

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

**Committee:** Finance and Performance Management Cabinet Committee      **Date:** Monday, 19 June 2006

**Place:** Civic Offices, High Street, Epping      **Time:** 6.00 - 7.40 pm

**Members Present:** Councillors J Knapman (Chairman), Mrs D Collins and C Whitbread

**Other Councillors:** Councillor D Jacobs

**Apologies:** Councillor Mrs A Grigg

**Officers Present:** P Haywood (Joint Chief Executive), B Palmer (Head of Finance), D Macnab (Head of Leisure Services), P Maddock (Assistant Head of Finance), J Akerman (Chief Internal Auditor) and G Lunnun (Democratic Services Manager)

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### **1. MINUTES**

#### **RESOLVED:**

That the minutes of the meeting of the Committee held on 3 April 2006 be taken as read and signed by the Chairman as a correct record.

### **2. DECLARATIONS OF INTEREST**

No declarations of interest were made pursuant to the Council's Code of Conduct.

### **3. ANY OTHER BUSINESS**

It was reported that there was no urgent business for consideration at the meeting.

### **4. INTERNAL AUDIT - MONITORING REPORT - JANUARY/MARCH 2006 AND WORK PROGRAMME - APRIL/JUNE 2006**

The Committee considered a report which summarised the work undertaken by the Internal Audit Unit between January and March 2006. The report also contained the Work Plan for the first quarter of the current financial year and a status report on previous audit recommendations.

Members noted that the establishment of the Unit for 2006/07 had been reduced from six full-time equivalent posts to 5.5 full-time equivalent posts following changes to the Council's methods of service delivery for parts of the Leisure and Highways Services. One part-time post was being held vacant for the time being in order to provide some budget flexibility to meet the cost of specialist auditors and external contractors to undertake specific audits within the approved Plan. The average level of sickness per member of staff over the 12 month period had been 8.9 days, which whilst of concern was still less than the Council average.

During the quarter, audit reports had been issued in respect of the following:

**Systems Audits**

- (a) Works Unit;
- (b) Capital Finance;
- (c) Estates Management;
- (d) Housing Repairs;
- (e) Council Tax;
- (f) Non-Domestic Rates;
- (g) Managing Sickness Absence;
- (h) Rechargeable Works - Follow up;
- (i) North Weald Airfield - Follow up (Draft Report);
- (j) Risk Management - Follow up;
- (k) Creditors - Follow up.

**Investigations**

- (l) Corporate - Internet Usage;
- (m) Housing - Internet Abuse.

In addition, systems audits of the Council's IT Procurement System and Staffing Establishment controls had been substantially completed by 31 March but the reports had not been finalised. Members were advised that the main conclusions from the systems audits undertaken, indicated the systems were generally operating satisfactorily in those areas, and no fundamental errors or control issues had been identified.

The Chief Internal Auditor pointed out that the time taken on investigation work during the quarter had totalled eight days (compared to 65 days in the previous quarter) and had mainly related to two separate issues concerning email and internet usage, and hospitality.

Members considered the key findings from the audits.

Attention was drawn to a schedule setting out the current status of the planned audits in the 2005/06 Audit Plan, as approved in April 2005. Whilst the majority of planned audits had been completed by 31 March, a small number had slipped to 2006/07 or would not be carried out due to changed circumstances. Where appropriate, prioritisation had been based on a risk assessment.

The Committee considered the Unit's performance in relation to the Local Performance Indicator targets for 2005/06.

**RECOMMENDED:**

- (1) That the reports issued and significant findings between January and March 2006 be noted;
- (2) That the Audit follow up Status Report and System Improvement Schedule be noted;
- (3) That the Work Plan for April to June 2006 be noted; and
- (4) That the 2005/06 Audit Plan Status Report be noted.

**5. INTERNAL AUDIT ANNUAL REPORT - 2004/05**

The Chief Internal Auditor presented the Internal Audit Annual Report for 2005/06. He advised that it had been based on the "Code of Practice for Internal Audit in Local Government" produced by CIPFA.

The Committee noted that one of the main purposes of the report was to support the Internal Audit opinion on the adequacy of the Council's internal control environment as a contribution to the proper, economic, efficient, and effective use of resources. The report was, therefore, part of the evidence that underpinned the Corporate Statement on Internal Control published in the Council's Statutory Statement of Accounts, in line with the requirements of the Accounts and Audit Regulations 2003 (as amended).

The Chief Internal Auditor advised that the amended regulations also required the Council, from 1 April 2006, to conduct a formal review at least once a year of the effectiveness of its system of internal audit. Part 3 of the Annual Report provided an analysis to form the basis of the review.

The Chief Internal Auditor advised that the Council's systems of internal control had identified some weaknesses in the application of some of the systems, and occasional lapses in the application of Financial Regulations. These issues had been picked up through the Council's internal control mechanisms and had been dealt with promptly by Service management in liaison with Internal Audit. The outcomes had been reported to the Cabinet Committee during the year via the Internal Audit quarterly monitoring reports, and immediate steps had been taken to improve the respective systems. The Chief Internal Auditor advised that these examples of non-compliance were limited and did not compromise the Council's overall control environment.

Attention was drawn to the issue of a user-friendly summary of Financial Regulations and the provision of training for 90 non-finance managers.

The Committee noted that on the basis of the audit work completed, it was considered that the Council had in place a satisfactory framework of internal control, which provided reasonable assurance regarding the efficient and effective achievement of its objectives in 2005/06.

Members were advised that the CIPFA Internal Audit Benchmarking Club was an important source of comparable national data for Internal Audit and produced statistical information on costs, performance and audit coverage. In relation to the Council's "family" group of ten authorities with similar profiles, audit coverage for main financial systems had been marginally above average and slightly below average for districts as a whole. The coverage of main systems (finance and non-

finance) planned for 2004/05 had generally been above the average. Specifically, the audit days planned for main auditing, Housing Benefits, creditors, payroll, cash/bank, Council Tax/NNDR, sundry debtors, treasury management and housing rents had been mainly well above the family average.

The Committee were advised that the improvement in performance in recent years had generally been maintained in 2005/06. All of the main finance areas had been covered, and the overall target for planned audits completed met the target, despite a number of investigations and an increased call on the Team for advice in relation to a range of service and corporate initiatives. The high unit cost figure for the year had been caused by maternity leave, which affected the recovery of fixed overheads, and prevented the target of £280 per day from being met. The target had improved in the final quarter when the team had been at full complement. Contractors had been used earlier in the year, within the budget, to undertake some planned audits, and the associated costs and days were reflected in the overall cumulative unit cost of £292 per audit day for the full year.

**RECOMMENDED:**

That the Internal Audit Annual Report for 2005/06 be noted.

**6. REVIEW OF INTERNAL AUDIT- 2005/06**

The Chief Internal Auditor presented apologies for absence from Ms L Wishart (Audit Commission) and submitted, on her behalf, a review of the Council's Internal Audit for 2005/06.

He drew attention to the main conclusions contained in the report. The Internal Audit function at the Council was considered to be compliant with the Commission's Statutory Code of Audit Practice, and there were also good examples of good practice including:

- (a) clear terms of reference which met all requirements of the Code of Practice;
- (b) detailed, risk-based annual audit plans which included full coverage of the control environment;
- (c) procedures in place to ensure an adequate degree of independence, including:
  - the status of Internal Audit within the organisation;
  - rotation of audits between staff; and
  - auditors being free from operational duties;
- (d) regular reporting to members on Internal Audit performance and issues arising from audits via this Committee;
- (e) a positive and co-operative working relationship with external Audit;
- (f) full discussion on the outcomes of audits with relevant managers;
- (g) recommendations which were generally well accepted by managers; and
- (h) effective procedures for following up on recommendations.

In addition, the report advised that the audit files reviewed were of a high quality, and working papers were clear and easy to follow. All key controls were covered and conclusions reached were consistent with findings. Reports were comprehensive and well written.

The following small number of recommendations had been outlined in the report:

- (a) the Head of Internal Audit should carry out periodic internal quality reviews to assess the ways in which Internal Audit benefits the organisation or adds value; alternatively these issues could be included on the review sheet which was filled in by the Head of Internal Audit for each audit assignment;
- (b) both the annual report and individual audit report should contain reference to the above;
- (c) as a matter of best practice, it would be advisable to put in place more formal arrangements for highlighting issues identified during audit assignments for inclusion in the Statement on Internal Control; and
- (d) auditors should receive their planned amount of training.

**RECOMMENDED:**

- (1) That the Audit Commission's Review of Internal Audit 2005/06 report be noted; and
- (2) That, having regard to the report, members are satisfied with the effectiveness of the system of Internal Audit.

**7. STATEMENT ON INTERNAL CONTROL - 2005/06**

The Committee was advised that the Council's Statutory Statement of Accounts had been prepared in accordance with the Accounts and Audit Regulations 2003. Within the regulations there was a mandatory requirement to publish a statement on internal control designed to provide the Council with assurance regarding the adequacy of its governance arrangements, and identify where those arrangements needed to be improved.

The regulations had been amended with effect from 1 April 2006, and from that date there was now a requirement for the Council to review, at least annually, the effectiveness of its system of internal audit. Members were reminded that the first such review had been addressed in Part 3 of the Internal Audit Annual Report for 2005/06. In addition the amended regulations required the findings of that review to be considered as part of the review of the Council's system of internal control.

Members were advised that CIPFA had provided guidance on the process for the establishment, operation and review of the system of internal control which had been taken into account. The Committee noted that in practice, the system of internal control was under regular review via the work of Internal Audit, external Audit and other review agencies and inspectorates. Regular reports were submitted to the Council's Management Board, and relevant issues were considered by the officer Corporate Governance Group. Internal Audit focused its work on providing an independent and objective opinion on the Council's internal controls, and submitted an annual report and quarterly monitoring reports to this Committee, where significant audit findings and improvement areas were highlighted. The Chief Internal

Auditor was required to include in the Annual Audit report an opinion on the overall adequacy and effectiveness of the Council's internal control environment, providing details of any weaknesses that qualified the opinion. As reported earlier at the meeting, the Chief Internal Auditor had reported in the Annual Audit report for 2005/06 that satisfactory assurance could be given regarding the adequacy of the Council's internal control system in 2005/06.

The Audit Commission had issued guidance on how it would assess the Council's arrangements to ensure a sound system of internal control. Amongst other things, the Commission had indicated that the system would be enhanced by an appropriate member group having responsibility for reviewing and approving the Statement on Internal Control and considering it separately from the Statement of Accounts.

The Committee considered the draft Statement of Internal Control, included within the Statutory Statement of Accounts taking account of the guidance from the Audit Commission. Members requested some amendments to clarify their role in the process.

**RESOLVED:**

- (1) That the Head of Finance amend the Statement in accordance with the views expressed by members of the Committee; and
- (2) That the amended Statement be submitted to the Council for approval.

**8. ORDER OF BUSINESS**

The Committee considered the remaining items of business.

**RESOLVED:**

That agenda item 10 (Provisional Revenue Outturn 2005/06) be considered as the next item of business.

**9. PROVISIONAL REVENUE OUTTURN 2005/06**

The Head of Finance presented a report providing an overall summary of the revenue outturn for the financial year 2005/06. Net expenditure for 2005/06 had totalled £13.316 million, which had been £939,000 below the original estimate and £639,000 below the revised estimate.

Continuing Services Budget expenditure had been £994,000 lower than the original estimate and £639,000 lower than the revised estimate. The variances had arisen on both the opening CSB, £364,000 lower than the revised estimate and the in-year figures, £275,000 lower than the revised estimate.

The savings on the opening CSB had related to staff savings due to vacancies. Other notable savings had included non HRA rent rebates. The increase to the bad debt provision had been less than expected due to improved sundry debt collection. There had also been a number of other areas where savings or extra income had occurred such as environmental co-ordination, youth strategy and depots.

The saving on the in-year CSB had arisen in a number of areas. Court costs arising from the non payment of NNDR and Council Tax had been higher than expected. There had been savings over and above that anticipated on the leased car scheme. Recruiting staff after the ICT restructure had proved more difficult than expected and

the charges from the County Council in relation to Land Charges work had not been as high as expected.

Net DDF expenditure had been £1,417,000 below the original estimate and £710,000 below the revised. There were requests for carry forwards totalling £575,000 and therefore the variation actually equated to £135,000 net underspend on the DDF items undertaken.

The DDF had increased between the original and revised position by some £388,000 due to a mixture of items brought forward from 2004/05 and new items identified during 2005/06. There had also been three items of income to the General Fund totalling £1,095,000 which had been appropriated to the DDF.

Members noted that the appropriation of additional income items, and the large underspend had resulted in the balance on the DDF being increased to £3 million. Although some of this was committed to financing the present programme there was still some £1.02 million unallocated.

The surplus within the HRA had been £522,000 greater than its original revenue budget, and some £357,000 greater than the revised estimate. The main differences between the actual figures and the revised estimates had been the additional income from other charges and interest and a saving on management and maintenance costs.

Members expressed concern about the continuing significant underspend on the salary budget due to vacancies. It was suggested that this problem ought to be addressed so that it did not occur in future years.

Members also questioned the slippage in the DDF items and agreed that they should not be carried forward as a matter of course.

**RECOMMENDED:**

- (1) That the overall 2005/06 revenue outturn for the General Fund and Housing Revenue Accounts be noted;
- (2) That Portfolio Holders, in consultation with Heads of Service, provide the Finance and Performance Management Portfolio Holder with justification for the carry forward of District Development Fund expenditure and that the Cabinet consider the carry forward of expenditure in the light of those justifications to be reported orally to the Cabinet by the Finance and Performance Management Portfolio Holder; and
- (3) That the Overview and Scrutiny Committee be asked to consider requesting the Finance and Performance Management Scrutiny Panel to consider the salary budgets and the establishment vacancy data with a view to recommending proposals aimed at overcoming significant underspending in this budget in the future.

**10. STATUTORY STATEMENT OF ACCOUNTS - 2005/06**

The Head of Finance presented the Statutory Statement of Accounts for 2005/06. He advised that the Cabinet on 11 July 2005 had authorised this Committee to consider the accounts and report direct to the Council for both 2004/05 and all future years. The Statutory Statement of Accounts had to be adopted this year before the

end of June, and the Council's Constitution reserved adoption to the Full Council only.

The Head of Finance reported that it had been increasingly difficult to achieve the shortening timetable for the production of the accounts in recent years and he advised that some sections of the draft before this Committee would need to be updated prior to being submitted to the Full Council for adoption.

The Committee noted that the Council's debt free status had again been rewarded in 2005/06, as debt free authorities had continued to benefit from transitional relief from the Government's pooling requirements for capital receipts. The benefit had been reduced to £1.6 million, in part due to a reduction in Council house sales but also due to the percentage eligible for relief being reduced from 75% to 50%. The final year of the transitional relief was 2006/07, when the percentage would be reduced to 25%.

Members were advised that the pensions liability for the Council had reduced in the year from £38.1 million to £37.4 million. The inclusion of this amount in the balance sheet showed the extent of the Authority's liability if the Pension Fund was to close on 31 March 2006. It did not mean that this full liability would have to be paid over to the Pension Fund in the near future.

The Head of Finance reported that the anxiety around what the next grant allocation system might bring in 2008/09 had been reduced by knowing that the Council should at least get a floor increase on top of the increases for 2006/07 and 2007/08. The next grant allocation system would be influenced by the outcome of the Lyons Review, which was considering reforming the Council Tax, returning NNDR to local control and local income tax.

Attention was drawn to the possible provision of a Customer Contact Centre which would involve re-engineering a number of business processes to split front and back office roles and to place the customer more clearly at the heart of the Council's activities.

The Committee noted that on 22 March 2005 the Chancellor of the Exchequer had announced further changes to concessionary fares. As a result, a major change had been introduced from 1 April 2006 so that older and disabled people would be able to travel free in their local areas, instead of at half fare. From 1 April 2008, the restriction on travel outside the District or scheme boundaries would be lifted so that people over 60 and the disabled would be able to travel free on any local bus across England.

**RESOLVED:**

- (1) That the revised Statutory Statement of Accounts for 2005/06 to be issued by the Head of Finance including a revised cash flow statement be recommended to the Council for approval and adoption; and
- (2) That the officers responsible for achieving a reduction in the amount of debt listed on the Consolidated Balance Sheet be congratulated.

**11. CORPORATE GOVERNANCE GROUP**

The Committee considered the minutes of the meeting of the Corporate Governance Group held on 26 April 2006.

**RESOLVED:**

That the issues considered by the Corporate Governance Group be noted.

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**CHAIRMAN**