

EPPING FOREST DISTRICT COUNCIL COMMITTEE MINUTES

Committee: Audit and Governance Committee **Date:** 24 November 2008

Place: Committee Room 1, Civic Offices, High Street, Epping **Time:** 7.05 - 8.45 pm

Members Present: J Knapman (Chairman), Mrs A Haigh, N Purkis and A Watts

Other

Councillors: Mrs D Collins, Mrs M Sartin and C Whitbread

Apologies: Ms M Rickman

Officers Present: P Haywood (Chief Executive), J Akerman (Chief Internal Auditor), J Gilbert (Director of Environment and Street Scene), R Palmer (Director of Finance and ICT), G J Woodhall (Democratic Services Officer), S G Hill (Senior Democratic Services Officer) and R Perrin (Democratic Services Assistant)

30. WEBCASTING INTRODUCTION

The Chairman made a short address to remind all present that the meeting would be broadcast on the Internet, and that the Council had adopted a protocol for the webcasting of its meetings.

31. DECLARATIONS OF INTEREST

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

32. MINUTES

RESOLVED:

That the minutes of the meeting held on 18 September 2008 be taken as read and signed by the Chairman as a correct record, pending an amendment to make resolution (3) of minute 26 (Gifts and Hospitality) read:

“(3) That full copies of the following Directorate Gifts and Hospitality Registers for 2008 be made available for inspection by the Committee:

(a) Planning and Economic Development; and

(b) Environment & Street Scene.”

33. MATTERS ARISING

(a) Limited Assurance Audits

Following a request by the Committee at its previous meeting, the Chief Executive

was in attendance to provide an explanation for the increasing number of audit reports being issued with limited assurance, as well as the repeat nature of some of them.

The Chief Executive explained that, upon his appointment, the Internal Audit Business Plan had been reviewed in collaboration with the Chief Internal Auditor to include areas of the Council that had not previously been covered, or had been superficially covered. Weaknesses in these areas had been revealed by the reports being issued with limited assurance but, although most of these areas were of lower risk in comparison to the main financial systems, they were considered of no less importance.

The Chief Executive stated that the number of audit reports issued with a limited assurance, whilst not surprising, was disappointing; however, the reports were giving clear recommendations to solve deficiencies in the various systems. It was important to ensure that these recommendations were being implemented, especially the priority 1 actions. It was pleasing to note that more audit reports had been issued with a satisfactory assurance than a limited assurance during the second and third quarters of the current municipal year.

The Chief Executive concluded by stating that the Council was undergoing a change of culture to incorporate governance at all levels. All Managers had been encouraged to see themselves as part of the system of internal audit, although it was recognised that this had involved a change of attitude for those areas that had not been audited previously.

When questioned by the Committee, the Chief Executive stated that it was expected to take approximately 18 months to two years for benefits from the implementation of the recommendations to filter through, but some progress was already being detected. It had been communicated to all staff that audit report recommendations had to be implemented and it had been made clear to Directors about the need to adhere to the Council's policies and procedures at all times. Over 180 staff had now been trained in the Council's Financial Regulations and Governance procedures, however it was acknowledged that there were no targets in place for levels of breaches within Directorates and this could be considered in the future.

The Chairman thanked the Chief Executive for attending and providing the requested explanation, as well as answering the Committee's questions.

34. ANY OTHER BUSINESS

Following the announcement of his resignation from the Committee, the Chairman thanked N Purkis for his work on the Committee over the past 18 months. The Chairman stated that there was a requirement for a new Co-Opted Member to be appointed as soon as possible. The Chief Internal Auditor indicated that he would place an advert on the Council's website for a new Co-Opted Member and issue a press release during the next week. The unsuccessful candidates from the last recruitment exercise would also be written to and it was envisaged that the Interview Panel would consist of the Chairman and Vice-Chairman if the Committee so desired. The aim was to appoint a new Co-opted Member in time for the next scheduled meeting of the Committee in February 2009.

RESOLVED:

That the Interview Panel for the appointment of a new Co-Opted Member for the Committee be formed by the Chairman and Vice-Chairman.

35. CORPORATE GOVERNANCE GROUP - 3 SEPTEMBER 2008

The Director of Finance & ICT presented the minutes from the meeting of the Corporate Governance Group held on 3 September 2008. The Committee's attention was drawn to the topics of discussion and actions arising from the meeting.

RESOLVED:

That the minutes of the meeting of the Corporate Governance Group held on 3 September 2008 be noted.

36. CORPORATE GOVERNANCE GROUP - 24 SEPTEMBER 2008

The Director of Finance & ICT presented the minutes from the meeting of the Corporate Governance Group held on 24 September 2008. The Committee's attention was drawn to the topics of discussion and actions arising from the meeting.

RESOLVED:

That the minutes of the meeting of the Corporate Governance Group held on 24 September 2008 be noted.

37. CORPORATE GOVERNANCE GROUP - 22 OCTOBER 2008

The Director of Finance & ICT presented the minutes from the meeting of the Corporate Governance Group held on 22 October 2008. The Committee's attention was drawn to the topics of discussion and actions arising from the meeting.

The Chairman expressed concern that the wording of the Gypsy and Traveller consultation document had been changed during the period between the Cabinet and Council meetings. One word had been amended, from "excluded" to "mapped"; it was felt that this was a fundamental change and should have been highlighted at the Council meeting. The Chief Executive was requested to examine the process for incorporating future late amendments to documents.

RESOLVED:

(1) That the minutes of the meeting of the Corporate Governance Group held on 22 October 2008 be noted; and

(2) That the process for incorporating late amendments to documents prior to meetings of the Council be examined.

38. AUDIT OF ACCOUNTS - ANNUAL GOVERNANCE REPORT 2007/08

The Director of Finance & ICT, on behalf of the External Auditors, presented the final report following the completion of the Audit of the Council, in accordance with International Standard on Auditing 260.

The Committee were reminded that the report considered at the previous meeting was a draft as the audit was still in progress. After being informed of the outstanding issues, the Committee had agreed that the Chairman would receive the final version of the report prior to the audit opinion being given. The final report was approved by the Chairman a week later, and the audit opinion, value for money conclusion and certificate was issued on the following day, 26 September 2008.

The Director of Finance & ICT stated that the key changes from the previous version considered by the Committee had been related to errors on the Housing stock revaluation, an uncorrected non-trivial balancing error in the cash flow statement, and six additional recommendations to address issues identified with the nominal ledger, Building Control account deficit, the treatment of trust funds and the Annual Governance statement. The final report was being presented to the Committee for information and completeness.

The Chief Internal Auditor added that the aim was always to reduce the volume of errors and omissions within the Council's systems; the issues identified within the report had been considered and would be covered by the Internal Audit Business Plan. There were no new issues identified and the Corporate Governance Group would monitor the implementation of the recommendations.

RESOLVED:

That the final version issued by the External Auditors of the Annual Governance Report for 2007/08 be noted.

39. AUDIT COMMISSION REPORT ON THE WASTE SERVICE

The Director of Environment & Street Scene presented a report about the Audit Commission Inspection of the Waste Management Service, undertaken in May 2008. The Inspectors were present on site for a week and had interviewed a wide range of Officers, Members and colleagues from partner organisations and agencies. A draft report was presented to Officers and the Environment Portfolio Holder in June 2008 following which a number of agreed amendments were made. The final report had been published in late August 2008 and its key findings were:

- recycling performance had been high; and
- a wide range of recyclable materials had been collected; but
- the service was "Fair" with "Uncertain Prospects" for improvement;
- the service costs were comparatively high;
- the overall weight of waste collected was not reducing;
- accessibility should be improved; and
- the Council's overall environmental performance was poor.

The Director observed that the judgement was harsh, in some cases not based on accurate data comparisons and did not properly reflect the true position. Officers had felt that the Council had demonstrated a clear commitment to improve, had made resources available, and shown an improving service and performance. Street Cleansing performance had steadily improved since the inspection and a public consultation exercise relating to garden and food waste had been undertaken via The Forester. Three recommendations had been made by the Inspection Team, which had generated an Action Plan for implementation by March 2009. The Committee was requested to note the Action Plan and consider the basis upon which the Action Plan should be monitored.

In response to queries from the Committee regarding the recent waste consultation, the Director of Environment & Street Scene stated that every conceivable method had been used to convey the Council's message throughout the District. The Forester had been considered the best method for conducting consultation exercises, although no analysis had yet been performed on its depth of coverage. In addition, Recycling calendars were issued to residents twice a year and the Recycling Officer publicised the Council's message throughout the community. The Safer Cleaner

Greener Scrutiny Panel had monitored the Council's progress against the objectives in the Nottingham Declaration.

The Committee were informed that another report would be submitted to the meeting scheduled for 30 March 2009, and it was felt that a decision on future monitoring requirements could be deferred until then. The Committee had no further comments to be considered by the Cabinet at its meeting on 15 December 2008.

RESOLVED:

(1) That the Action Plan arising from the Audit Commission Inspection of the Waste Management Service be noted; and

(2) That the monitoring of the Action Plan be considered at the meeting scheduled for 30 March 2009.

40. COUNCIL'S INVESTMENTS AND INSURANCE

The Director of Finance & ICT presented a report regarding the Council's investments following a request from the Committee in light of the recent problems with Icelandic banks. The Treasury Management Strategy currently allowed up to £12million to be invested with banks that had a short-term rating of F1+ and a long-term rating of AA-, or a maximum of £5million with banks rated F1 and A respectively. The credit ratings were provided by three agencies (Fitch, Moody's and Standard & Poor) and consolidated into a list of approved counterparties by the Council's advisers, Butlers. In February 2005, the counterparty list was expanded to include building societies and foreign banks, in line with Government guidance. Icelandic banks were included as their credit ratings were good with competitive rates of interest. The Council had placed a number of loans with them, all of which were repaid on their due dates without problem.

The Director of Finance & ICT stated that concerns were raised informally regarding Icelandic banks by Members in November 2007 and subsequently no new loans were entered into. The status of Heritable Bank was reviewed but, as it was registered and regulated in the United Kingdom, it had remained on the counterparty list. Loans totalling £2.5million were made to Heritable Bank during September 2008, with repayment dates of May and June 2009. On 7 October 2008, Heritable Bank was placed in administration due to difficulties experienced by its Icelandic parent company, which Ernst & Young had been appointed to manage. The Council had been designated an ordinary creditor with Heritable Bank and would not get privileged status; the Council's claim had already been instigated with the administrators. A preliminary statement had been issued by the Administrators which appeared to suggest that the total asset base of £1.2billion would cover the £1billion of liabilities, but Officers had not yet been able to fully analyse it and the size of the liquid asset base was not currently known.

The Director of Finance & ICT reassured the Cabinet that Butlers were providing regular updates to the Council's approved counterparty list as financial institutions had their credit ratings amended, and that the Council would continue to adhere strictly to its Treasury Management policies. The Treasury Management function was audited annually by Internal Audit, however to assist with the development of additional controls, the Chief Internal Auditor had been requested to bring the audit forward within the Internal Audit Business Plan for 2008/09.

In respect of the Council's other investments, the Director of Finance & ICT advised the Committee that the money invested with Northern Rock had been returned on the

due date, whilst a loan of £1.5million with Bradford & Bingley, due for repayment in March 2009, was covered by the Government's guarantee. The Council also currently had £11.5million invested with four different Irish financial institutions following the Irish Government's guarantee of deposits on 30 September 2008. However, Irish banks had subsequently been downgraded and the Council was not considering further investments with them. Finally, the Council had a total of £7million invested with the Royal Bank of Scotland, and with the Government's continuing support providing additional confidence, the Council would consider making additional investments up to a maximum of £12million. The Council currently had only £10million invested with the Bank of Scotland following the recent repayment of a £2million loan. A full list of the Council's investments had been published in the Council Bulletin on 20 October 2008.

The Director of Finance & ICT highlighted a press release issued by Zurich Municipal to reassure their customers and the market about their financial position, which they had stated was good due to their conservative investment strategy.

Concerns were expressed about the quality of the advice given by the Council's Treasury Management Consultants but it was acknowledged that AAA ratings were being given by credit agencies for some companies literally up to the point of their collapse. The Committee was reassured that the Council had spread its investments widely to minimise the risk and had not suffered any further defaults. The Director of Finance & ICT added that the Council was currently investing only on a short-term basis with counter-parties listed on investment schemes supported by the Government, as there was a degree of uncertainty regarding some Building Societies. It was not known whether the Council could invest with the Bank of England, but the Council was considering investing with the Debt Management Office, which issued Gilts and Treasury Bonds. The Chief Internal Auditor reported that the Treasury Management audit had already begun.

RESOLVED:

That the current position regarding the Council's investments and insurance be noted.

41. BUSINESS AND GOVERNANCE ASSURANCE FRAMEWORK

The Chief Internal Auditor presented a report regarding the Business and Governance Assurance Framework. The Council already had effective processes to deal with many elements of the control framework, including Financial Regulations, Contract Standing Orders and Risk Management. The Business and Governance Assurance Framework had been developed to link these elements and provide evidence that the Council had effective controls in place, as well as providing a mechanism for the continuous review of the Council's governance arrangements. The Committee's attention was drawn to a number of key policies and procedures that had been developed and provided the core of this process; each was subject to continuous or periodic review and had been updated as appropriate.

The Committee's involvement in this process was via its consideration of the quarterly Internal Audit Monitoring Reports and the monitoring of Action Plans to ensure compliance with the Council's core policies and procedures. The Council had to report on the effectiveness of its Assurance Framework and Internal Control environment at least once per annum through the publication of the Annual Governance Statement with the Statutory Statement of Accounts.

RESOLVED:

That the Annual Review of the Council's Business and Governance Assurance Framework for 2008/09 be noted.

42. LIMITED ASSURANCE AUDIT REPORTS

The Chief Internal Auditor presented a report concerning the monitoring of the action plans for those audit reports receiving a limited assurance. At the previous meeting, the Committee had been disappointed at the frequency of audit reports issued with a limited assurance, as well as the repetitive nature of some of them. It was felt that the Action Plans for such audits should be monitored more closely.

The Chief Internal Auditor suggested that the existing monitoring report should be modified so that the Priority 1 Action Status Report and the Audit Follow-Up Status Report highlighted those audit reports that had been issued with a limited assurance. The report would also draw the Committee's attention to any recommendations not implemented in the agreed timescale. It was also proposed that all audit reports issued with a limited assurance should be followed up in the subsequent year's audit plan. It was felt that the proposals would provide the necessary level of assurance to the Committee that Directors were addressing weaknesses, whilst retaining the option to request individual Directors to attend a meeting of the Committee to provide any explanations as required.

RESOLVED:

(1) That the following procedure be implemented for the monitoring of audit reports issued with a limited assurance:

(a) That all such audits be highlighted in the quarterly Priority 1 Action and Audit Follow-Up status reports;

(b) That any recommendations not implemented within the agreed timescale be highlighted in the quarterly monitoring reports; and

(c) That all such audits be incorporated in the subsequent year's audit plan.

43. INTERNAL AUDIT MONITORING REPORT - JULY TO SEPTEMBER 2008

The Chief Internal Auditor presented the Internal Audit Monitoring Report for the second quarter of 2008/09, along with the Work Plan for the third quarter and the Audit Plan Status Report for 2008/09. The Chief Internal Auditor reported that sickness within the Internal Audit Unit during the second quarter of 2008/09 had amounted to 4 days, in comparison with 10, 8 and 23 days respectively in the three preceding quarters. The Committee were reassured that sickness within the Unit had continued to be managed in accordance with the Council's Management of Absence Policy.

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

(a) Substantial Assurance:

- Housing Benefits data processing.

(b) Satisfactory Assurance:

- Key/Local Performance Indicators;

- External Funding (Community & Culture);
 - National Non-Domestic Rates (NNDR);
 - North Weald Airfield follow-up; and
 - District Museum follow-up.
- (c) Limited Assurance:
- Bank Reconciliation;
 - Waltham Abbey Sports Centre;
 - External Funding (Planning & Economic Development - Planning Delivery Grant); and
 - Verification of IT System Audit Logs.

No reports had been issued without any assurance and a further three audits had been in progress at 30 September 2008 but had not been included in the performance figures. An agency IT Auditor had been engaged during the period to undertake audits of network and data security. Investigation work during the quarter had been focused on the further review of Service Hospitality Registers, as reported at the previous meeting of the Committee.

The Committee's attention was drawn to the Priority 1 Actions Status report, and the Audit Follow Up Status report. The Council's External Auditor required all of the Council's main financial systems to be audited during 2008/09, and would be reviewing the work of the Internal Audit Unit to ascertain the reliance that could be placed upon it. Within the Work Plan for the third quarter, the Treasury Management audit had been brought forward at the request of the Director of Finance & ICT. It was also noted that the Action Plan arising from the Annual Governance Statement had been appended to allow the Committee to monitor progress against the targets.

The Chief Internal Auditor reported upon the current status of the Internal Audit Unit's Local Performance Indicators for 2008/09. The percentage of Planned Audits had fallen slightly short of its target for the quarter due to seasonal factors, but was expected to recover to meet its target by the end of the year.

• % Planned Audits Completed	Target 45%	Actual 43%;
• % Chargeable Staff Time	Target 70%	Actual 71%;
• Average Cost per Audit Day	Target £320	Actual £320; and
• % User Satisfaction	Target 83%	Actual 82%.

The Committee was pleased at the improved sickness figures within the team, but had concerns about the limited assurance provided for the External Funding audit undertaken within the Planning & Economic Development Directorate. In particular, it was felt that there should have been a clear audit trail for the Planning Delivery Grant funding being used to improve the planning performance of the Council, as this had amounted to approximately £300,000 per annum. Officers agreed to advise the Committee in due course of the amounts involved for Planning Delivery Grant including the new Housing and Planning Delivery Grant.

RESOLVED:

(1) That the following issues arising from the Internal Audit Monitoring Report for the second quarter of 2008/09 be noted:

- (a) the Audit reports issued between July and September 2008 and significant findings therein;
- (b) the Priority 1 Actions Status Report;

- (c) the Audit Follow-Up Status Report;
 - (d) The Internal Audit Work Plan for October to December 2008;
 - (e) The Audit Plan Status Report 2008/09; and
 - (f) The Governance Statement Action Plan for 2007/08; and
- (2) That the Committee's satisfaction with the effectiveness of the work of Internal Audit during the second quarter of 2008/09 be confirmed.

44. INTERNAL AUDIT BENCHMARKING 2008

The Chief Internal Auditor presented a report with further benchmarking data from CIPFA's annual benchmarking exercise for 2008, as previously requested by the Committee. The summary data that had been presented for the comparator group at the last meeting had been based upon each Council's estimated expenditure for 2008/09. It was agreed that similar summary data based upon 2007/08 actual expenditure for each Council within the comparator group would also be sought to provide further analysis of unit costs between authorities. This additional data had now been sought and had confirmed that the Council remained at or around the average for the majority of the key indicators covered by the survey.

The Chief Internal Auditor also advised the Committee that further analysis had been undertaken regarding the Council's below average rating for Strategic Risks. It had transpired that other authorities had been more liberal in categorising certain audits as a strategic risk, whereas the Council had categorised similar issues as corporate governance or operational. The analysis had highlighted issues of interpretation and consistency, which would be considered when compiling and interpreting the returns for next year.

The Chairman commented that the additional information had illustrated the high degree of accuracy for the Council's estimates, in comparison to other authorities, and gave the Committee further reassurance in the figures provided by the Internal Audit Unit.

RESOLVED:

That the additional information provided confirms the earlier conclusion of the Council's Internal Audit costs and other performance indicators being close to the average for the comparator group be noted.

CHAIRMAN