

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

**Committee:** Audit and Governance Committee      **Date:** Thursday, 25 September 2014

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

**Members Present:** A Watts (Chairman), S Weston, R Thompson (Vice-Chairman) and A Jarvis

**Other Councillors:** J Philip, D Stallan and Ms S Stavrou

**Apologies:** P Keska

**Officers Present:** R Palmer (Director of Resources), B Bassington (Chief Internal Auditor), P Maddock (Assistant Director (Accountancy)), P Maginnis (Assistant Director Human Resources), G J Woodhall (Democratic Services Officer) and J Leither (Democratic Services Assistant)

**Also in attendance:** D Eagles and B Pryke (External Auditors)

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### **15. 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.

### **16. DECLARATIONS OF INTEREST**

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

### **17. MINUTES**

**Resolved:**

(1) That the minutes of the meeting held on 30 June 2014 be taken as read and signed by the Chairman as a correct record.

### **18. MATTERS ARISING**

The Committee noted that there were no matters arising from the previous meeting for further consideration.

### **19. AUDIT & GOVERNANCE WORK PROGRAMME 2014/15**

The Chairman observed that there should have been a report on the recruitment and appointment of a new Co-Opted Member for the Committee as R Thompson would be retiring. It was highlighted that a recruitment process had recently been undertaken for the appointment of A Jarvis, and that a similar procedure would be

used again. This was an appointment for the Council to make and a report would be submitted to the Council in due course.

The Director of Resources thanked R Thompson for his efforts over the past five years and acknowledged the benefit to the Committee that his contributions had made. The Chairman added his own thanks and emphasised the contributions that R Thompson had made to the debates on Risk Management.

R Thompson explained his reasons for wanting to retire and assured the Committee that he would attend the next meeting on 24 November 2014 if an appointment had not been made by then.

The Committee noted its Work Programme for the current municipal year.

## 20. RECRUITMENT AND SELECTION AUDIT

The Assistant Director of Resources (Human Resources) presented a report on the recent Recruitment & Selection Audit.

The Assistant Director reported that an internal audit was carried out on the Council's Recruitment and Selection process, which was completed in January 2014. This included a review of recruitment to ensure there were adequate processes in place to identify and advertise vacancies, and also that the processes for employing and inducting a new employee were being followed. The audit was given a 'Substantial Assurance' rating, however it did include a Priority 1 recommendation – *Management to be reminded of the importance of ensuring the recruitment process is fully documented, including all inductions completed timely and all required paperwork provided to the employee.* This action was completed in February 2014.

The Assistant Director acknowledged the comments made by the Committee at its previous meeting, and stated that the Council's Induction process had recently been reviewed with a report submitted to Management Board. It was agreed that:

- a Corporate e-learning module should be launched;
- quarterly 'meet-and-greet' sessions with Management Board to be arranged for new starters;
- updated paperwork for Inductions to be issued;
- a 'community' to be set up on the i-Train platform;
- Human Resources to record the completed paperwork and completion of e-learning courses; and
- A reminder to be sent to managers who had not returned the completed paperwork, or whose employees had not completed the e-learning components.

The Assistant Director added that Management Board had requested some additions to the e-learning module, and it was intended to launch the new process before 1 October 2014. A corporate Apprentice had been reviewing the checklists and ensuring all the paperwork had been completed, but this individual had left the Council. A new Human Resources Assistant had been performing this work, and the historical data was also being checked for any discrepancies.

The Committee thanked the Assistant Director for the update and was reassured that this work was now being performed satisfactorily. The Chief Internal Auditor added that a follow-up audit was planned.

**Resolved:**

- (1) That the actions undertaken since the Recruitment & Selection Audit in January 2014 be noted.

**21. INTERNAL AUDIT CHARTER**

The Chief Internal Auditor presented a report on the proposed Internal Audit Charter, and Quality Assurance and Improvement Programme.

The Chief Internal Auditor reported that the Public Sector Internal Audit Standards (PSIAS) adopted throughout the public sector in the United Kingdom from 1 April 2013 required the purpose, authority and responsibility of internal audit activity to be formally defined in an Internal Audit Charter, which the Chief Internal Auditor had to periodically review and present to Senior Management and the Audit and Governance Committee for approval. In addition, the Chief Internal Auditor was also required to develop and maintain a Quality Assurance and Improvement Programme that covered all aspects of the Internal Audit activity.

The Committee welcomed the Charter and highlighted some typographical errors that needed correcting. In response to questions from the Committee, the Chief Internal Auditor stated that a self assessment exercise would form part of the annual review conducted by the Corporate Governance Group, and that a nearby, but not neighbouring, Council would be requested to perform the external assessments planned for every five years. These would take a 'critical friend' approach, although no schedule for these was yet in place.

**Resolved:**

- (1) That the Internal Audit Charter, and associated Quality Assurance and Improvement Programme, attached at Appendix 1 of the report be adopted.

**22. INTERNAL AUDIT MONITORING REPORT - APRIL TO JUNE 14**

The Chief Internal Auditor presented the Internal Audit Monitoring report for the first quarter of 2014/15, which provided a summary of the work undertaken by the Internal Audit Unit between April and June 2014. The report detailed the overall performance to date against the Audit Plan for 2014/15 and also enabled the Committee to monitor the progress of Priority 1 actions issued in previous reports.

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

- (a) Full Assurance:
- None;
- (b) Substantial Assurance:
- Creditors;
  - Housing Benefits;
  - Overtime & Committee Allowances;
  - Travelling & Subsistence Claims;
  - Fleet Operations Income;
  - Management of Sickness Absence;
  - Norway House; and
  - Right to Buy;

- (c) Limited Assurance:
- Housing Rent Collection and Arrears; and
- (d) No Assurance:
- None.

The Chief Internal Auditor also highlighted that there were a further five reports being drafted: Business Plans; Commercial Property Management; Facilities Management; Reprographics; and Planning Fees. 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 2014/15 had been appended to the report to allow the Committee to monitor progress against the Plan.

In respect of the Limited Assurance audit report issued for Housing Rent Collection and Arrears, the Chief Internal Auditor stated that the Rental Income reconciliation and Council Stock reconciliation had not been completed for 2013/14. Staff from both the Communities and Resources Directorates had worked together to resolve the issue; the Council Stock reconciliation had been completed by the time of the final report being issued, and the Rental Income reconciliation had been completed by 7 August 2014. Rental Income reconciliations would now be carried out on a monthly basis.

The Chief Internal Auditor reported upon the current status of the Internal Audit Unit's Local Performance Indicators for 2014/15:

- |                              |             |                  |
|------------------------------|-------------|------------------|
| • % Planned Audits Completed | Target 90%  | Actual 17%;      |
| • % Chargeable Staff Time    | Target 75%  | Actual 74%;      |
| • Average Cost per Audit Day | Target £245 | Actual £237; and |
| • % User Satisfaction        | Target 90%  | Actual N/A.      |

The Chief Internal Auditor informed the Committee that a member of the Internal Audit team had left the Council in July, and a new member of staff would start in October. It was anticipated that the current backlog with the Audit Plan would be eliminated by the end of the year. As of 1 July 2014, the User Satisfaction Survey was being given to the relevant Assistant Director or Manager at the Audit Exit meeting for completion at the meeting. This would hopefully ensure both completion and responses while the audit was fresh in the mind of the Responder.

In relation to the follow-up of Limited Assurance Audits, Car Parking Income had still been assessed as Limited Assurance, following the issue of a draft report. It was highlighted that an independent review of the Car Parking Contract with the North Essex Parking Partnership (NEPP) by the Internal Audit section of Colchester Borough Council had found similar problems with the income from Penalty Charge Notices and Season Tickets. The full report would be issued in time for the next meeting of the Audit & Governance Committee. It was anticipated that the introduction of new parking meters to replace the existing ticket machines would enable the pay-and-display income to be more effectively monitored, as these meters would be directly connected to the NEPP computer systems.

The Chief Internal Auditor added that a new Commercial Property Portfolio computer software system had yet to be acquired.

#### **Resolved:**

- (1) That the following issues arising from the Internal Audit Monitoring Report for the first quarter of 2014/15 be noted:

- (a) the Audit reports issued between April and June 2014 and significant findings therein;
- (b) the Priority 1 Actions Status Report;
- (c) the Limited Assurance Audit Follow-Up Status Report; and
- (d) the 2014/15 Audit Plan Status Report.

### **23. AUDIT OF ACCOUNTS - ANNUAL GOVERNANCE REPORT 2013/14**

The External Auditor presented the Annual Governance Report for 2013/14, the purpose of which was to advise the Committee of the significant findings arising from the audit of the Council's financial statements and arrangements to secure economy, efficiency and effectiveness in the use of resources.

The External Auditor advised the Committee of the significant audit findings. No material misstatements had been identified from the audit of the Council's Financial Statements and it was anticipated that an unqualified "true and fair" opinion would be issued. One unadjusted audit difference had been identified, which would result in a reduction of the draft surplus for the year by £115,000 in the Consolidated Income and Expenditure Statement, but no significant internal control deficiencies had been identified. The Annual Governance Statement was not considered misleading and complied with the guidance issued by the Chartered Institute of Public Finance & Accountancy (CIPFA). It was also intended to issue an unqualified value for money conclusion as the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources for the year.

The Council's key financial systems were considered generally adequate as a basis for preparing the financial statements, with no significant deficiencies in the Council's internal controls identified. It had been identified that monthly reconciliations between the Housing Rents system and the General Ledger had not happened during the year. The Director of Communities had stated that a year-end reconciliation had taken place and that monthly reconciliations were now happening. It was also noted that there was no direct engagement letter between the Council and the Actuary for the Pension Fund. The Director of Resources stated that the Council could not insist on such a letter as the contractual relationship was between the County Council and the Actuary, however the Council would liaise with both parties to devise a solution.

The Committee were advised that the External Auditor anticipated issuing an unqualified "true and fair" opinion on the Council's accounts. It was expected to complete the work on the Whole of Government Accounts by 3 October 2014. The draft Letters of Representation had been attached to the report, and these were due to be signed by the Director of Resources, and the Chairman of the Audit & Governance Committee accordingly.

In response to queries from members of the Committee, the External Auditor stated that the identified audit difference of £115,000 had been discussed with Officers. As it was not a material difference, the External Auditor could request the change be made but the Council could refuse and the Accounts would not be qualified. It was confirmed that the sum of £115,000 was extrapolated from a sample figure and considered to be the worst possible case. The Committee considered the comments of the External Auditor very carefully, but decided to leave the Accounts as presented. The External Auditor reported that the guidance and tools provided by the Audit Commission were used to perform the Audit. With the imminent demise of the

Audit Commission, the new National Audit Code did not appear to be fundamentally different from the guidance previously issued by the Audit Commission. It was highlighted that the Committee had a Chairman, not a Chair, and the External Auditor agreed to amend the draft Representation Letter accordingly.

**Resolved:**

- (1) That the Annual Governance Report for 2012/13 presented by the External Auditor be noted;
- (2) That the requested amendment in the sum of £115,000 to the Consolidated Income and Expenditure Statement not be made; and
- (3) That the draft Representation Letter be amended to read "*Chairman of...*" the Committee, not "*Chair of...*".

**24. STATUTORY STATEMENT OF ACCOUNTS 2013/14**

The Director of Resources presented a report on the Statutory Statement of Accounts for 2013/14.

The Director reminded the Committee that one of its key roles was the scrutiny of the Annual Statutory Statement of Accounts. There had been no significant changes to the accounting policies and practices during the year, but the most substantial change to the contents of the Accounts for 2013/14 arose from the implementation at the start of the year of the local retention of non-domestic rates. Previously, non-domestic rates had been collected and passed to a National Pool for redistribution, which did not provide Councils with an incentive to improve the economic development of its area and thereby increase their income. From 2013/14, Councils could increase their income through retaining a share of any growth in non-domestic rates collected. This was a significant change to the way local authorities were financed as the Government wanted to provide an incentive for economic development.

In respect of Assets Held for Sale, the Director stated that in 2012/13, it had been anticipated the property at Leader Lodge in North Weald Bassett would be sold for £515,000; that sale had not completed but a subsequent offer of £652,000 had been received. For 2013/14, the former car park at Church Hill in Loughton had been included, and this site had been subsequently sold for £858,000.

With regard to Decisions Requiring a Major Element of Judgement, the Director highlighted that the Council's liability to the Pension Fund had decreased by almost £18million to £57.8million. This reduction was due to an increase of £6.7million in the value of the Scheme's assets, and a reduction of £10.9million in the projected liabilities. Another area highlighted to the Committee was the provision of £1.486million for appeals against the valuation set by the Valuation Office Agency for non-domestic properties. The number of appeals had been increasing in recent years and this provision had been calculated by an external firm of rating experts who had analysed the outstanding appeals. However, new rules were due to be introduced to make it possible to dismiss those appeals considered to have no merit or substance.

Regarding Significant Adjustments Resulting from the Audit of the Accounts, the Director indicated that the Pension Scheme deficit had initially been overstated by £500,000 as the original information provided by the Actuary was incorrect. The second adjustment had arisen from an error in accounting for income from the local retention of business rates; it had initially been thought that the Council would receive

£177,000 from the 'safety net' but the Government grant to compensate for late changes to the overall system had not been included, which would result in the Council not receiving any funding from the 'safety net'. Both of these adjustments had been corrected in the Statement.

Following the publication of the agenda, the Director reported that the Revaluation Reserve had been increased by £230,000 with a corresponding reduction made to the Capital Adjustment Account (note 24 in the Accounts). Neither the Internal nor External Auditor had reported any material weakness in internal controls; if any subsequently arose then they would be reported to the Committee. The Director concluded that the Stock Market had recovered following a period of uncertainty prior to the Scottish Referendum, and a degree of economic stability was now expected.

In response to queries from the Members of the Committee, the Assistant Director of Resources (Accountancy) explained that the Council had lost its subsidy from the Government regarding Council Tax Benefits as this had been discontinued in 2013/14. It was agreed that a note should be added to the Accounts to explain the change. The Director reassured the Committee that the value of the Council's Housing Stock exceeded the £185million borrowed to finance the Housing Revenue Account Subsidy, and that the current Council Housebuilding Programme had been accelerated to minimise the monies that needed to be paid back to the Government from any further sales of Council housing stock under the Local Government Act 2003. The known staff vacancies had been accounted for within the budget; salaries were monitored monthly by the Management Board and reported to the Finance & Performance Management Cabinet Committee. The Assistant Director pointed out the problems encountered in identifying suitable counterparties with which to invest, hence £13million had been kept in short term deposit accounts.

**Resolved:**

(1) That the Statutory Statement of Accounts for 2013/14 be recommended to the Council for adoption.

**25. ANNUAL OUTTURN REPORT ON THE TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS 2013/14**

The Director of Resources presented the Annual Outturn Report on Treasury Management and Prudential Indicators for 2013/14.

The Director stated that the annual Treasury Management outturn report was a requirement of the Council's reporting procedures. It covered the treasury activity for 2013/14 and confirmed that there were no breaches of policy during the year. The Council did not plan to borrow to carry out its capital investment programme. The balances for Capital Receipts and the Major Repairs Reserve were higher than expected, and it could be concluded that the Council had adequate resources for its Capital Programme in the medium term.

The Director reported that the Council's underlying need to borrow was called the Capital Financing Requirement (CFR), and gauged the Council's debt position. The Council's CFR at 31 March 2014 was £184.7million after borrowing £185.456million for the self-financing of the Housing Revenue Account, and did not breach the Authorised Limit set at £200million, the Operational Boundary of £188million, and the Maturity Structure of Fixed Rate Borrowing restricted to 30 years or less. A viable Thirty-Year Financial Plan had been produced to service the loans and was regularly reviewed by Officers and Members. Only 17% of the amount had been borrowed at a variable rate of interest with the remainder borrowed at fixed preferential rates. Within

the Financial Plan, it was anticipated that all borrowing would be repaid upon maturity and all future capital expenditure financed through internal resources. The Council had £56.7million invested as of 31 March 2014, and none of the Prudential Indicators had been breached during 2013/14.

The Director explained how the Council's actual borrowing had marginally exceeded the CFR by £750,000, which equated to less than 0.5% of the Council's total borrowing, but that this would reduce. The Council's possible borrowing requirements over the next 6 to 9 months was also emphasised for projects such as the Epping Forest Shopping Park in Loughton and the redevelopment of St John's Road in Epping. The Committee felt that a note should be added to the Outturn Report highlighting that the Council's general need to borrow money was increasing. The Council had received 94% of its original investment with the Heritable Bank, and further distributions were expected from the Administrators.

The Director informed the Committee that service providers could benefit from the Council providing 'Prudential Borrowing'. This issue had been discussed during the competitive dialogue for the new Waste Management Contract as a possible option for the bidders, but the Council's preferred supplier Biffa had originally stated that this would not be required. However, on 16 September after they were awarded the contract, they requested loans of £1.25million in November 2014 and £3.4million in April 2015. Previously, Sports & Leisure Management, who had run the Council's leisure centres for the last ten years, had offered discounts on their management fees in return for capital borrowing from the Council. The Waste Management contract would run for 10 years and was worth in excess of £150million; considerable financial checking of Biffa had been performed before they were granted the Contract. The Council would seek to secure the loan against any assets procured by the Contractor, and the loan documents would be separate to the actual service contract. There were advantages to both parties: Biffa would pay less for their borrowing; and the Council would earn a better return than the Money Markets were currently offering. The Treasury Management Statement would require amending to permit lending to service providers that the Council was in a contractual relationship with.

In response to questions from the Committee, the Director stated that Biffa wanted to borrow the monies over a period of 5 years, but could not give an explanation for their volte-face regarding borrowing monies from the Council. The Committee felt that the general principle was sensible for both parties if the contractor was financially sound, but that the Council would need a policy to cover Prudential Borrowing to define the parameters of any future lending. The Director stated that it was intended to offer a similar facility to the bidders during the competitive dialogue process for the new Leisure Management Contract, and that a policy could be drawn up for the Committee to consider as part of the report on the Treasury Management Investment and Strategy Statements, scheduled for the meeting in February 2015.

**Resolved:**

- (1) That the Annual Outturn Report on Treasury Management and the Prudential Indicators for 2013/14, and the management of the risks therein, be noted; and
- (2) That a policy on the provision of Prudential Borrowing to Service Providers with which the Council had a contractual relationship with be drawn up and considered by the Committee at its meeting scheduled for 5 February 2015, as part of the report on the Treasury Management Investment and Strategy Statements.



**26. ANY OTHER BUSINESS**

The Committee noted that there was no other urgent business for consideration at the meeting.

**CHAIRMAN**