

# Epping Forest District Council

## Annual Governance Statement 2010/11

### 1. Scope of Responsibility

1.1 Epping Forest District Council (EFDC) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

1.2 In addition, the Council has a key role with respect to Community Leadership, exercising its powers under the Community Wellbeing Act 2000, facilitating effective engagement and collaborative working through the auspices of One Epping Forest, formerly the Local Strategic Partnership.

1.3 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, and for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions, and which includes arrangements for the management of risk.

1.4 The Council has approved and adopted a Code of Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the Code is on our website at [www.eppingforest.gov.uk](http://www.eppingforest.gov.uk). This statement explains how the Council has complied with the Code and also meets the requirements of Regulation 4 of the Accounts and Audit Regulations 2006, in relation to the publication of a Statement on Internal Control.

1.5 The Council's Code of Governance recognises that effective governance is achieved through the following core principles:

- (i) focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area;
- (ii) Members and officers working together to achieve a common purpose with clearly defined functions and roles;
- (iii) promoting values for the Council and demonstrating good governance through upholding high standards of conduct and behaviour;
- (iv) taking informed and transparent decisions which are subject to effective scrutiny and management of risk;
- (v) developing the capacity and capability of Members and officers to be effective;
- (vi) engaging with local people and other stakeholders to ensure robust public accountability.

## **2 The Purpose of the Governance Framework**

- 2.1 The governance framework comprises the systems and processes, culture and values for the direction and control of the Council and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
- 2.2 The system of internal control is designed to manage risk to a reasonable level rather than eliminate all risk of failure to fully achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks and the impact should they occur and to manage them efficiently, effectively and economically.
- 2.3 A governance framework has been in place at the Council for a number of years and has been effective for the year ended 31 March 2011, and up to the date of approval of the Statement of Accounts.

## **3. The Governance Framework**

- 3.1 The Council has an established Council Plan setting out its objectives, and there is an accompanying Performance Plan in which achievement of the objectives is monitored.
- 3.2 The Council facilitates policy and decision making via a Cabinet Structure with Cabinet Member portfolios. There are Standing Scrutiny Panels to cover key policy areas, Task and Finish Panels to undertake specific reviews and a co-ordinating Overview and Scrutiny Committee. An Audit and Governance Committee provides independent assurance to the Council on risk management and internal control and the effectiveness of the arrangements the Council has for these matters.
- 3.3 The Council has continued to enhance and strengthen its internal control environment through the introduction of new policies and procedures, which ensure compliance with established policies, procedures, laws and regulations. A comprehensive corporate induction programme is in place and information regarding policies and procedures are held on the intranet, which continues to be enhanced and developed. The Council's Internal Audit function has been effective in recent years and there are well established protocols for working with External Audit. The Audit Commission through its inspectorate functions also reviews compliance with policies, laws and regulations within their remit.
- 3.4 The Council's risk management arrangements are subject to regular review. Leadership to the risk management process is provided by the Director of Finance and ICT and the Portfolio Holder for Finance and Economic Development, who are the Officer and Member leads for risk management, respectively. The Council has approached embedding of risk management in accordance with best practice guidance, with a Corporate Risk Register supported by Directorate and Sectional risk registers.

- 3.5 Financial management in the Council and the reporting of financial standing is undertaken through a General Ledger Financial Information System, CEDAR, which integrates the general ledger function with those of budgetary control. A rigorous system of monthly financial monitoring ensures that any significant budget variances are identified in a timely way and corrective action is initiated.
- 3.6 The Council has adopted a new Corporate Plan for 2011/12 to 2014/15. The Corporate Plan is the Council's key strategic planning document, setting out service delivery priorities over the four-year period, with strategic themes reflecting those of the Sustainable Community Strategy for the district. The Corporate Plan is an important element of the Council's Performance Management Framework and its corporate business planning processes, and informs the content of annual Business Plans to illustrate the work that Directorates and Services perform that directly contributes towards the achievement of the Council's corporate objectives. The Corporate Plan also provides the emerging policy foundation for the Medium-Term Financial Strategy.

As part of the duty to secure continuous improvement, new Medium-Term Aims have also been adopted for 2011/12 to 2014/15. The identification of the Council's service delivery priorities over the four-year period of the new Corporate Plan, and the annual adoption of key objectives for each year of the Plan, provides an opportunity for the Council to focus specific attention on how areas for improvement will be addressed, opportunities exploited and better outcomes delivered for local people. A range of Key Performance Indicators (KPI) relevant to the Council's services and key objectives are also adopted each year. A number of the KPIs are used as performance measures for the key objectives, and relevant performance management processes are in place to review and monitor performance against the key objectives and KPIs, to ensure their continued achievability and relevance, and to identify proposals for appropriate corrective action in areas of under performance.

#### **4. Financial Management and Reporting**

- 4.1 Responsibility for ensuring that an effective system of internal financial control is maintained and operated rests with the Chief Finance Officer. The systems of internal financial control provide reasonable but not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be promptly detected.
- 4.2 Internal financial control is based on a framework of management information, financial regulations and administrative procedures, which include the segregation of duties, management supervision and a system of delegation and accountability.
- 4.3 In their Annual Audit Letter for 2009/10, the Council's External Auditor (PKF) stated the following key findings:
- 4.3.1 The External Auditor issued an unqualified opinion on the Council's financial statements on 30<sup>th</sup> September 2010. Their opinion confirmed that the financial statements gave a true and fair view of Council's financial affairs as at 31st March 2010 and of its income and expenditure for the year then ended.
- 4.3.2 The External Auditor was satisfied that the Annual Governance Statement was not inconsistent or misleading with other information they were aware of from their audit of the financial statements.

4.3.3 The External Auditor identified some notable control weaknesses from their review of the Council's accounting and internal control systems, which adversely impacted the audit approach. These were:

a) Benefits: Reconciliations, both between the housing and council tax benefits module of the Academy system and the general ledger and between the housing and council tax benefits module of the Academy system and the council tax module, had not been completed during the year. In addition, accuracy checks on claims processed had lapsed during the year.

b) Creditors: Controls over the ordering of goods and services were found to have lapsed, with notable amounts of orders being placed outside of Marketplace, the Council's electronic ordering system.

4.3.4 Although the draft accounts were prepared on time not all of the working papers requested were provided in time for the agreed start date of the audit, most significantly the reconciliations of housing and council tax benefit expenditure to the financial ledger and working papers that support the figures in the Cash Flow Statement.

4.3.5 Errors were identified and corrected during the course of the audit, of which six were significant enough to report in some detail in our Annual Governance Report.

The most significant was a material misstatement of £25.5m in respect of accounting for fixed asset revaluations. The overall impact of the correction of this misstatement was to change the Council's reported outturn from a £4m deficit to a £21m surplus for the year in the Income and Expenditure account but did not have an impact on the General Fund balance.

4.3.6 In addition, the cash flow statement required substantial restatement and amendment to comparatives to fully reflect the requirements of the SORP in respect of agency accounting.

## **5 Standards Committee**

5.1 During 2010/11 the Standards Committee has dealt with 9 complaints against Councillors. These mainly concern Parish and Town Councillors. At the time of writing, there are no current cases awaiting adjudication and under investigation.

5.2 During the year, the Standards for England Direction regarding one Parish council and the institution of a series of training and conflict resolution measures designed to address continuing complaints was cancelled. This was due to the difficulties encountered at the first two training sessions which led the trainer, the Monitoring Officer and the Standards Committee to question the likelihood of achieving a positive outcome and the cost of the programme.

5.3 The Committee continues to give advice and training on ethical governance issues and investigates/adjudicates on complaints against elected members as referred by the Standards Board for England. It is also available to assist with interpretation of Council protocols. During 2009/10 the Committee considered and issued Standards for England guidance on Predisposition, Predetermination or Bias and the Code of Conduct. The Committee submits an annual report on its activities to the Council. A further review of the Planning Protocol has been launched and will be concluded during 2011/12.

Planning and Legal Officers, planning agents and Town and Parish Councils have made submissions concerning the protocol.

- 5.4 During 2008/09, the Standards Committee responded to Government consultation on a new Code of Conduct. This proposed revision to the code has not been pursued by the new government which has, instead indicated that the present ethical framework and standards regime will be discontinued along with Standards for England, the national appeal body, mandatory Standards Committees and Codes of Conduct. The new regime is currently before Parliament and when legislation is enacted the District Council will need to review what takes its place at a local level, if anything. A new legal duty is likely to be introduced by the Government regarding failure by elected members to declare financial interests which, if proved, to be willful in nature may risk a criminal conviction.
- 5.5. The new legislation is thought likely to come into force in late 2011 or early 2012.

## **6. Review of Effectiveness**

- 6.1 The Council has responsibility for conducting an annual audit review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the managers within the Council who have responsibility for the development and maintenance of the governance environment, the work of the Corporate Governance Group, the Chief Internal Auditor's annual report, and also by comments made by the External Auditors and other review agencies and inspectorates.
- 6.2 The Council contributes to the delivery of the Sustainable Community Strategy for the District through active participation on One Epping Forest, formerly the Local Strategic Partnership, and the alignment of the Key Themes of the Council Plan 2006/10 with the Community Strategy. This is supported by a planning framework which includes the Council Plan and Directorate/Service Plans. The Council, through the Finance and Performance Management Scrutiny Panel, monitors and reports on progress so that Members can see how issues are being tackled. The Corporate Plan (formerly Council Plan) has been updated for 2011/15 and is awaiting Council approval.
- 6.3 Directorate and Sectional business plans contain a variety of performance indicators and targets that are regularly reviewed.
- 6.4 The Council's Constitution, which includes Financial Regulations, Contract Standing Orders and Delegated Authorities, is required to be reviewed annually and this is carried out by a nominated group of officers led by the Deputy Monitoring Officer. This annual programme of reviews of Contract Standing Orders, Financial Regulations and Delegated Authorities continued as in previous years.
- 6.5 The Council has three statutory posts as follows:-
- Head of Paid Service - Chief Executive
  - Chief Financial Officer - Director of Finance and ICT
  - Monitoring Officer – Director of Corporate Support Services / Solicitor to the Council.

These officers, with the Deputy Chief Executive, Deputy Monitoring Officer and Chief Internal Auditor form the Corporate Governance Group who meet monthly. The group's terms of reference: are available on the Council's web site.

- 6.6 The Council continues to assess how its overall corporate governance responsibilities are discharged. As referred to earlier the Council has adopted the CIPFA/SOLACE guidance and adopted a revised local Code of Governance in 2008.
- 6.7 The Council is required to maintain an adequate and effective system of internal audit of the Council's accounting and other systems of internal control as required by the Accounts and Audit Regulations. The Internal Audit function is managed by the Chief Internal Auditor and operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government.  
The annual Internal Audit work plan is discussed with senior officers and approved by the Audit and Governance Committee in consultation with the Finance and Performance Management Cabinet Committee.

All internal audit reports include an assessment of the adequacy of internal control and result in prioritised action plans to address any areas needing improvement. These are submitted to Service Directors, and an executive summary is provided to the Acting Chief Executive and the relevant Portfolio Holder.

- 6.8 The review of governance incorporates the system of internal control. In previous years the Council's review of the effectiveness of the system of internal control has been supported by:
- Directorate assurance based on management information, performance information and Director assurance statements;
  - The work undertaken by Internal Audit during the year;
  - The work undertaken by the external auditor reported in their annual audit and inspection letter and other review reports;
  - Other work undertaken by independent inspection bodies.

## **7. Governance – Service Issues and Improvements**

- 7.1. Service Directors have reviewed the governance arrangements operating within their Service Areas using a detailed checklist, and have provided assurance statements confirming their belief that appropriate controls were in place during 2010/11. Significant areas where governance arrangements have been strengthened are detailed below.

### **7.1.1. Office of the Chief Executive**

Throughput of Freedom of Information requests is sometimes at risk due to the number of applications received corporately and dealt with / monitored through the Democratic Services Department.

- 7.1.2. One significant breach of Data Protection Act requirements in 2009/10 has been addressed through revised data protection processes and continue to be carefully monitored.

### **7.1.3. Corporate Support Services**

Within Corporate Support Services no significant weaknesses have been identified by the review, internal /external audits or otherwise.

A corporate issue which the Corporate Governance Group has considered and referred to Management Board concerns the Council's membership of Unincorporated Associations.

Directors are reviewing such memberships in the light of advice with a view to a register being established and maintained.

#### 7.1.4. **Environment and Street Scene**

A number of Internal Audit reports were issued during 2010/11 which required actions by the Directorate. Those reports requiring specific action by the Directorate included:

- Contracts Compliance (553)
- Waste Management (558)
- Business Plans (562)
- Grounds Maintenance (566)
- Car Parking (589)
- Licensing Enforcement (590)

Action plans have been agreed between Internal Audit and the Directorate Management and steps have been taken to deal with the issues raised and ensure compliance.

Following previous difficulties regarding breaches of contract standing orders arising from multiple small contracts, a new ICT system which monitors the totality of contract expenditure has been successfully implemented thereby reducing the risks of unintended breaches of contract standing orders.

#### 7.1.5. **Finance and ICT**

During the first three quarters of 2010/11 there were no audits with limited assurance that related directly to the Directorate of Finance & ICT and follow ups have indicated positive progress on previous recommendations.

Last year one significant weakness was identified as the Audit Commission decided that progress on improving the Benefits Service was too slow and the service was inspected during 2009/10. Following the inspection, action plans were agreed with both the Audit Commission and the Department for Work and Pensions. Reports on progress have been made to the Finance & Performance Management Scrutiny Panel and the Audit & Governance Committee. All key actions have been implemented and significant improvements have been made in processing times.

During the year a firm of bailiffs used by the Council were placed in administration. Legal action is being pursued against the directors of the company to recover money owed to the Council. A procurement exercise is underway for replacement bailiffs and controls around the use of external bailiffs have been reviewed.

#### 7.1.6. **Housing**

A number in Internal Audit Reports since the Housing Directorate has taken over responsibility for the former Building Maintenance Works Unit have highlighted internal control deficiencies within that section (now known as the Housing Repairs Service) with regard to procedures relating to the Stores.

Although, in monetary terms, discrepancies between actual and recorded stock are relatively small, the number of discrepancies is outside of an acceptable tolerance.

Since taking over the Stores, the Asst. Director (Property) has taken a number of steps to improve the position in the short term. However, improvement has been hampered by the limitations of the legacy IT system.

The Housing Directorate has ensured that this weakness will be addressed in the medium term through the appointment of the Private Repairs Management Contractor (Mears) in May 2011 - one of the 5 "key deliverables" which Mears must deliver in the first year of the contract is to improve the supply chain for materials.

This will not only result in better value for money - through lower unit costs being harnessed through Mears' bulk purchasing power - but will also include the introduction of the contractor's own IT system for the control of materials, with more sophisticated internal controls.

#### **7.1.7. Planning and Economic Development**

Corporately, there has been recognition that a flow chart to ensure compliance with Contract Standing Orders is necessary, in part because of their complexity, and, in part to ensure that the most up to date Orders are being applied. The flow chart will be a helpful tool.

The various financial systems do not allow for the highlighting of accumulated consultancy work within the Planning and Economic Development Directorate, which would exceed contract standing orders to be avoided.

### **7.2. Governance – Internal Control Issues**

Other areas have been highlighted in the review of the Council's systems of internal control and are listed below. In each case the Directors responsible have identified the risk involved and prepared plans to contain the risks and deliver the necessary improvements:

7.2.1. Internal Audit had identified one income system where controls were in place however, the audit identified control weaknesses in the reconciliation of income and data quality. Management now ensure that income is recorded correctly to enable a full reconciliation of income due to the amount received.

7.2.2. Within the corporate systems for processing purchase orders and invoices, there are still instances of weaknesses and departures from Contract Standing Orders, Financial Regulations and good practice. While further instances of departures from Financial Regulations have been identified through audit review and corrective guidance given, it should be noted that the audit priority 1 recommendations which cover such departures, have fallen from 39 (09/10) to 29 (10/11). A course for managers on finance and regulatory issues continues to be regularly held for both new staff and existing staff where the need for a refresher has been identified through audit review or as part of Performance Development Reviews. An officer working group has reviewed Contract Standing Orders and Financial Regulations and a simplified instruction guide is in preparation.



7.2.3. Two Internal Audit reports have identified areas where documentation has not been retained for a sufficient period to provide evidence for audit purposes or legislative requirements. Initial guidance had been given and an officer working group is in the process of updating the document retention policy and guidelines.

8. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed .....

Derek Macnab  
Acting Chief Executive

Signed .....

Councillor Lesley Wagland  
Leader of the Council