

## EPPING FOREST DISTRICT COUNCIL COMMITTEE MINUTES

**Committee:** Audit and Governance Committee      **Date:** Monday, 24 September 2012

**Place:** Council Chamber, Civic Offices, High Street, Epping      **Time:** 7.00 - 8.40 pm

**Members Present:** A Watts (Chairman), R Thompson and Ms S Watson

**Other Councillors:** K Avey, D Stallan and Ms S Stavrou

**Apologies:** Mrs M Peddle and C Finn

**Officers Present:** R Palmer (Director of Finance and ICT), B Bassington (Chief Internal Auditor), N Richardson (Assistant Director (Development Control)), B Moldon (Principal Accountant), A Hendry (Democratic Services Officer) and G J Woodhall (Democratic Services Officer)

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

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### 13. 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.

### 14. DECLARATIONS OF INTEREST

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

### 15. MINUTES

**Resolved:**

(1) That the minutes of the meeting held on 21 June 2012 be taken as read and signed by the Chairman as a correct record.

### 16. MATTERS ARISING

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

### 17. DRAFT LOCAL AUDIT BILL

The Director of Finance & ICT presented a report about the consultation on the draft Local Audit Bill.

The Director reported that the draft Local Audit Bill abolished the existing regime and set out the proposed new audit framework for local public bodies which were

previously covered by the Audit Commission regime. The draft Bill was published on 6 July 2012 for consultation and pre-legislative scrutiny, which ran until 31 August 2012. The main provisions in the Bill were:

- the repeal of legislation setting up the Audit Commission (the Audit Commission Act 1998) and provision to transfer assets, liabilities and continuing functions to other bodies;
- a requirement on local public bodies to appoint an external and independent auditor on the advice of an independent auditor panel;
- the creation of a new regulatory framework for local public audit, whereby the Financial Reporting Council and professional accountancy bodies would regulate the provision of local public audit services;
- the transfer of responsibility for setting the high level Code of Audit Practice to the National Audit Office; and
- powers for the National Audit Office to undertake studies of thematic value for money issues relating to local government, and to access the information needed to do so.

The Director stated that the Corporate Governance Group had considered the draft Bill on 18 July 2012. It was concerned that the consultation was taking place over the holiday period, and felt that there was little likelihood of the Council influencing the Government on this issue, based on the response to previous consultations. The members of this Committee were consulted on 31 July 2012 and no specific comments were raised for referral to the Government. Consequently, the Council had not responded to the Government's consultation.

**Resolved:**

- (1) That the approach taken by the Council to not respond to the Government consultation on the draft Local Audit Bill be noted.

**18. INTERNAL AUDIT MONITORING REPORT - APRIL TO JUNE 2012**

The Chief Internal Auditor presented the Internal Audit Monitoring Report for the first quarter of 2012/13, which provided a summary of the work undertaken by the Internal Audit Unit between April and June 2012. The report detailed the overall performance to date against the Audit Plan for 2012/13 and also allowed the Committee to monitor the progress of Priority 1 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:
- Budgetary Control;
  - General Ledger;
  - Council Tax;
  - Car Parking; and
  - Management of Sickness Absence.
- (b) Limited Assurance:
- Housing & Council Tax Benefits; and
  - Housing Maintenance Stores Stock Take.
- (c) At draft report stage:
- Business Plans;
  - Debt Recovery;

- Environmental Controls & Backup Procedures;
- Overtime & Committee Allowances; and
- Corporate Procurement.

The recommendations made in the previous Housing & Council Tax Benefits audit regarding accuracy checks had not been implemented. The Benefits Manager had agreed to review the situation on a monthly basis to ensure that the checks were being completed. The Housing Maintenance Stores Stock Take had identified that the stock database records could not be relied upon as there were a significant number of discrepancies. However, a recommendation had not been made as action had already been taken by the Management to resolve the issue.

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

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

- |                              |             |                  |
|------------------------------|-------------|------------------|
| • % Planned Audits Completed | Target 90%  | Actual 16%;      |
| • % Chargeable Staff Time    | Target 72%  | Actual 70%;      |
| • Average Cost per Audit Day | Target £245 | Actual £239; and |
| • % User Satisfaction        | Target 85%  | Actual 95%.      |

The Committee noted that there had been a shortfall in the planned audits completed for the period. This was due to a vacancy within the Internal Audit Team, but the Chief Internal Auditor announced that this vacancy had now been filled. A Fraud Auditor had been recruited who would work for the Council for 2 days a week; they were currently doing 3 days a week at Uttlesford District Council. This post would replace the Auditor who had previously been on long-term sick leave.

In respect of the Limited Assurance audit report issued for Housing & Council Tax Benefits, the Committee requested that the Assistant Director of Finance & ICT (Benefits) attend the next meeting to provide an update upon the implementation of the recommendations from the report.

For the Limited Assurance audit report issued for the Housing Maintenance Stores Stock Take, the Committee requested that they receive the presentation that was recently given to the Housing Scrutiny Panel on the subject at their next meeting. It was also highlighted that, sometimes, the cost of correcting the errors was greater than the actual cost of the discrepancies, and was the Council responding proportionately to the scale of the problem. The Housing Portfolio Holder assured the Committee that a series of measures were being implemented at the Depot to improve operations, and this included the ongoing stock control issues. The Chief Internal Auditor added that the new Depot Manager was inviting tenders for a new stock control system.

In relation to the outstanding priority 1 action for Planning Fees Income Reconciliation, the Assistant Director of Planning & Economic Development (Development Control) advised the Committee that the Northgate health check had identified an IT solution was required, and the Crystal Financial reporting module had to be amended as well. The Committee requested a further update on progress at the next meeting, and that the current target date of April 2011 should be updated to reflect the new deadline. There was also an outstanding priority 1 action in respect of Planning Fees Refunds and the Committee requested an update on progress with this issue at the next meeting as well.

**Resolved:**

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

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

(2) That the Assistant Director of Finance & ICT (Benefits) be requested to attend the next meeting of the Committee to provide a progress report on the implementation of the recommendations made for the Housing & Council Tax Benefits audit report;

(3) That the Assistant Director of Housing (Property) be requested to present the briefing recently received by the Housing Scrutiny Panel on the stock-taking issues at the Depot to the Committee at its next meeting; and

(4) That the Assistant Director of Planning & Economic Development (Development Control) be requested to provide the Committee with progress reports at its next meeting on the Planning Fees Reconciliation and Planning Fees Refund issues identified by previous audits.

**19. ANNUAL OUTTURN REPORT ON THE TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS FOR 2011/12**

The Principal Accountant presented the 2011/12 Outturn Report on the Treasury Management and Prudential Indicators.

The Principal Accountant stated that the Annual Treasury Report was a requirement of the Council's reporting procedures. It covered the Council's Treasury activity for 2011/12, and the actual Prudential Indicators for 2011/12. For the Council's capital activity during the year, the balances for Capital Receipts and the Major Repairs Reserve were higher than expected. The Council was, therefore in a better position than anticipated and it was felt that adequate resources were available for the Capital Programme in the medium term.

The Principal Accountant advised that, during the year, the Council had financed all of its capital activity through capital receipts, capital grants and revenue contributions, but had to borrow £185.5million through the Public Works Loan Board (PWLB) to finance the payment in relation to Self-Financing of the Housing Revenue Account (HRA). The Council had addressed its risks through the production of a viable thirty-year financial plan, which was reviewed quarterly by Officers and half-yearly by the Housing Scrutiny Panel. Only 17% of the debt had been borrowed at variable rates of interest; the remainder was fixed at preferential rates. Any increase in interest rates would be matched by a corresponding increase in income from the Council's investments. Within the financial plan, it was expected that all borrowing would be repaid upon maturity and all future capital expenditure would be financed through internal resources.

The Principal Accountant reported that the Council's treasury position at 31 March 2012 totalled £47.1million in balances and reserves. The Council had not breached any of the prudential indicators, as it had only 26.2% of its investments exposed to variable rates, £5million invested for longer than 364 days, and the amount invested outside of the UK had been no more than 14% during the year.

In summary, the Principal Accountant concluded that the Council had continued to finance its capital programme through internal resources, and the capital receipts at the end of the year had exceeded expectations. Consequently, the Council had adequate resources to finance its capital programme in the medium term. The Council had now become a debt authority as it had borrowed £186.5million for the HRA self-financing payment. The Council had achieved its targets for its treasury function and there had been no breaches of the Prudential Indicators.

The Committee noted the report and the Council's strong position. It was felt that the Capital Programme needed to be monitored carefully, particularly if the balance of Capital Receipts available started to reduce. The Committee also welcomed the gradual return of the funds invested in the Heritable Bank, which had subsequently gone into administration. The Committee inquired about the funds invested overseas, but were reassured by the Principal Accountant that these had all matured and been received by the Council. The Committee felt that the risks associated with the Council's Treasury Management function had been managed well during the year.

**Resolved:**

(1) That the annual outturn report on Treasury Management and the Prudential Indicators for 2011/12, and the management of the risks therein, be noted.

**20. AUDIT OF ACCOUNTS - ANNUAL GOVERNANCE REPORT 2011/12**

The External Auditor presented the Annual Governance Report for 2011/12, whose purpose 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 Committee was informed of the key findings of the report. The Council's key financial systems were considered generally adequate as a basis for preparing the financial statements, however one significant deficiency in the Council's internal controls had been identified in relation to the checks being undertaken for Housing and Council Tax Benefit claims. No material misstatements had been identified from the audit, but some uncorrected non-trivial but non-material errors had been identified. A revised Appendix B had been circulated to show the effect of the uncorrected misstatements.

The External Auditor reported that the Council's new methodology for the estimation of the useful economic lives of Housing Revenue Account (HRA) properties was more accurate this year than had previously been the case. The Council had restated their financial statements back to 1 April 2010 and set up an earmarked reserve to release the income from commuted sums to the General Fund over time. The Collection Fund Income & Expenditure Account had also been restated to show the full deficit arising on the Collection Fund over the last two years. All the review points arising from the audit had been responded to and were due to be cleared very shortly. It was expected to complete the work on the Whole of Government Accounts by 5 October 2012.

The Committee were advised that the External Auditor anticipated issuing an unqualified "true and fair" opinion upon the Council's accounts. The External Auditors also intended to conclude that the Council had adequate arrangements in place to secure value for money, based upon the results of risk-based audit work and consideration of the Council's use of resources. Five recommendations had been identified by the audit and were included in an action plan for the future. The draft Letters of Representation had been attached to the report, and these were due to be signed by the Director of Finance & ICT, and the Chairman of the Audit & Governance Committee accordingly.

The Director of Finance & ICT reassured the Committee that, in respect of the identified internal control deficiency, Officers had been reminded to fully complete their checks for Housing and Council Tax Benefit claims in future. The Director then outlined the reasons for not correcting the six non-trivial but not material errors identified in the Council's Financial Statements:

- (i) New Homes Bonus - £58,000 had been received in respect of 2012/13, and it would have been incorrect to account for it in 2011/12;
- (ii) Revaluation of Housing Stock – the £85,000 housing stock understatement identified in the Council's Balance Sheet was extremely small when compared with the total stock value of £445million;
- (iii) Bad Debt Provision – in the current economic climate, it was felt prudent to over-allow for bad debts;
- (iv) Rental Income – the £35,000 raised after the year end but relating to 2011/12 was considered a trivial amount;
- (v) HRA Income - the £105,000 which was not recognised as income, had no net effect on the accounts; and
- (vi) NNDR Pool – was the difference between the estimated and actual amounts of National Non-Domestic Rates collected by the Council, with 67% of the amount due to an error made in the Bad Debt Provision calculation.

The Director reported that the net affect of these misstatements amounted to £115,000 and it was considered disproportionate to revise the accounts for such a small amount. The Committee agreed with the Director's opinion for each of the misstatements. The Director then informed the Committee of the Management responses for each of the five recommendations made by the External Auditors:

- (i) Property Management System - the Council had requested CIPFA to amend the Property Management system to record the housing stock on an asset-by-asset basis;
- (ii) Revaluation of Assets - the Valuer would be requested to amend the valuation date to 31 March as requested;
- (iii) Unsigned Employment Contracts - this would be implemented for all employees, not just new starters;
- (iv) Related Party Transactions - the Council was happy to comply with the recommendation; and

(v) Benefit Claim Assessments - an automated checking routine would be implemented for all new Benefit claim assessments and 5% of all other claims.

The Chairman thanked the External Auditors for their efforts.

**Resolved:**

(1) That the Annual Governance Report for 2011/12 presented by the External Auditor be noted; and

(2) That the six non-trivial but non-material errors identified, amounting to £115,000 in total, not be corrected for the reasons given by the Director of Finance & ICT.

**21. STATUTORY STATEMENT OF ACCOUNTS 2011/12**

The Director of Finance & ICT presented a report regarding the Statutory Statement of Accounts for 2010/11.

The Director reported that the changes to the Statutory Statement of Accounts for 2011/12 had been modest in comparison to last year, when the Council was required to comply with the International Financial Reporting Standards. However, one additional note had been added this year in respect of Heritage Assets. The District Museum held a number of items classed as Heritage Assets, and the fountain in Epping had also been classified as such. Heritage Assets had been added to the Balance Sheet as a new long-term asset with a net value of £543,000.

The Director reported one decision within the Statement that required a major element of judgement, that being the Council's liability to the Pension Fund. The Balance Sheet had indicated that the Council's liability to the Pension Fund had increased from £46.3million to £65.6million in the past year. The value of the scheme's assets had increased but the projected liabilities had also increased. The main factor had been the reduction in the discount rate for future outgoing cash flows from 5.5% to 4.6%, but the change in actuaries during the year could also have contributed to the increased liability. The inclusion of the £65.6million liability in the Balance Sheet showed the monies that would be owed by the Council if the Pension Fund had closed on 31 March 2012.

The Director advised the Committee of the unusual transactions that had affected the Statement. A further Value Added Tax (VAT) refund of £253,000 had been agreed in relation to trade waste for the period 1 January 1978 to 30 November 1996. The Council had borrowed £185.456million from the Public Works Loans Board to repay the Department for Communities & Local Government on cessation of the Housing Revenue Account (HRA) Subsidy Scheme on 31 March 2012. The current HRA 30-Year Business Plan indicated significant benefits for the Council, as annual payments into the subsidy pool of £11.3million would be replaced by interest payments of £5.5million. There had also been a £650,000 transfer to the Insurance Fund to cover the settlement of potential claims in relation to cases of Mesothelioma.

The Director informed the Committee of a number of further adjustments to be made to the Statement, and stated that amended pages would be issued for the forthcoming Council meeting showing the corrections. The Director concluded by stating that no significant adjustments to the Accounts had yet arisen from the Audit, and that the material weakness in the Council's system of internal control reported by the External Auditor in relation to the checking of new claims for Housing and Council Tax Benefit had not resulted in any material errors..

The Committee inquired as to whether the capitalisation of pension deficit payments was becoming more difficult. The Director of Finance & ICT responded that the Council had used such capitalisation in the past, but these directions were being restricted by the Government. Consequently, the period to recover the deficit had been extended to 22 years, and the deficit payments were being included in the base revenue budgets. The Council's contributions to the pension deficit had been fixed for the next two years, and the Director felt that it would be irresponsible if the Council took a pension contribution holiday in the future.

The Chairman highlighted that the variance between the budgeted capital expenditure and actual capital expenditure was in excess of 25%, and questioned whether the capital outturn should be investigated by the Finance & Performance Management Scrutiny Panel as this was a regular occurrence. The Director of Finance & ICT stated that the estimated and actual figures for 2011/12 were much closer than in previous years, and that a detailed report on the Capital Outturn position was considered by the Finance & Performance Management Cabinet Committee each year at its meeting in June.

The Committee noted that the Council's Statement of Accounts was dominated by the debts incurred by the end of the HRA Subsidy scheme, and the Pension Fund deficit.

**Recommended:**

(1) That the Statutory Statement of Accounts for 2011/12 be recommended to the Council for adoption.

**22. ANY OTHER BUSINESS**

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

**CHAIRMAN**