited Assurance Audit Follow-Up Status Report;

- (d) the Internal Audit Work Plan for October to December 2009;
 - (e) the Audit Plan Status Report 2009/10; and
 - (f) the Governance Statement Action Plan for 2008/09; and
- (2) That the Committee's satisfaction with the effectiveness of the work of Internal Audit during the third quarter of 2009/10 be confirmed.

56. COMPREHENSIVE AREA ASSESSMENT 2009/10 - ORGANISATIONAL ASSESSMENT

Unfortunately, the representative from the Audit Commission was unable to attend and the report regarding the Organisational Assessment of the Council as part of the Comprehensive Area Assessment for 2009/10 could not be formally presented to the Committee.

The Deputy Chief Executive informed the Committee about the recent work undertaken in respect of the Cabinet's Key Priorities for 2010/11, and added that they would be further considered at the next meeting of the Finance & Performance Management Scrutiny Panel. Additionally, all the Assistant Director posts identified during the Top Management restructure had now been filled and the capacity of the Council had improved accordingly.

The Committee noted that the Organisational Assessment had expressed concern over the provision of Leisure Centres within the District, a concern that was disputed by the Deputy Leader of the Council, and felt that better coordination during the budget setting process would be required if the Council's Key Priority Objectives in the future were to be achieved.

RESOLVED:

That, in the absence of any representative from the Audit Commission and forming part of the Comprehensive Area Assessment for 2009/10, the Council's Organisational Assessment be noted.

CHAIRMAN