

**Report to the Audit and Governance  
Committee**



**Report reference:** AGC-029-2009/10  
**Date of meeting:** 29 March 2010

**Epping Forest  
District Council**

**Portfolio:** Finance and Economic Development  
**Subject:** Audit and Governance Committee Annual Report for 2009/10.  
**Responsible Officer:** Brian Bassington (01992 564446).  
**Democratic Services Officer:** Gary Woodhall (01992 564470).

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**Recommendations/Decisions Required:**

- (1) That the attached draft Annual Report for the Audit and Governance Committee for 2009/10 be considered; and
- (2) That the Chairman and Vice-Chairman be authorised to agree the final draft in the event of any changes proposed at the meeting.

**Executive Summary:**

This report is produced in accordance with the Terms of Reference for the Committee, which require an annual report to be submitted to Council each year. This is the third annual report to Council. The Committee is invited to comment on the draft. Officers will then make the necessary amendments to the report. It is suggested that any substantive changes are agreed with the Chairman and Vice Chairman prior to the submission of the report to the Council in April.

**Reasons for Proposed Decision:**

There are no further meetings of this Committee before its Annual Report is submitted to Council in April.

**Other Options for Action:**

The Committee could hold another meeting to consider the final text of the Annual Report, but this is considered unnecessary.

**Report:**

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**Resource Implications:**

These have been included in the individual reports to the Committee throughout the year.

**Legal and Governance Implications:**

These have been included in the individual reports to the Committee throughout the year.

**Safer, Cleaner and Greener Implications:**

No specific implications

**Consultation Undertaken:**

Corporate Governance Group

**Background Papers:**

Minutes of Audit and Governance Committee

**Impact Assessments:**Risk Management

If the adequacy of the arrangements for Risk Management were not considered and reported regularly a significant weakness in the overall governance arrangements could occur and remain undetected.

Equality and Diversity:

*Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications?* No

*Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?* No

*What equality implications were identified through the Equality Impact Assessment process?*  
There are no specific equalities impacts.

*How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?*  
There are no specific equalities impacts.

**EPPING FOREST DISTRICT COUNCIL**

**THIRD ANNUAL REPORT**

**OF THE**

**AUDIT AND GOVERNANCE COMMITTEE**

**2009/10**

## **1. INTRODUCTION**

1.1 This is the third Annual Report of Epping Forest District Council's Audit and Governance Committee covering the municipal year 2009/10. The aim of this report is to describe some of the issues that have arisen during the year, in the context of the terms of reference for the Committee and its primary objective to provide independent assurance on the adequacy of the Council's control environment and risk management arrangements.

1.2 The purpose of the Committee is to provide:

- independent assurance on the adequacy of the risk management framework and the associated control environment;
- independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment: and
- to oversee the financial reporting process.

1.3 Membership of the Committee comprises:

- Three District Councillors - during 2009/10 these were Councillors Andrew Green (Chairman), Ann Haigh and Antony Watts; and
- Two independent members – Melanie Peddle (Vice Chairman) and Robert Thompson.

1.4 The Audit and Governance Committee is supported by Bob Palmer (Director of Finance and ICT), Joe Akerman (Chief Internal Auditor to July 2009) and Brian Bassington (Chief Internal Auditor from August 2009), together with administrative support from Democratic Services.

## **2. ESTABLISHMENT OF THE COMMITTEE**

2.1 Epping Forest District Council established an Audit and Governance Committee in February 2007. Five meetings of the Committee are held each municipal year to enable the business of the Committee to be transacted.

## **3. TERMS OF REFERENCE**

3.1 The Terms of Reference of the Audit and Governance Committee incorporate the following roles and functions for the Committee:

(a) To consider the effectiveness of the Council's risk management arrangements, control environment and associated anti-fraud and anticorruption measures.

(b) To seek assurances that action is being taken on risk related issues, identified by Auditors and Inspectors.

(c) To be satisfied that the Council's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.

- (d) To approve the Council's Internal Audit Strategy Plan, Annual Audit Plan and monitor performance against all associated plans.
- (e) To review summary Internal Audit reports and the main issues arising and seek assurance that action has been taken where necessary.
- (f) To receive an Annual Report from the Chief Internal Auditor.
- (g) To ensure that there are effective relationships between External and Internal Audit, Inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
- (h) To review financial statements, including the Council's Statement of Accounts, External Auditor's opinion and reports to Members, and monitor management action in response to the issues raised by External Audit.
- (i) Review, and challenge where necessary, the actions and judgements of Management, in relation to the Council's Statement of Accounts, paying particular attention to:
  - (i) critical accounting policies and practices, and any changes to them;
  - (ii) decisions requiring a major element of judgement;
  - (iii) the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
  - (iv) significant adjustments resulting from the audit; and
  - (v) any material weakness in internal control reported by the Internal or External Auditor.
- (j) Consider other reports of External Audit and inspection agencies which are relevant to the functions of the Committee.
- (k) For the Committee to meet privately and separately at least once a year with the External Auditor and Chief Internal Auditor.
- (l) To have the right to call any Members or officers of the Council as required.
- (m) To consider performance and best value issues to the extent that they relate to the audit and control environment and risk management issues of the Council.

### Proposed Changes

3.2 Following the collapse of the Icelandic Banks, there have been two national reports as a consequence, one from the Audit Commission (named Risk and Return English local authorities and the Icelandic Banks) in March 2009 and the second from the Communities and Local Government Select Committee (named Local authority investments) published June 2009.

3.3 Neither report suggested that the current system was fundamentally flawed, though both made recommendations for improvement. Following these reports CIPFA published a revised Treasury Management Code and updated Prudential Code in November 2009.

3.4 One of the key changes to the Code is that “The Council will be expected to name a committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and Policies.”

3.5 Consequently, it is proposed that the roles and responsibilities of the Audit and Governance Committee are changed to add the scrutiny of the treasury management strategy and policies. The Audit & Governance Committee has been consulted about this proposal and is supportive of the idea and at the time of this report, a further report had been submitted to the Constitution and Members Services Scrutiny Standing Panel for consideration at their meeting on 29th March, 2010.

#### **4. THE YEAR IN REVIEW**

4.1 This Section of the report outlines the main activities of the Committee over the last Council year (2009/10), each section reflecting the main terms of reference.

##### Review of Control Environment and Risk Management Arrangements

4.2 The Committee reviewed the Council’s 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.

4.3 It was noted 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 last 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.

4.4 The Committee had felt that it wanted an assurance that the Council was utilising best practice as indicated by the Audit Commission. To ensure that Audit Commission reports were made available to the Committee in the most effective manner the Executive Summary and Recommendations of the relevant Audit Commission papers, plus some brief comments to highlight their implementation would be presented to future meetings of the Committee.

4.4 The Committee received a report on the Building Maintenance Works Unit in relation to performance improvement following a number of adverse audit reports. The Committee received a presentation from the Assistant Director (Property) on the review being undertaken of the Housing Repairs and Building Maintenance Works Unit.

4.5 The main points covered by this presentation were:

- the previous Cabinet decisions;
- the role of the Advisory Group and their objectives;
- determining the current situation, starting with identifying the current weaknesses;
- the current targets and performance against them;
- the actions taken to date and the issues still to be addressed;
- the two options for appointing the External Management Contractor; and
- the actions comprising the next stage of the process.

4.6 The Assistant Director was reminded about the Committee's concerns over the poor results achieved by the audits of each stock-take, and further updates were requested by the Committee at future meetings. The Housing Portfolio Holder thanked the Assistant Director for his efforts as the review was a sizeable project, and undertook to provide the Committee with further update reports in the future.

4.7 The Committee received a report of a Breach of the Data Protection Act within the Council. The Assistant to the Chief Executive reported that an agenda had been published which included exempt information of a personal nature. 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.

4.8 The Assistant to the Chief Executive stated that an informal warning had been given to the member of staff concerned. After the discovery, each of the individuals had been phoned and a letter of apology sent; there had been no further complaints from them. A range of measures had now been put in place to avoid a recurrence of this scenario; further Data Protection training had been organised and the breach had been reported to the Information Commissioner who had initiated an investigation.

4.9 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. The Committee expressed their satisfaction with the response to the incident outlined by the Assistant to the Chief Executive.

4.10 To assist the Committee's understanding of the issues under review, and to resolve any delays in implementing Audit recommendations, the Committee invites Senior Officers to attend meetings of the Committee, particularly if high priority recommendations from Internal Audit Reports are not implemented in a timely manner.

#### Monitoring of Internal Audit Performance and Work Plans

4.11 At the meeting in June 2009 the Committee scrutinised the review of the effectiveness of the System of Internal Audit undertaken by the Corporate Governance Group for 2008/09, in the context of the Council's Annual Governance Statement. The Committee considered that the system of Internal Audit had been effective in 2008/09.

4.12 The Committee noted, at the June meeting, the Internal Audit Unit Annual Report for 2008/09 having received regular quarterly monitoring reports dealing with the management of the Internal Audit Unit, and key control issues arising from the audit work undertaken. In considering these reports the Committee was mindful of the need to consider these reports in the context of the adequacy or otherwise of the

Council's governance arrangements and the effectiveness of the work of Internal Audit. At the meeting in March 2010, the Committee approved the Internal Audit work plan for 2010/11 following initial consideration by the Finance and Performance Management Cabinet Committee and consultation with Directors and the Corporate Executive Forum.

4.13 The Committee noted the way in which the work plan was monitored during the year to meet the requirement to complete the audits of the Council's main financial systems to the satisfaction of the External Auditors.

#### Review of Financial Statements

4.14 At the meeting in June 2009, the Committee received a report on the Statutory Statement of Accounts for 2008/09. The Accounts and Audit Regulations require the Council to adopt the Statutory Statement of Accounts before 30 June each year. This task is reserved for the Council, however it is important that the Accounts are subjected to robust member scrutiny, which is performed by the Audit and Governance Committee.

4.15 The Committee raised a number of questions on the detailed accounts and queried increases in the Consolidated Expenses and the number of insurance claims that had been lodged with the Council. The Finance and 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.

#### Relationships between Internal and External Audit

4.16 At the meeting in June 2009 the Committee received a presentation by the Authority's External Auditors (PKF (UK) LLP) on the Annual Plan and Fees for the Council for 2009/10. The External Auditor advised the Committee that the total Audit Fee for 2009/10 had been estimated at £139,000. 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.

4.17 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.

4.18 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.

4.19 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.

#### Review of External Audit Reports

4.20 At its meeting in September 2009 the Committee received a report from the External Auditors on the Annual Governance Report for the Authority for 2008/09. The External Auditor reported that the key financial systems had been considered adequate as a basis for preparing the financial statements and no significant control weaknesses had been identified. An error in excess of £1million had been identified when auditing the impairment of the Council's housing stock, but when aggregated with other errors the net impact on the impairment figure was less than material, and had been corrected. Overall, the net impact of the corrections made to the financial statements had been £721,464 but this had been below the material error threshold.

4.21 The Committee was informed that the Academy System Implementation, Property Management System Implementation and the Council Dwelling Property Numbers had been identified as 'Significant Audit Risks', whilst the Council's Investments in Icelandic Banks, Income Reconciliations and Bad Debt Provision had been identified as 'Matters of Audit Emphasis'. It was anticipated that an unqualified opinion on the financial statements would be issued.

4.22 In respect of Use of Resources, the External Auditor stated that their assessment had been that the Council was performing adequately in managing their finances, governing the business and managing resources. The Council's Data Quality arrangements were considered adequate and it was anticipated that an unqualified Value for Money conclusion would be issued.

4.23 At its meeting in February 2010 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.

4.24 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.

4.25 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.

4.26 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.

4.27 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.

4.28 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.

4.29 The Committee was pleased to note that Internal and External Audit had identified similar risks.

#### Review of Performance

4.30 As part of the Audit monitoring process the Committee were informed during the previous year that not all Directorate business plans were available by 1<sup>st</sup> April each year.

4.31 The Committee had felt that it was good business practice to have a finished business plan in place for all Directorates by the start of each financial year, and that the relevant Portfolio Holder should sign them off. At the request of the Committee a further audit was carried out in June 2009 during which it was identified that the process for the production of business plans appeared to be fully embedded and that there was further improvement in 2009/10 with timely submissions of business plans and compliance with updated guidelines for all Directorates.

## **5. CONCLUDING COMMENTS**

5.1 The Council's Local Code of Governance defines good governance in the context of a set of principles, which focus on the systems and processes for the direction and control of the Council, and the way in which it accounts to, engages with and leads the community. The work of the Audit and Governance Committee in 2009/10 made an important contribution to raising the profile of internal control issues across the Council and providing assurance through a process of independent review.

5.2 Any Member or officer of the Council who has concerns about audit and governance issues, can approach the Director of Finance and ICT, Chief Internal Auditor, or any member of the Audit and Governance Committee, who can offer advice related to any aspect of the Committee's work.