

Epping Forest District Council

Annual Governance Statement 2011/12

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.
- 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.eppingforestdc.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 2012 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 includes how the Council will monitor and report on its performance against the plan.
- 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 review and improve its internal control environment through the introduction of new and updated policies and procedures, to ensure compliance with 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 continued to provide assurance in the financial processes and procedures of the Council and there are well established protocols for working with External Audit. The Audit Commission through its inspectorate functions has continued to review compliance with policies, laws and regulations within its remit while preparing for its impending abolition.
- 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, Sectional risk registers and further planned training to ensure all staff are risk aware.

- 3.5 Financial management in the Council and the reporting of financial standing is undertaken through a General Ledger Financial Information System, eFinancials supplied by Advanced Business Solutions, 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 the 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.
- 3.7 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 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 The Council's financial management arrangements conform with the governance requirements of the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government*. This statement contains five principles and the arrangements in place fully meet the requirements of each principle.
- 4.2 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.
- 4.3 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.
- 4.4.1 The External Auditor (PKF) had, on 30 September 2011, presented their Annual Governance Report for 2010/11, which summarised the key issues arising from their work during the year. In respect of the Council's financial statements, some presentational misstatements of a material nature had been identified and subsequently corrected, but none of these had affected the Council's reported outturn. The restatement of balances for the previous financial year, as required for the

implementation of International Financial Reporting Standards, had been dealt with appropriately by the Council. Consequently, The report gave an unqualified opinion on the Council's financial statements, along with an unqualified Value for Money Conclusion.

- 4.4.2 The key findings of the report were that the Council's key financial systems were considered generally adequate as a basis for preparing the financial statements, however some control weaknesses had been identified in the Housing and Council Tax Benefits system. No material misstatements had been identified from the audit, although some presentational issues of a material amount had been corrected but had had no impact on the Council's reported outturn. One non-trivial but non-material error had been identified, this being £69,000 for the correction of the netting off of the upward revaluation of guest rooms with the impairment charge recognised in the Comprehensive Income and Expenditure Statement (CIES). In addition, the External Auditor also believed that the bad debt provision for sundry debtors had been overstated but this could not be quantified and was not considered material.
- 4.4.3 The key change for the audit of accounts in 2010/11 was the introduction of a set of financial statements based upon the International Financial Reporting Standards (IFRS). This had resulted in a number of significant changes in accounting practice but the Council had dealt with the implementation of these changes in an appropriate manner. The Council's External Auditors have reported that "The Council has put in place appropriate arrangements to adopt IFRS and to restate its previous UK GAAP based accounts. On review of the accounts we identified that the Council had not included the necessary note in relation to the Transition to IFRS as required under IAS 1 or the 1 April 2009 comparators in respect of the balance sheet notes to the accounts. This has been corrected within the revised financial statements".
- 4.4.4 The External Auditors also stated that "We were able to place reliance on Internal Audit's work for the testing of the effectiveness of specific controls".
- 4.4.5 The External Auditor had reviewed the Annual Governance Statement and the supporting review of effectiveness that had been undertaken and was satisfied that the Statement was not inconsistent with the evidence provided in the review of effectiveness and their knowledge of the Council.
- 4.4.6 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) There were some disclosure errors identified during our audit that would have been avoided had the Council utilised *LAAP 88 - Closure of the 2010/11 Accounts and related matters* (CIPFA technical update) which is a technical update paper issued by CIPFA to support councils in preparing their accounts.
 - b) The Council's current methodology for setting its provision for bad and doubtful debts does not take into account trends in actual arrears collection rates. Current information indicates that the Council could be over-providing.
 - c) Included within long term debtors are 9 dwellings which the Council has sold a proportion of to former tenants. The Council doesn't have legal rights over the properties but are entitled to a percentage of the sale value. The Council has been adjusting each

dwelling's valuation based on average valuation changes over the last few years to ensure the correct valuation is included within the amount due to the Council. The Council has not had these dwellings revalued along with the remaining housing stock as they have not been assigned beacon values.

The assets were compared to similar dwellings included within the Valuer's report as at 1 April 2010 and the overall difference in valuation was trivial. However this practice has the potential to generate a non trivial difference in valuation in future years.

d) Two senior benefits staff did not perform 100% checks on new benefit claim assessments and 5% daily checks on a random sample of other claims as documented within the Council's system notes for benefits.

e) Ad-hoc updates made to standing data within the benefits system do not go through the same controls process as annual parameter updates. This could lead to incorrect standing data being input into the system resulting in incorrect benefit being paid.

5 Standards Committee

- 5.1 During 2011/12, the Standards Committee has dealt with 11 complaints against Councillors. At the time of writing, there is one case (2 separate complaints) awaiting adjudication /under investigation.
- 5.2 The Committee continues to give advice and training on ethical governance issues and investigates/adjudicates on complaints against elected members It is also available to assist with interpretation of Council protocols.
- 5.3 The ethical framework and standards regime for elected members is currently in a transitional stage. The Localism Act 2011 has radically altered the arrangements which operated under previous legislation, removing many statutory provisions in favour of much greater local discretion. Codes of Conduct and complaints procedures are still a statutory requirement but the form these take is largely (but not completely) to be determined on a local basis. Standards Committees are now optional for any of the specified local authorities involved .Standards for England has been abolished as the regulatory body for England.
- 5.4 The Act introduces a new statutory requirement for the declaration of "Disclosable Pecuniary Interests" which replace the present personal and prejudicial interests. These have yet to be defined but government regulations to that effect are expected. Wilful failure to declare and participation in relevant decisions involving such interests is potentially a criminal offence. Where Councils opt to have a Standards Committee, these will no longer have voting independent members as part of their constitutions. These positions are replaced by new "independent persons" who have been given a role in advising and assisting the Monitoring Officer. Councillors and Standards Committees on these matters
- 5.5 A further review of the Planning Protocol is pending but is awaiting the full introduction of the new standards arrangements from July 2012. This review will take account of new provisions in the Act regarding pre-disposition, predetermination and bias in local authority decision-making. Planning and Legal Officers, planning agents and Town and Parish Councils have already made submissions concerning the protocol.

- 5.6 Considerable work has been undertaken by the Public Law Partnership (PLP) on the new standards arrangements so as to insure that common processes can apply in all Councils and across different areas. Officers of this Council have also held discussions with Parish & Town Councils in the Epping Forest District to determine whether a joint Parish standards Committee would be a workable arrangement.
- 5.7 Epping Forest District Council has agreed in principle to adopting the proposals of the PLP and to having its own Standards Committee. Final decisions on the new arrangements will be submitted to a Council meeting in June 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 Corporate Plan 2011/15 with the Community Strategy. This is supported by a planning framework which includes the Corporate 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.
- 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 2011/12. Significant areas where governance arrangements have been strengthened are detailed below.

7.1.1. Office of the Chief Executive

The electronic transfer of electoral roll data to the Audit Commission and other organisations and individuals entitled to the information has been under review and a significant risk has been identified of a breach in the Data Protection Act requirements attached to the electronic transfer of this data in unencrypted format.

In conjunction with the security officers of the Finance and ICT Directorate, this issue has been addressed and the measures designed to reduce that risk have been put in place.

7.1.2. Office of the Deputy Chief Executive

No significant weaknesses in internal control have been identified.

7.1.3. Corporate Support Services

No significant weaknesses in internal control have been identified.

7.1.4. Environment and Street Scene

A number of Internal Audit reports were issued during 2011/12 which required actions by the Directorate. Those reports requiring specific action by the Directorate included:

612 – North Weald Airfield
618 – Waste Management
621 – Leisure Management Contract
632 – Licensing Enforcement Follow Up

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.

7.1.5. Finance and ICT

During the first three quarters of 2011/12 there were no audits with limited assurance that related to the Directorate of Finance & ICT and follow ups have indicated positive progress on previous recommendations.

Last year the Governance Statement mentioned that a firm of bailiffs used by the Council had been placed in administration. Legal action has been pursued against the two directors of the company. A financial settlement was agreed with one of the directors and a charge has been obtained over the house of the other director. Ultimately, a full recovery of all money owed should be achieved. The procurement exercise for new bailiffs has been concluded and appointments made. Controls on the external bailiffs and the system of monitoring and reporting have been strengthened.

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. The main problem is that the Council's IT system does not provide sufficient controls measures.

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.

It had been hoped that these weaknesses could be addressed through the appointment of the Private Repairs Management Contractor (Mears) in May 2011. However, it has been established that this activity is not within the scope of the specification of the contract with Mears.

Therefore, a separate competitive tender is underway – in accordance with EU Procurement Regulations – to appoint a company to provide a material supply chain, with adequate control measures being a key component of the specification.

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, which would exceed contract standing orders to be avoided.

A review of procedures concerning consultancy work in respect of the St John's area of Epping revealed a number of issues which are being reported to Cabinet.

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. During the annual stock take at the Housing Repairs Service store Internal Audit had reported that the stock database records could not be relied upon as there were a significant number of discrepancies identified. Management has already taken action to address this issue. Please see 7.1.6.above.

7.2.2. Development Control income reconciliations are completed, and errors identified are recorded. However, whilst there has been some improvement since the last audit the reconciliation is not sufficient as it is between the general ledger and the Development Control paying in spreadsheet rather than the Planning system.

Some progress has been made as Development Control recognise the importance of performing monthly reconciliations and priority has been given to address the agreed actions from the previous audit. A partial reconciliation has been developed but has yet to be concluded and efforts have been made to produce reporting data from the Planning system to enable a full reconciliation to the general ledger.

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 Chris Whitbread
Leader of the Council