

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

**Committee:** Audit and Governance Committee      **Date:** Thursday, 7 February 2013

**Place:** Council Chamber, Civic Offices, High Street, Epping      **Time:** 7.00 - 7.50 pm

**Members Present:** Mrs M Peddle (Chairman), C Finn, R Thompson, Ms S Watson and A Watts

**Other Councillors:** Ms S Stavrou and C Whitbread

**Apologies:** -

**Officers Present:** R Palmer (Director of Finance and ICT), B Bassington (Chief Internal Auditor), A Hendry (Democratic Services Officer) and G J Woodhall (Democratic Services Officer)

**Also in attendance:** L Clampin and C Reed (External Auditors)

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### **33. 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.

### **34. APOLOGIES FOR ABSENCE**

The Chairman had given his apologies for lateness, so the Vice-Chairman opened the meeting.

### **35. DECLARATIONS OF INTEREST**

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

### **36. MINUTES**

**Resolved:**

(1) That the minutes of the meeting held on 29 November 2012 be taken as read and signed by the Chairman as a correct record.

### **37. MATTERS ARISING**

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

### **38. AUDIT COMMISSION - NATIONAL LOCAL GOVERNMENT REPORTS AND STUDIES**

The Director of Finance & ICT presented the latest Local Government reports to be

published by the Audit Commission, which were relevant to the Council's responsibilities, functions and areas of responsibility.

The first report was entitled "Tough Times 2012" and was concerned with the responses of Councils to the challenging financial climate. The report found that Councils in 2011/12 largely delivered their planned savings and even added to their reserves in many cases. However, signs of financial stress were visible and some Councils were having to make further in-year cuts, find additional funding or restructure efficiency programmes in order to meet their budgets. The Director of Finance & ICT stated that, although the Council suffered a reduction in Government support, the monies received as a result of the New Homes Bonus had made up some of the shortfall. There had also been substantial savings from the Waste Management Contract and the transfer of non-housing assets from the Housing Revenue Account to the General Fund. The increase in the Council's reserves had arisen from the success in meeting the planned savings targets and reducing underspent budgets. The Director confirmed that there were no plans to remove discretionary spending from the Council's budgets at the current time.

The second report was entitled "Striking a Balance" and highlighted the level of reserves that Councils held across the country. Councils were encouraged to focus more attention on their reserves, which totalled £12.9billion and was equivalent to nearly a third of their net spending on services. The report called for Officers to provide clearer & more comprehensive advice to Members to enable better informed decisions about the level of reserves to be made, and greater clarity from Councils about their reasons for holding reserves. The Director of Finance & ICT advised that there were reports to the Finance & Performance Management Cabinet Committee during the budget setting process which included information on the level of the Council's reserves, and there was a separate report from the Section 151 Officer at the budget setting Council meeting that gave assurance about the adequacy of the Council's reserves. Therefore, Members were aware of the Council's level of reserves and the policy regarding the minimum level of reserves to be kept.

The final report was entitled "Auditing the Accounts 2011/12" and was concerned with the quality and timeliness of financial reporting by local public bodies. The report noted that principal and small public bodies had improved their standard of performance for financial reporting during 2011/12, despite the continuing financial constraints facing such bodies. The Director of Finance & ICT reassured the Committee that the Council had met its obligations for financial reporting under the various regulations.

The Committee was informed about a Local Government Governance review published by Grant Thornton each year. It was suggested that the Council should compare its performance against the councils listed in the report to give an indication of its own performance. The External Auditor informed the Committee that there would be one final round of reports from the Audit Commission before it was disbanded.

**Resolved:**

- (1) That the National Local Government reports and studies recently published by the Audit Commission be noted; and
- (2) That the Council's performance be compared against the Local Government Governance review published by Grant Thornton each year.

**39. REPORT OF THE EXTERNAL AUDITOR - GRANT CLAIM CERTIFICATION**

The External Auditor introduced two reports for the consideration of the Committee.

The first report was the Grants Claims and Certification report for 2011/12, which highlighted the key issues arising from the study, along with recommendations for the future and an action plan. Of the four claims or returns tested, three were neither qualified or required amendment. However, for the fourth return, Housing and Council Tax Benefit subsidy claim, an adjustment of £208 was required, which led it to being qualified. It was acknowledged that fewer errors had been found with this return than in previous years, but the Council should check a minimum of 5% of the new and amended benefit claims received to ensure that claims were being processed accurately.

The second report was the Planning Letter for 2012/13, which set out the proposed work programme and fees for the 2012/13 financial year. The Planning Letter indicated no variation between the proposed final fee for the 2012/13 audit and the previously published fee of £117,179. This in itself represented a reduction of £95,161 from the actual audit fee for 2011/12. The Audit Commission had completed its procurement exercise in March 2012 to award new contracts to audit suppliers and this had resulted in significant cost reductions. In combination with further efficiency savings, this had resulted in a 40% decrease in audit fees for the duration of the new five-year contract. In addition, the Council had incurred an additional cost of £15,000 in 2011/12 for the completion of the audit of financial statements. The Letter also outlined the proposed work in relation to the Financial Statements, Value for Money judgement and Whole of Government Accounts, as well as outlining the procedure for reporting any proposed increase in fees during the coming year. The final section listed the planned outputs for 2012/13.

At the request of the Committee, the External Auditor outlined the process that would be followed to determine the Council's Value for Money judgement, and remarked that the Council's history of good financial resilience would assist it in future Value for Money judgements. The Committee was reassured that there would be no decrease in the quality of the work performed by the External Auditor following the reduction of the Audit Fee.

**Resolved:**

- (1) That the following reports from the External Auditor be noted:
  - (a) Grant Claims and Returns Certification for the year ended 31 March 2012; and
  - (b) Planning Letter 2012/13.

**40. TREASURY MANAGEMENT STRATEGY STATEMENT AND INVESTMENT STRATEGY 2013/14 - 2015/16**

The Director of Finance & ICT presented a report on the Treasury Management Strategy Statement and Investment Strategy for the period 2013/14 to 2015/16.

The Director reminded the Committee that the annual Treasury Management Strategy Statement and Investment Strategy was a requirement of the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Treasury Management, and covered the Council's treasury activity for the financial years

2013/14 to 2015/16. This included the risks associated with the Council's treasury activity and how they were being managed.

The Director stated that the Council undertook capital expenditure on long-term assets, which could be funded by capital receipts, the receipt of grants or borrowing. The Council currently did not plan to borrow to carry out its capital investment, and the Capital Programme envisaged a balance of £8.3million in capital receipts and £3.2million in the Major Repairs Reserve on 31 March 2016. Therefore, it could be concluded that adequate resources existed to fund the Capital Programme in the medium term.

The Director reported that the Council had borrowed £185.5million from the Public Works Loan Board to pay for the Housing Revenue Account self-financing initiative. This had been split into six separate loans, one variable rate loan of £31.8million maturing in ten years, four fixed rate loans of £30million maturing between 26 and 29 years, and a further fixed rate loan of £33.7million maturing in 30 years from now. This borrowing portfolio had been based on the Housing Revenue Account (HRA) 30-year Financial Plan and the maturities were linked to when the HRA would have the resources to repay the loans. It had also been envisaged that the Council would be incurring annual interest charges of £6.3million, but the borrowing had been obtained at lower than anticipated rates which had resulted in an £800,000 saving per annum.

The Director stated that, in respect of the Council's current investments, all were denominated in Sterling and the Council received regular advice from Arlingclose, the Council's Treasury Management consultants, regarding the use of counterparties. The Council currently had an investment portfolio of approximately £55.8million, of which £50.5million was invested in the UK and £5.3million in Money Market Funds that were based in Ireland for tax purposes. The maturity profile ranged from £15.8million available for instant access to £10million with a maturity date exceeding one year. The continued low interest rates, the use of fewer counterparties and the shorter durations of the Council's investments had reduced the estimated investment income for 2013/14 to £446,000.

The Director advised the Committee of the three key risks associated with the Council's Treasury Management function, and how these were being managed throughout the year:

- The Credit and Counterparty risk was the possibility of a counterparty going into liquidation and failing to meet its obligations to the Council, but the Council's counterparty list was both prudent and regularly updated by the Council's treasury advisors. The Council was currently keeping its investments fairly liquid within a restricted counterparty list.
- The Liquidity risk was the possibility that sufficient cash would not be available to the Council when required, however a number of Money Market Funds were maintained and the Director of Finance & ICT held monthly meetings with treasury staff to review the required cashflow.
- The Interest Rate risk was concerned with potential fluctuations in interest rates. It was proposed to maintain no more than 75% of its investments in variable rate financial instruments, with the remainder of its investments in fixed rate deposits. This would allow the Council to take advantage of any favourable changes in interest rates whilst also receiving a reasonable return. It was felt that interest rates were unlikely to change significantly in the short to medium term.

The Director informed the Committee that the Council had borrowed between the General Fund and Housing Revenue Account for many years, and the interest rate charged had been based upon the average investment interest earned for the year. Draft regulations issued by the Chartered Institute for Public Finance & Accountancy had proposed that this interest rate should now be approved by the Council before the start of the financial year, and it was suggested that the average investment interest continue to be used as the rate for any inter-fund borrowing.

The Committee noted that a member of staff was acting up to cover the vacant Principal Accountant post that had responsibility for Treasury Management; recruitment to the vacant post would begin shortly. The Committee requested some background information about the individual appointed to fill the vacant Principal Accountant post on a permanent basis, given the level of investments that the individual would be responsible for. The Director reminded the Committee that the interest rates for the loans obtained from the Public Loans Works Board had been discounted, so it would cost the Council more in interest payments if the current loans were refinanced. The Committee welcomed the report and felt that the risks were being appropriately managed with sound advice being provided by the Council's Treasury Management consultant, Arlingclose.

**Resolved:**

- (1) That the Council's proposed Treasury Management Strategy Statement and Investment Strategy for the period 2013/14 to 2015/16 be noted;
- (2) That the arrangements for dealing with the risks associated with Treasury Management activity, as outlined in the Council's proposed Treasury Management Strategy Statement and Investment Strategy, be considered adequate; and
- (3) That the proposed Treasury Management Strategy Statement and Investment Strategy for the period 2013/14 to 2015/16 be recommended to the Council for approval without further amendment.

**41. INTERNAL AUDIT MONITORING REPORT - OCTOBER TO DECEMBER 2012**

The Chief Internal Auditor presented the Internal Audit Monitoring Report for the third quarter of 2012/13, which provided a summary of the work undertaken by the Internal Audit Unit between October and December 2012. The report detailed the overall performance to date against the Audit Plan for 2012/13 and also allowed the Committee to monitor the progress of Priority 1 actions issued in previous audit reports.

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

- (a) Full Assurance:
  - Bank Reconciliations.
- (b) Substantial Assurance:
  - Car Mileage Claims;
  - Recruitment and Selection;
  - Gifts and Hospitality (Members and Officers);
  - Members Services; and
  - Key Performance Indicators 2012/13.

- (b) Limited Assurance:
- None.
- (c) At draft report stage:
- Corporate Procurement;
  - Commercial Property Management;
  - Housing Tenancy and Allocations;
  - Building Control;
  - Procurement Fraud Prevention and Detection;
  - National Non-Domestic Rates; and
  - Treasury Management.

The Committee's attention was drawn to the Outstanding Priority 1 Actions Status report, all of which would be reviewed in follow-up audits, and the Limited Assurance Audit Follow Up Status report. It was also noted that the Audit Plan for 2012/13 had been appended to allow the Committee to monitor progress against the Plan.

The Chief Internal Auditor reported upon the current status of the Internal Audit Unit's Local Performance Indicators for 2012/13:

• % Planned Audits Completed	Target 90%	Actual 63%;
• % Chargeable Staff Time	Target 72%	Actual 69%;
• Average Cost per Audit Day	Target £245	Actual £229; and
• % User Satisfaction	Target 85%	Actual N/A.

The Chief Internal Auditor explained that no figure had been given for the User Satisfaction Indicator as it had become increasingly difficult to encourage Officers to provide any meaningful comments. A replacement electronic form was being developed for use from April at the start of the new Audit Plan. The Unit was currently on schedule to meet its target to complete 90% of the planned audits.

In respect of the outstanding Priority 1 actions, the Chief Internal Auditor reported that the mismatches from the Planning Fees reconciliation were being checked, and a part-time employee was being sought to process the Licensing Fee reconciliations. It was planned to perform a full audit of Housing and Council Tax Benefits during the fourth quarter, and work was still in progress to address the issues raised during the Legal Debt Recovery audit.

The Committee was still concerned about the accuracy checks for Housing and Council Tax Benefits. The Chief Internal Auditor reminded the Committee that previously the checks were only being partly done, but now all checks of claims were being performed and a sample review of the checks were also be verified. The Committee suggested that this issue should be reviewed on a more frequent basis than annually as was currently the case, and the Chief Internal Auditor agreed to schedule quarterly verifications. The Committee also inquired whether 5% was an adequate sample size for checking purposes. The Chief Internal Auditor stated that 5% had been agreed as the maximum size that the Managers could perform, and that the checks were performed on a random basis regardless of the complexity of the individual check. The External Auditor added that 5% was the common sample size with other Councils.

**Resolved:**

- (1) That the following issues arising from the Internal Audit Monitoring Report for the third quarter of 2012/13 be noted:

- (a) the Audit reports issued between October and December 2012 and significant findings therein;
- (b) the Priority 1 Actions Status Report;
- (c) the Limited Assurance Audit Follow-Up Status Report; and
- (d) The 2012/13 Audit Plan Status Report.

**42. ANY OTHER BUSINESS**

It was noted that there was no other urgent business for consideration by the Committee.

**CHAIRMAN**