

EPPING FOREST DISTRICT COUNCIL COMMITTEE MINUTES

Committee: Audit and Governance Committee **Date:** Thursday, 9 February 2012

Place: Council Chamber, Civic Offices, High Street, Epping **Time:** 7.00 - 9.00 pm

Members Present: A Watts (Chairman), Mrs M Peddle (Vice-Chairman), R Thompson and Ms S Watson

Other Councillors: D Stallan

Apologies: -

Officers Present: R Palmer (Director of Finance and ICT), B Bassington (Chief Internal Auditor), I Willett (Assistant to the Chief Executive), B Moldon (Principal Accountant), S G Hill (Senior Democratic Services Officer) and G J Woodhall (Democratic Services Officer)

Also in attendance: L Clampin (External Auditor)

38. 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.

39. DECLARATIONS OF INTEREST

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

40. MINUTES

Resolved:

(1) That the minutes of the meeting held on 10 November 2011 be taken as read and signed by the Chairman as a correct record.

41. MATTERS ARISING

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

42. CORPORATE GOVERNANCE GROUP - 14 DECEMBER 2011

Mr R Thompson, one of the independent members of the Committee, revealed that it was he who had held informal discussions with the Leader of the Council regarding the Grange Farm Trust (minute 64 refers), but this had been in a private capacity and would not conflict with his role on the Committee.

In respect of Unencrypted Computer Discs, the Assistant to the Chief Executive stated that the written comments of the Audit Commission had been received and

that the Council had been reprimanded (minute 69 refers). The review of the procedures had been completed and improvements made.

43. AUDIT & GOVERNANCE COMMITTEE - REVIEW OF CONSTITUTION & TERMS OF REFERENCE

The Assistant to the Chief Executive presented a report regarding the review of the constitution and terms of reference for the Committee.

The Committee was reminded that it had requested this report at its meeting on 22 September 2011, when it had considered the issue of Portfolio Holder Assistants being members of the Audit & Governance Committee. The current Committee was non-statutory, but the Government did intend to legislate for statutory Audit Committees although there was no schedule for this at the current time. The Committee was governed by Article 11 of the Council's Constitution, and that the Constitution & Member Services Scrutiny Panel would consider any requested changes to the Committee's Terms of Reference for detailed drafting.

The Director of Finance & ICT added that the Government was currently consulting on the Future of Local Audit, to which Members could respond to via the Government website. The future requirement for an Independent Chairman, and a majority of Independent Members, on the Audit Committee in the future were probably the two most important issues to consider.

The report was structured as a discussion paper, based around seven topics, and appended to the report were the current Audit Committee arrangements for ten local councils based in Essex.

(i) A Majority of Independent Members.

The Committee noted that only one of the ten Councils listed in the report had an independent member on their Audit Committee, therefore this Council was a leader in this respect. If the Council were to have a majority of independent members then it would need to recruit another two (to give a total Committee membership of seven). However, it was acknowledged that this would be a challenge to find further independent members with the necessary skills. Generally, the Committee was satisfied with the current arrangements and that it should not be changed until required to by law.

(ii) The Total Number of Committee Members.

The Committee were content with the current total membership of five. However, the Committee felt that it should have the flexibility to deal with a member who repeatedly does not attend meetings. It was accepted that this was particularly relevant for the two independent members, as there was measures already in place to deal with a Councillor that continually did not attend. It was agreed that an attendance standard should be set for independent members to fulfil during their membership.

(iii) Selection of Councillors by the Council, not political groups.

(iv) Exclusion of the Committee from the pro rata arrangements.

The Committee considered these two points together as it was felt that they were connected. The Committee noted that not all of the Council's Committees operated under the pro rata arrangements but it was felt that excluding the Committee from the pro rata arrangements would reinforce the Committee's independence and assist in

finding suitably qualified Councillors. It would also re-iterate that the Committee should be independent of party politics, although it was anticipated that there might be some concern from the Groups about waiving the pro rata arrangements. If the pro rata procedures were revoked then the terms of reference should list the desired characteristics for membership of the Committee.

(v) The Committee to appoint its own Chairman.

The Committee noted that this arrangement worked well on the Standards Committee. It is suggested that the Committee elect its own Chairman. This may be an elected or independent member. Whichever the Chairman was, the Vice-Chairman should be from the other type of member.

(vi) Separation of the Audit & Governance functions into Two Committees.

The Committee felt that its work programme was not excessive, and that it would incur additional expense and time commitments if the current Committee was split into two. Therefore, the Committee was satisfied with the current arrangements.

(vii) A Fixed Term of Office for Independent Members.

The Committee welcomed the introduction of a fixed term of office for independent members and noted the precedent set by the Standards Committee of three years. It was felt that the two terms should overlap such that the terms of office of both independent members would not expire on the same year. It was agreed that there should be no maximum number of terms that an independent member could serve on the Committee, but that the member concerned should be subject to an open selection process at least every two terms (i.e. six years). The Committee also noted that paid advertising in the local press might not be the best method for finding prospective independent members for the Committee. A better approach would be for Officers to target suitable candidates.

The Assistant to the Chief Executive undertook to provide a draft copy of the report to the Constitution & Member Services Scrutiny Panel for the members of the Committee to review and comment upon.

Resolved:

(1) That in respect of the review undertaken by the Committee of its Terms of Reference, as contained in Article 11 of the Council's Constitution, the following be recommended to the Constitution & Member Services Scrutiny Panel for consideration:

(a) that the number of Independent Members on the Committee should remain at two;

(b) that the total number of members on the Committee should remain at five;

(c) that an attendance standard for independent members should be investigated and established;

(d) that the selection of the elected Members of the Committee should be performed by the Council rather than the political groups;

(e) that the Committee should be excluded from the pro rata membership requirements and the terms of reference for the Committee should include the desired characteristics for membership;

(f) that the Committee should appoint its own Chairman;

(g) that the audit and governance functions of the current body should not be separated into two different committees;

(h) that independent members should serve for a three-year term, renewable if desired by the member but subject to an open selection process at least every six years; and

(g) that the expiry of the three-year terms for each independent member should not be concurrent; and

(2) That, taking account of the Committee's views above, the Constitution & Member Services Scrutiny Panel be requested to undertake a detailed redrafting of Article 11 of the Council's Constitution, the Terms of Reference for the Audit & Governance Committee, for approval by the Council.

44. REPORTS FROM THE EXTERNAL AUDITOR

The Committee considered a number of reports presented by the External Auditor.

(i) Annual Audit Letter for 2010/11

The External Auditor presented the Annual Audit Letter for 2010/11, which summarised the key issues arising from their work during the year. In respect of the Council's financial statements, some presentational misstatements of a material nature had been identified and subsequently corrected, but none of these had affected the Council's reported outturn. The restatement of balances for the previous financial year, as required for the implementation of International Financial Reporting Standards, had been dealt with appropriately by the Council. Consequently, an unqualified opinion on the Council's financial statements had been issued on 30 September 2011, along with an unqualified Value for Money Conclusion.

(ii) Audit Fee Outturn Summary for 2010/11

The External Auditor presented the Audit Fee Outturn Summary for 2010/11. The actual fee of £160,700 was £11,000 higher than anticipated. This was due to additional work arising from: significant additional audit time resulting from the implementation of International Financial Reporting Standards, which could not be anticipated in advance (£6,500); internal control deficiencies relating to housing and council tax benefit expenditure and car parking income (£3,500); and additional time spent on the Whole of Government Accounts (£1,000). The Director of Finance & ICT highlighted the additional checking now being undertaken for housing and council tax benefit expenditure.

(iii) Annual Audit Plan for 2011/12

The External Auditor presented the Annual Audit Plan for 2011/12. The Committee was informed that the purpose of the Plan was to:

- ensure mutual understanding of the respective responsibilities relating to the audit of the financial statements;

- provide an overview of the planned scope of the audit for the year ended 31 March 2012;
- inform the Committee of the significant audit risks identified by the External Auditor; and
- promote effective communication between the Committee and the External Auditors.

The Committee noted the significant audit risks that had been identified, namely the risk of incorrect accounting in the General Fund and Housing Revenue Account (HRA) arising from the self-financing of the HRA; and the risk of data loss or incorrect data entry during the implementation of a new property management system. No significant audit risks had been identified as impacting on the Value for Money Conclusion. The audit fee for the year would be £142,215. The fee for the certification of claims and returns for the year ended 31 March 2012 was anticipated to be £58,000 but this might increase if the Department of Work & Pensions requested any further work in respect of the qualification of the prior year's Housing and Council Tax Benefit Claim.

The Chief Internal Auditor agreed to add the implementation of the new Property Management system to the Internal Audit Plan for 2012/13.

(iv) Grant Claim Certification for the year ended 31 March 2011

The Committee noted that as this report had not been completed until late last week, it would be considered at the next scheduled meeting on 5 April 2012.

The Committee noted that the External Auditor had been instructed by the Audit Commission to not undertake any substantive audit work for the Council before 1 September 2012, when the new external audit appointments for the organisations currently audited by the Audit Commission's Audit Practice would be effective. This delay in planning the audit was not likely to have a big impact and would affect the work on the Value for Money Conclusion more than the work on the financial statements.

The Committee also noted the arrangements for the rotation of Audit Partners and Managers. PKF's core policy was in line with the Auditing Practices Board Ethical Standards for Auditors but on clients serviced under the Audit Commission's framework stricter rotation arrangements were applied, in line with the Audit Commission's Standing Guidance for Auditors. These were that a Partner had to be rotated after five years (although this could be extended to seven years with the written approval of the Audit Commission) and a manager after ten years of working on the same Council; neither were permitted to return within five years.

Resolved:

- (1) That the Annual Audit Letter for 2010/11, issued by the External Auditor in December 2011, be noted;
- (2) That the Audit Fee Outturn Summary for 2010/11 issued by the External Auditor in December 2011 be noted;
- (3) That the Annual Audit Plan for 2011/12 issued by the External Auditor in January 2012 be noted; and
- (4) That the report on Grant Claim Certification for the year ended 31 March 2011 be considered at the next meeting of the Committee, scheduled for 5 April 2012.

45. AUDIT COMMISSION NATIONAL LOCAL GOVERNMENT STUDY - PROTECTING THE PUBLIC PURSE

The Chief Internal Auditor presented a report upon the Audit Commission publication "Protecting the Public Purse", which had been published in November 2011.

The Committee noted that this report had focused on fighting fraud against local government and was written for Councillors and senior officers responsible for governance. It was estimated that fraud against Councils amounted to more than £2billion per annum. The four key fraud risks for the Council were Housing Tenancy fraud, Council Tax fraud, Procurement fraud and Housing/Council Tax Benefit fraud.

The Chief Internal Auditor reported that the Council had an effective benefits fraud team, which provided prevention and detection services relating to benefit fraud, and which also advised and assisted on non-benefit fraud. However, this team was likely to transfer to the Government's proposed single fraud investigation service. In respect of housing tenancy fraud, the Council had appointed a Fraud Officer during the last year, which was expected to be made a full-time permanent post at the next meeting of the Cabinet, and created a fraud action plan. The Council did not have dedicated fraud staff to investigate Council Tax Discount fraud, Procurement fraud, NFI data matching (carried out by audit staff when possible) and the use of data analytics to prevent further fraud and combat emerging fraud risks in the current economic climate.

There were two recommendations arising from the report for the Council to consider. Firstly, consideration should be given to those areas of risk not covered by dedicated fraud staff. The Internal Audit Unit currently had a part-time vacancy, which the Chief Internal Auditor was looking to fill with a specialist Fraud Officer. Secondly, consideration should also be given to the potential loss of the Council's trained fraud staff to the Government's single fraud investigation service. This risk had already been added to the Corporate Risk Register and an action plan drawn up, to be monitored by the Corporate Governance Group.

Resolved:

- (1) That the National Local Government Study – "Protecting the Public Purse" – published by the Audit Commission in November 2011 be noted;
- (2) That consideration be given by the Chief Internal Auditor to filling the current part-time vacancy within the Internal Audit Unit with a specialist Fraud Investigation Officer; and
- (3) That progress with the action plan drawn to mitigate against the potential loss of the Council's fraud investigation staff to the Government's single fraud investigation service be monitored by the Corporate Governance Group.

46. TREASURY MANAGEMENT STRATEGY STATEMENT & INVESTMENT STRATEGY 2012-15

The Principal Accountant presented a report concerning the Council's Treasury Management Strategy Statement and Investment Strategy for the period 2012-2015.

The Committee noted that this report was a requirement of the CIPFA Code of Practice on Treasury Management and covered treasury activity for the financial years 2012/13 to 2014/15. Currently, the capital programme for the next three years

totalled £50.793million and was fully funded. It was predicted that at the end of 2014/15 there would still be £8.642million in usable capital receipts available and £2.443million in the Major Repairs Reserve.

The Principal Accountant reported that the Council was required to approve its Minimum Revenue Provision (MRP) each year. In previous years when the Council had been debt free, the MRP did not have to be provided, but the Council was shortly to borrow almost £186million for the Housing Revenue Account (HRA) Self-Financing and this would normally require a local authority to charge MRP to the General Fund. However, the Government had produced draft regulations whereby any borrowing in support of the Self-Financing of the HRA could be ignored; the Council could still be classified as debt-free and therefore did not need to make provision for MRP.

The Principal Accountant stated that new regulations required the Council to agree the interest rate applicable to any inter-fund borrowing before the start of the financial year. The Council had undertaken inter-fund borrowing for a number of years, using the average interest earned on investments for the year as the rate for any inter-fund borrowing, and it was proposed to continue this arrangement.

The Cabinet was informed that the Council currently had an investment portfolio of approximately £55million, which was all denominated in sterling. There was no exposure to Euro debt, although the Council did have one sterling investment with a French bank. The Council had received confirmation of the final figure it would have to pay in respect of the self-financing of the HRA, this being £185.5million. A further report would be prepared for Cabinet regarding the debt portfolio to be taken on by the Council.

The Principal Accountant 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. There was the risk of a counterparty going into liquidation, 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 very liquid with a current maximum maturity of three months. There was the risk that cash would not be available to the Council when it was needed, however a number of instant access accounts were maintained and the Director of Finance & ICT had monthly meetings with treasury staff to review the amount of money under investment. Finally, there was the risk of 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.

In response to questions from the members present, the Principal Accountant reported that the majority of the Council's debt for HRA self-financing would be on fixed rate terms, therefore it would not fluctuate and there would be no real advantage in repaying the debt early. The current Government had also retained the option to review the debt allocation in the future, but it was felt that this was unlikely to happen. In respect of the Council's investment with the Heritable Bank, 68% of the original investment had now been returned by the Administrators.

Resolved:

- (1) That the risks associated with the Treasury Management Strategy Statement and Investment Strategy for the period 2012/13 to 2014/15 be noted; and

(2) That the Committee be satisfied of a sufficiently robust approach being taken to the mitigation of risks within the Treasury Management Strategy Statement and Investment Strategy for the period 2012/13 to 2014/15.

47. Q3 INTERNAL AUDIT MONITORING REPORT 2011/12

The Chief Internal Auditor presented the Internal Audit Monitoring Report for the third quarter of 2011/12, which provided a summary of the work undertaken by the Internal Audit Unit between October and December 2011. The report detailed the overall performance to date against the Audit Plan for 2011/12 and also allowed the Committee to monitor the progress of Priority 1 recommendations issued in previous audit reports.

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

- (a) Substantial Assurance:
- Key & Local Performance Indicators;
 - Norway House;
 - Housing Maintenance Depot;
 - Management of Sickness Absence;
 - Licensing (administration);
 - Gifts & Hospitality (Members); and
 - Sundry Debtors.
- (b) At draft report stage:
- Planning Fees;
 - Risk Management & Insurance;
 - Creditors;
 - Commercial Property Management;
 - National Non Domestic Rates; and
 - Licensing Enforcement.

No reports with a Limited Assurance had been issued during the quarter. The Committee's attention was drawn to the Outstanding Priority 1 Actions Status report, and the Limited Assurance Audit Follow Up Status report. It was also noted that the Audit Plan for 2011/12 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 2011/12:

• % Planned Audits Completed	Target 68%	Actual 53%;
• % Chargeable Staff Time	Target 72%	Actual 71%;
• Average Cost per Audit Day	Target £300	Actual £237; and
• % User Satisfaction	Target 85%	Actual 87%.

The Committee noted that there had been a shortfall in the planned audits completed for the period, which was due to the unavailability of a member of staff on long-term sickness who had now resigned from the Council. The Audit Plan for the final quarter ensured that the key financial audits were completed, which would leave some lower risk and smaller audits to hold over until 2012/13.

The Chief Internal Auditor highlighted the substantial assurance audit report issued for the Housing Maintenance Depot, following a series of limited assurance audit reports. There had been a number of improvements made at the depot, although

there was another audit scheduled for early in the 2012/13 Audit Plan. The Committee acknowledged that progress had been made at the Depot but requested a report for their next meeting on the new control and risk arrangements within the Housing Repairs Service and Maintenance Depot.

The Director of Finance & ICT reported that the target date for the outstanding Priority 1 action in Corporate Procurement was February 2012. The External Auditor stated that they had no real concerns regarding the current staffing levels within Internal Audit.

Resolved:

(1) That the following issues arising from the Internal Audit Monitoring Report for the third quarter of 2011/12 be noted:

(a) the Audit reports issued between October and December 2011 and significant findings therein;

(b) the Priority 1 Actions Status Report;

(c) the Limited Assurance Audit Follow-Up Status Report; and

(d) The 2011/12 Audit Plan Status Report; and

(2) That a further report on the new control and risk management arrangements within the Housing Repairs Service and Maintenance Depot be submitted to the next meeting of the Committee.

48. ANY OTHER BUSINESS

The Chief Internal Auditor agreed to provide an update on the progress with the implementation of the Bribery Act Policy at the next meeting, along with the results and progress from the Risk Management Awareness Staff Survey.

The Committee also requested a report of the implications of the Localism Act 2011, particularly the Council's relationship with third parties, at a future meeting.

CHAIRMAN