

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

**Committee:** Audit and Governance Committee    **Date:** 23 September 2013

**Place:** Council Chamber, Civic Offices, High Street, Epping    **Time:** 7.00 - 8.30 pm

**Members Present:** A Watts (Chairman), R Thompson (Vice-Chairman) and Ms H Kane

**Other Councillors:** C Whitbread, Ms S Stavrou and D Stallan

**Apologies:** -

**Officers Present:** R Palmer (Director of Finance and ICT), B Bassington (Chief Internal Auditor), P Maddock (Assistant Director (Accountancy)), S Mitchell (PR Website Editor) and G J Woodhall (Democratic Services Officer)

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### **19. 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.

### **20. COUNCILLOR COLIN FINN**

The Chairman informed the Committee that Councillor Colin Finn had passed away on 7 September 2013. Councillor Finn had only spent a short time on the Committee but had made a valuable contribution and everyone's thoughts went out to his family at this difficult time.

The Committee observed a minute's silence in memory of Councillor Finn.

### **21. DECLARATIONS OF INTEREST**

(a) Pursuant to the Council's Code of Member Conduct, Councillors A Watts and H Kane declared a personal interest in agenda item 11, Statutory Statement of Accounts 2012/13, in relation to the entry concerning the transfer of Waltham Abbey Town Hall to the Town Council by virtue of being members of Waltham Abbey Town Council. The Councillors had determined that their interest was non-pecuniary and would remain in the meeting for the consideration of the issue.

### **22. MINUTES**

**Resolved:**

(1) That the minutes of the meeting held on 27 June 2013 be taken as read and signed by the Chairman as a correct record.

**23. MATTERS ARISING**

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

**24. AUDIT AND GOVERNANCE WORK PROGRAMME - 2013/14**

The Chief Internal Auditor highlighted that the report regarding the Review of the Business Continuity Plan for Internal Audit had been brought forward to this meeting, whilst the report concerning Due Diligence for Council Contracts had been deferred until the meeting scheduled for 28 November 2013.

The Committee noted the Report Schedule for 2013/14.

**25. INTERNAL AUDIT BUSINESS CONTINUITY PLAN**

The Chief Internal Auditor presented a report reviewing the Business Continuity Plan for Internal Audit, following concern expressed as to the continuation of assurance levels in the Council's systems provided to the Committee should an incident occur to either the Internal Audit Unit or the Council.

The Chief Internal Auditor reported that the Business Continuity Plan for the Internal Audit Unit had been in existence for a number of years and had been updated regularly when staff or situations had changed. There were a number of references to both the Corporate and ICT Business Continuity Plans within the Internal Audit Business Continuity Plan. Both of these Business Continuity Plans were currently undergoing audits, which would be reported to the next meeting of the Committee. The most recent update to the Plan for Internal Audit had included the upgrade of ICT equipment to laptops with a VPN connection to the Council's network to enable mobile working. The Plan itself covered the main threats to the Internal Audit Unit's business continuity, namely:

- (a) full or partial loss of staff;
- (b) full or partial loss of accommodation;
- (c) full or partial loss of IT facilities; and
- (d) full or partial loss of telephone services.

The Chief Internal Auditor stated that the plan had been activated during the recent flooding incident as access to the Audit Office was severely restricted while the power supply and alarm system were unavailable. Audit staff had continued to work from both home and spare desks in the useable part of the building with minimal disruption.

In response to questions from the Committee, the Chief Internal Auditor acknowledged that not all paper records were kept in fire resistant cupboards, however a lot of the necessary working papers were being scanned onto the Council's computer servers to reduce the Council's reliance on paper copies. In the event of a total loss of staff, assistance would be requested from other Councils and also relevant Staffing Agencies to provide temporary staff until the recruitment process for new permanent members of staff was complete.

The Chairman thanked the Chief Internal Auditor for his report, and suggested that Internal Audit's Business Continuity Plan should be reviewed again when the audit

reports for the Corporate and ICT Business Continuity Plans were available, as this would put the Internal Audit Plan into context.

**Resolved:**

- (1) That the Business Continuity Plan for Internal Audit be noted; and
- (2) That the Plan be reviewed again when the audit reports for both the Corporate and ICT Business Continuity Plans were available.

**26. INTERNAL AUDIT MONITORING REPORT - APRIL TO JUNE 2013**

The Chief Internal Auditor presented the Internal Audit Monitoring Report for the first quarter of 2013/14, which provided a summary of the work undertaken by the Internal Audit Unit between April and June 2013. The report detailed the overall performance to date against the Audit Plan for 2013/14 and also allowed the Committee to monitor the progress of Priority 1 actions issued in previous audit reports.

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

- (a) Full Assurance:
  - Business Plans;
- (b) Substantial Assurance:
  - Management of Sickness Absence;
  - Cash Receipting & Income Control;
  - Housing Lettings;
  - Key Performance Indicators;
  - Payroll;
  - Procurement Fraud; and
  - Housing Rents;
- (c) Limited Assurance:
  - None;
- (d) No Assurance:
  - None; and
- (e) At draft report stage:
  - Housing Benefits.

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 2013/14 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 2013/14:

- |                              |             |                  |
|------------------------------|-------------|------------------|
| • % Planned Audits Completed | Target 90%  | Actual 11%;      |
| • % Chargeable Staff Time    | Target 72%  | Actual 75%;      |
| • Average Cost per Audit Day | Target £245 | Actual £219; and |
| • % User Satisfaction        | Target 90%  | Actual 87%.      |

The Chief Internal Auditor explained that the Planned Audits Completed figure was a little low but was confident that this figure would improve as the year continued. In addition, a replacement electronic form had been used for User Satisfaction since the start of the new Audit Plan in April. The new form had been simplified to encourage completion, which had resulted in a higher return rate and positive comments from Managers.

The Chief Internal Auditor reported that there were currently two outstanding Priority 1 actions, Legal Debt Recovery and the Management of Sickness Absence, which were reviewed by the Corporate Governance Group each month. Procedures had now been implemented to mitigate the weaknesses identified with Legal Debt Recovery. In addition, Management Board had decided that a Working Party be convened to review corporate debt processing, however this had been deferred pending the results of the recent debt review undertaken by the National Audit Office. For the Management of Sickness Absence, Directors and Assistant Directors had been sent a further reminder on 29 August and a one-day follow-up audit was planned to ascertain the results.

In relation to Procurement Fraud, the Vice-Chairman inquired about the arrangements in place to comply with the Public Services (Social Value) Act 2012, whereby the Council had to have regard to the social value of their procurement of services (not goods) and not just price. The Director of Finance & ICT stated that the majority of the Council's procurement was now enacted on a price/quality split, i.e. the quality of the proposed procurement held as much weight as the price. The Act referred to by the Vice-Chairman would give the Council more flexibility in making allowances for social value criteria when procuring services, and this would be given due consideration.

In relation to the planned audit of Housing Lettings, the Housing Portfolio Holder (Councillor D Stellan) highlighted that the Cabinet had requested the Housing Scrutiny Panel to undertake a full review of the revised scheme after the first year of its operation. The Chief Internal Auditor reassured the Portfolio Holder that it had been agreed with the Director of Housing to undertake a light touch review of the Scheme in the final quarter of 2013/14, and the results of the audit would be fed into the full review of the scheme to be undertaken by the Housing Scrutiny Panel. The Chief Internal Auditor also stated that the Council was awaiting the results of the National Audit Office's review of debt management before considering the direction and membership of the proposed Working Party. There would also be a report on this matter at the Committee's next meeting in November 2013.

The Chairman welcomed the Chief Internal Auditor's quarterly report and proposed that any Directors who had not complied with the recent request to complete and return their Monthly Certificate for the management of Sickness Absence should be required to attend the Committee in February 2014 to give an explanation.

**Resolved:**

(1) That the following issues arising from the Internal Audit Monitoring Report for the first quarter of 2013/14 be noted:

- (a) the Audit reports issued between April and June 2013 and significant findings therein;
- (b) the Priority 1 Actions Status Report;
- (c) the Limited Assurance Audit Follow-Up Status Report; and

(d) The 2013/14 Audit Plan Status Report; and

(2) That any Director who had not completed their Monthly Certificate for the Management of Sickness Absence should be requested to attend the Committee on 6 February 2014 and provide an explanation.

## **27. TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS - ANNUAL OUTTURN REPORT 2012/13**

The Principal Accountant presented the annual outturn report on the Council's Treasury Management function and Prudential Indicators for 2012/13.

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 and the actual Prudential Indicators for 2012/13. For the Council's capital activity during the year, the balances for Capital Receipts and the Major Repairs Reserve (£13.9million and £9.8million respectively) were broadly in line with the revised estimate and it was felt that adequate resources were available for the Capital Programme in the medium term. The Council had financed all of its capital activity through capital receipts, capital grants and revenue contributions; there had been no need to borrow to finance the Council's capital expenditure during the year.

The Principal Accountant reminded the Committee that the Council had borrowed £185.5million during 2011/12 to finance the payment to the Government for the Housing Revenue Account self-financing initiative. The thirty-year financial plan produced to finance the loans continued to be reviewed by Officers with progress reports presented to the Housing Scrutiny Panel. Only 17% of the money had been borrowed at a variable rate; this would be hedged by a corresponding increase in interest earned by the Council's investments if interest rates rose in the future.

The Principal Accountant reported that the Council's treasury position at 31 March 2013 totalled £49.1million in balances and reserves. The Council had not breached any of the prudential indicators, as it had only 19% of its investments exposed to variable rates, £12million invested for longer than 364 days, and the amount invested outside of the UK was currently no more than 1.8%.

In summary, the Principal Accountant advised that the Council had continued to finance its capital programme without borrowing, and both the Capital Receipts and Major Repairs Reserve were broadly in line with their revised estimates. Thus, it was concluded that the Council had adequate resources to fund the capital programme in the medium term. It was highlighted that the Council had borrowed £185.5million during 2011/12 to finance the HRA self-financing subsidy, resulting in the Council losing its debt-free status. The Council's investments were valued at £49.1million as at 31 March 2013 and none of the Treasury Prudential Indicators had been breached during the year.

The Committee noted the report and the Council's strong position. It was noted that the Finance & Performance Management Cabinet Committee had considered this report at its meeting on 19 September 2013 and had offered no further comment. The Chairman suggested that, in the Capital Expenditure table in paragraph 4 of the report, figures for 2011/12 and 2013/14 should be included to allow the Committee to monitor longer-term capital expenditure. The Director of Finance & ICT acknowledged that some of the capital projects had not been completed on time for a variety of reasons, but the self-financing of the Housing Revenue Account in 2011/12 had made capital resources available for other projects which had taken a little time

to get started. The Chairman highlighted the wider scenario of continuing cuts in Local Government expenditure and the role Treasury Management would play in the future. The Committee felt that the risks associated with the Council's Treasury Management function had been suitably managed during the year.

The Director of Finance & ICT announced two forthcoming training courses that would be of interest to the Committee: Risk Management on 13 November 2013; and Treasury Management on 9 January 2014.

**Resolved:**

(1) That the annual outturn report on Treasury Management and the Prudential Indicators for 2012/13, and the management of the risks therein, be noted.

**28. AUDIT OF ACCOUNTS - ANNUAL GOVERNANCE REPORT 2012/13**

The External Auditor presented the Annual Governance Report for 2012/13, 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 key 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. A number of unadjusted audit differences had been identified, which would result in a reduction of the deficit for the year by £116,000. No significant internal control deficiencies had been identified although some areas for improvement had been highlighted with the Council's management. The Annual Governance Statement was not considered misleading and complied with the guidance issued by CIPFA. It was 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.

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. No material misstatements had been identified from the audit, but some uncorrected non-trivial but non-material errors had been identified relating to Housing Revenue Account Income, small pieces of Council land which had not been included on the Asset Register, possible liabilities for the settlement of claims relating to Mesothelioma, and the use of the total depreciation figure rather than dwelling depreciation figure for charges to the Major Repairs Reserve. A revised Appendix B had been circulated to show the effect of the uncorrected misstatements, which totalled £116,000.

The Committee were advised that the External Auditor anticipated issuing an unqualified "true and fair" opinion upon the Council's accounts. One recommendation had been identified by the audit and had been included in an action plan for the future. It was expected to complete the work on the Whole of Government Accounts by 5 October 2012. 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.

In response to queries from members of the Committee, the External Auditor did not anticipate any problems in the future with the transfer of asset information to the new Asset Register, although this issue would be kept under review. It was pointed out that the fees listed in the report for the audit totalled £117,579 – however, the

Statutory Statement of Accounts for 2012/13 to be considered later in the meeting had listed the audit fees as totalling £147,000? The External Auditor undertook to reconcile the differing figures and report back to the Committee.

The Committee was informed that the review of pieces of land which belonged to the Council but had not been included on the Asset Register would begin very shortly. The Director of Finance & ICT stated that he was satisfied with the quality of work and service provided by BDO LLP, and also felt that the Accountancy team had liaised with the External Auditors in a professional and timely manner.

The External Auditor opined that 95% of the Local Councils in the their portfolio would have their accounts approved by the 30 September deadline.

**Resolved:**

(1) That the Annual Governance Report for 2012/13 presented by the External Auditor be noted.

**29. STATUTORY STATEMENT OF ACCOUNTS 2012/13**

The Director of Finance & ICT presented a report on the Statutory Statement of Accounts for 2012/13.

The Director reported that there had been no significant changes to the statements this year. An additional note had been added for Assets Held for Sale, where the asset concerned was being actively marketed for sale at the date of the Balance Sheet. The only asset listed was Leader Lodge in North Weald, which belonged to the Housing Revenue Account. Unfortunately, the agreed sale had not been completed, although disposal was still the most likely outcome.

The Director advised the Committee of one decision within the Statement that required a major element of judgement; this 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 £65.6million to £75.4million 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 4.6% to 4.1%, which was a reflection on the projected state of the investments and money markets. The inclusion of the liability in the Balance Sheet indicated the monies that would be owed by the Council if the Pension Fund had closed on 31 March 2013.

The Director informed the Committee of the unusual transactions that had affected the Statement. The Council had received a compensation payment of £100,000 and interest of £237,000 on the payment, relating to a Compulsory Purchase Order for some land used in 1992 to construct the M25 motorway. It had been a complex case and required the Council to prove it had owned the land. As a disposal of land, the payment had been treated as a capital receipt whilst the interest had been treated as revenue income and credited to the District Development Fund.

The Director concluded that within the Balance Sheet, the total assets less liabilities figure had improved by £6.2million, long-term investments had increased by more than £10million and (as reported earlier) the Pensions Liability had increased by £9.8million over the year. No significant adjustments resulting from the Audit had arisen so far, and the weakness in Internal Control reported in 2011/12 of Senior Benefit Officers failing to perform the requisite checks had been resolved.

The Committee noted a number of further adjustments to be made to the Statement that was reported by the Assistant Director of Finance & ICT (Accountancy) and amended pages would be issued for the forthcoming Council meeting.

It was highlighted that note 16 of the Statement stated that the sale of Leader Lodge was expected to take place shortly, whereas the Director of Finance & ICT had reported that the Vendor had pulled out of the agreed sale. The Assistant Director agreed to amend the note to read that the sale was expected to take place within the next twelve months. It was also explained that the reduction in Other Service Expenses from £34.2million to £21.2million was due to the end of the Housing Revenue Account subsidy system, and the Car Leasing Scheme was currently being held in abeyance which accounted for the reduction in vehicle leasing charges during 2012/13.

The Chairman of the Committee made the following suggestions to improve the Statement:

- (i) Note 7, Earmarked Reserves – explain what they were and confirm that the External Auditors had verified the figures;
- (ii) Note 20, Debtors and Prepayments – provide further analysis for the increase in Sundry Debtors during 2012/13; and
- (iii) Note 22, Creditors – explain the rise in Sundry Creditors during 2012/13.

The Director of Finance & ICT undertook to provide answers for those questions to the members of the Committee before the Council meeting three days hence.

**Recommended:**

- (1) That the Statutory Statement of Accounts for 2012/13 be recommended to the Council for adoption, subject to the following amendments:
  - (a) making the adjustments outlined by the Assistant Director of Finance & ICT (Accountancy) during the meeting;
  - (b) revising Note 16 to state that the sale of Leader Lodge was expected to take place within the next twelve months; and
  - (c) providing further answers to the queries raised by the Committee and revising the notes to the Statement if necessary.

**30. ANY OTHER BUSINESS**

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

**CHAIRMAN**