

**AUDIT AND GOVERNANCE COMMITTEE  
Monday, 24th November, 2008**

**Place:** Civic Offices, High Street, Epping  
**Room:** Committee Room 1  
**Time:** 7.00 pm  
**Democratic Services Officer:** Gary Woodhall 01992 - 564470  
email: [gwoodhall@eppingforestdc.gov.uk](mailto:gwoodhall@eppingforestdc.gov.uk)

Members:

Councillors J Knapman (Chairman), , Mrs A Haigh and A Watts

Independent M Rickman (Vice-Chairman) and N Purkis

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**1. WEBCASTING INTRODUCTION**

I would like to remind everyone present that this meeting will be recorded for subsequent repeated viewing on the Internet and copies of the recording could be made available for those that request it.

By being present at this meeting it is likely that the recording cameras will capture your image and this will result in your image becoming part of the broadcast.

You should be aware that this might infringe your human and data protection rights. If you have any concerns please speak to the webcasting officer.

Please could I also remind members to put on their microphones before speaking by pressing the button on the microphone unit.

**2. APOLOGIES FOR ABSENCE**

**3. DECLARATIONS OF INTEREST**

To declare interests in any item on this agenda.

**4. MINUTES**

To confirm the minutes of the last meeting of the Committee held on 18 September 2008 (previously circulated).

**5. MATTERS ARISING**

To consider any matters arising from the previous meeting.

**6. ANY OTHER BUSINESS**

Section 100B(4)(b) of the Local Government Act 1972, together with paragraphs (6) and (24) of the Council Procedure Rules contained in the Constitution require that the permission of the Chairman be obtained, after prior notice to the Chief Executive, before urgent business not specified in the agenda (including a supplementary agenda of which the statutory period of notice has been given) may be transacted.

In accordance with Operational Standing Order 6 (Non-Executive Bodies), any item raised by a non-member shall require the support of a member of the Committee concerned and the Chairman of that Committee. Two weeks notice of non-urgent items is required.

**7. CORPORATE GOVERNANCE GROUP - 3 SEPTEMBER 2008 (Pages 5 - 10)**

(Chief Executive) To consider the minutes of the meeting of the Corporate Governance Group held on 3 September 2008.

**8. CORPORATE GOVERNANCE GROUP - 24 SEPTEMBER 2008 (Pages 11 - 16)**

(Chief Executive) To consider the minutes of the meeting of the Corporate Governance Group held on 24 September 2008.

**9. CORPORATE GOVERNANCE GROUP - 22 OCTOBER 2008 (Pages 17 - 20)**

(Chief Executive) To consider the minutes of the meeting of the Corporate Governance Group held on 22 October 2008.

**10. AUDIT OF ACCOUNTS - ANNUAL GOVERNANCE REPORT 2007/08 (Pages 21 - 54)**

(Director of Finance & ICT) Final report of the External Auditors being presented following the completion of the Audit, in accordance with International Standard on Auditing 260.

**11. AUDIT COMMISSION REPORT ON THE WASTE SERVICE (Pages 55 - 68)**

(Director of Environment & Street Scene) To consider the attached report.

**12. COUNCIL'S INVESTMENTS AND INSURANCE (Pages 69 - 78)**

(Director of Finance & ICT) To consider the attached report.

**13. BUSINESS AND GOVERNANCE ASSURANCE FRAMEWORK (Pages 79 - 92)**

(Chief Internal Auditor) To consider the attached report.

**14. LIMITED ASSURANCE AUDIT REPORTS (Pages 93 - 94)**

(Chief Internal Auditor) To consider the attached report.

**15. INTERNAL AUDIT MONITORING REPORT - JULY TO SEPTEMBER 2008 (Pages 95 - 118)**

(Chief Internal Auditor) To consider the attached report.

**16. INTERNAL AUDIT BENCHMARKING 2008 (Pages 119 - 122)**

(Chief Internal Auditor) To consider the attached report.

**17. EXCLUSION OF PUBLIC AND PRESS**

**Exclusion:** To consider whether, under Section 100(A)(4) of the Local Government Act 1972, the public and press should be excluded from the meeting for the items of business set out below on grounds that they will involve the likely disclosure of exempt information as defined in the following paragraph(s) of Part 1 of Schedule 12A of the Act (as amended) or are confidential under Section 100(A)(2):

Agenda Item No	Subject	Exempt Information Paragraph Number
Nil	Nil	Nil

The Local Government (Access to Information) (Variation) Order 2006, which came into effect on 1 March 2006, requires the Council to consider whether maintaining the exemption listed above outweighs the potential public interest in disclosing the information. Any member who considers that this test should be applied to any currently exempted matter on this agenda should contact the proper officer at least 24 hours prior to the meeting.

**Confidential Items Commencement:** Paragraph 9 of the Council Procedure Rules contained in the Constitution require:

- (1) All business of the Council requiring to be transacted in the presence of the press and public to be completed by 10.00 p.m. at the latest.
- (2) At the time appointed under (1) above, the Chairman shall permit the completion of debate on any item still under consideration, and at his or her discretion, any other remaining business whereupon the Council shall proceed to exclude the public and press.
- (3) Any public business remaining to be dealt with shall be deferred until after the completion of the private part of the meeting, including items submitted for report rather than decision.

**Background Papers:** Paragraph 8 of the Access to Information Procedure Rules of the Constitution define background papers as being documents relating to the subject matter of the report which in the Proper Officer's opinion:

- (a) disclose any facts or matters on which the report or an important part of the report is based; and
- (b) have been relied on to a material extent in preparing the report and does not

include published works or those which disclose exempt or confidential information (as defined in Rule 10) and in respect of executive reports, the advice of any political advisor.

Inspection of background papers may be arranged by contacting the officer responsible for the item.

**EPPING FOREST DISTRICT COUNCIL  
CORPORATE GOVERNANCE GROUP MEETING**

**WEDNESDAY, 3 SEPTEMBER 2008  
(9.00 AM - 12.05 PM)**

**Present:** P Haywood (Chief Executive), J Akerman (Chief Internal Auditor), C O'Boyle (Director of Corporate Support Services), R Palmer (Director of Finance and ICT), D Macnab (Deputy Chief Executive) and I Willett (Assistant to the Chief Executive)

**Apologies for  
Absence:**

**Place:** Room 1.29, 323 Building, Civic Offices, High Street, Epping

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**38. MINUTES OF THE PREVIOUS MEETING - 30.7.08**

Agreed.

**39. MATTERS ARISING**

No items for report.

**40. DECLARATIONS OF INTEREST**

None for this meeting.

**41. TERMS OF REFERENCE**

Noted.

**42. GIFTS & HOSPITALITY - SECOND FOLLOW UP AUDIT**

Noted that J Akerman was presenting a report to the next meeting of the Audit and Governance Committee on the results of Internal Audit studies on gifts and hospitality which had been requested by the Committee.

Noted that P Haywood, J Gilbert and A Hall be attending the meeting.

Noted that further checks have been carried out on Hospitality Registers across the Council outside the scope of the initial Internal Audit study and these further checks had not revealed any issues of concern equivalent to those already identified.

**Action:**

**J Akerman to pursue.**

**P Haywood/J Gilbert/A Hall to note.**

**43. NATIONAL FRAUD INITIATIVE 2008/09**

Noted that J Akerman was reporting to the next Audit and Governance Committee on the current position concerning the Council's participation in the 2008/9 National Fraud Initiative.

Noted that as a result of changes in the statutory provisions relating to the sharing of data in connection with the National Fraud Initiative, the data requested by the Audit Commission previously (namely Electoral Register and Council Tax/Benefits data) would now be provided.

Recorded that in view of the changes in the law CGG was now satisfied with the current situation regarding release of data from the point of view of its own governance arrangements.

**Action:**

**I Willett to pursue.**

**44. BUSINESS AND GOVERNANCE ASSURANCE FRAMEWORK**

Noted that J Akerman was reporting to the Audit and Governance Committee in November on the annual review of the Council's Business and Governance Assurance Framework.

Noted that as part of the framework review it was recorded that certain corporate policies were required to be reviewed as follows:-

Freedom of Information  
Complaints  
Data Protection  
Partnerships and Health and Safety

Noted that the Partnerships Policy was the subject of an Internal Audit Review whilst the Health and Safety Working Party had already undertaken some work on Health and Safety Policy.

Noted that a review of the Freedom of Information Act Policy was in progress.

Agreed that relevant officers advised J Akerman of the current position concerning these reviews.

**Action:**

**I Willett to advise J Akerman regarding review of FOI Policy.**

**J Macnab/J Filby to advise J Akerman regarding review of Complaints Policy**

**R Palmer to advise J Akerman regarding the current position on Data Protection Act Policy.**

**P Haywood/C O'Boyle to bring forward the Health and Safety Policy Review document.**

**45. DISTRICT & PARISH REMUNERATION PANELS**

Noted that there was one applicant for the vacant position on these Panels from an independent person.

Agreed that an interview be held with that applicant to explore the suitability for the position.

Agreed that the Interview Panel should comprise I Willett, C O'Boyle and J Akerman.

**Action:**

**I Willett to pursue.**

**46. REVIEW OF EXECUTIVE CONSTITUTION**

Agreed that the review report due to be submitted to the Constitution and Member Services SSP be approved subject to the following alterations:-

(a) Transfer of certain delegated authorities from the Executive List to the Council/Regulatory List on the basis that those items concerned Corporate Governance rather than Executive functions specifically.

Agreed that Service Directors be consulted on the division of the list of delegated authorities.

**Action:**

**I Willett to revise schedules.**

**47. STANDARDS COMMITTEE**

**(a) Investigation/Assessment/Appeals – Progress Report**

Noted that one complaint against a District Councillor had been referred for investigation and that process was continuing.

Noted that one other complaint against a District Councillor had not been referred for investigation but was now subject to an appeal against that decision by the complainant and that a further meeting of the Review Sub-Committee of the Standards Committee was scheduled to take place later in September.

Noted that the possibility of a third place had arisen.

**(b) Constitution Changes**

Noted that the changes to the Council's Constitution in relation to the new investigation regime had been approved by the Council on 29 July 2008.

Noted that Councillor S W Murray had been appointed as the third councillor member of the Standards Committee and that he had attended a briefing on current activity and procedures.

Noted that the third parish representative was still awaited.

**48. USE OF CONSULTANTS - WORKING PARTY**

Noted that the Standing Orders Working Party had given further consideration to the content of Contract Standing Orders in relation to the appointment of consultants etc.

Noted that the intention was to apply the procedures contained in Contract Standing Orders to appointment of non-established personnel engaged for specific tasks over specific periods, this definition to include appointments made through agencies.

Noted that all other positions would be deemed to be temporary staff and subject to normal rules about available budgets, salary scales with a discretion for Service Directors to exceed appropriate salary scales by a maximum of 20%.

Noted that further work was required to prepare a new report on the basis outlined above for members and that therefore approval will be sought from the Chairman of the Constitution and Members Services Standing Scrutiny Panel to defer consideration of this item.

Agreed that J Preston should look carefully at the use of consultants in Building Control to ensure that consultant persons had the appropriate qualifications and authority to exercise powers on behalf of the Council.

#### **49. STAFF VACANCIES**

Agreed that CEF should consider whether a time limit should be introduced for ensuring that all vacant posts are filled.

Noted that the Leader of Council had requested information on all vacant posts within the Council and the period during which they have been unfilled.

**Action:**

**I Willett to pursue.**

#### **50. STRATEGIC HOUSING MARKET ASSESSMENT - CONTRACT FOR CONSULTANCY ADVICE**

Noted that Harlow, East Herts, Broxbourne, Brentwood, Uttlesford and EFDC had agreed to participate in a Joint Consultancy Contract for a Strategic Housing Market Assessment in the area surrounding Harlow.

Noted that Harlow had been designated the lead authority but had executed a contract with the preferred consultant which did not make the other authorities party to the agreement in formal terms.

Noted that the Council was being pressed to make its contribution of £12,000 to the cost of the Consultancy by Harlow Council but that there was concern that this would not be a prudent course of action without some former understanding with Harlow and the Consultant.

Agreed that C O'Boyle should clarify the current position concerning this contract and in particular whether the work was being carried out in accordance with the Council's wishes and was being delivered in a timely and appropriate fashion.



Agreed that subject to that assurance this payment could be released.

Noted that it was likely there would be several other similar contracts and it was agreed that as a principle for the future the name of the EFDC must be included in any agreements executed by Council and that appropriate indemnities should be available to this Council in respect of any failure to deliver by any consultant appointed and that Harlow should be advised there will be no further contracts of this kind involving EFDC until the authority is satisfied about governance arrangements.

**Action:**

**C O'Boyle to clarify position regarding the Strategic Housing Market Assessment Consultancy.**

**P Haywood to speak to the Chief Executive of Harlow Council regarding future contracts and governance arrangements.**

**51. CORPORATE RISK REGISTER - UPDATE**

Noted that the Corporate Risk Register had been reviewed at the Corporate Risk Group earlier in the week and that two major changes had been made:-

(a) Key Contracts (R20) – Leisure and Waste Management Contract moved to a different category of risk.

(b) Executive priorities – the Cabinet's Executive priorities for the year were now known and the risk register had been adjusted to take these into account.

**Action:**

**R Palmer to revise report.**

**52. STATUTORY STATEMENT OF ACCOUNTS**

Noted that the Council's External Auditors had determined that there was a material error in the Statutory Statement of Accounts presented to the Council in July 2008.

Noted that in view of this there was a requirement for these accounts to be corrected and re-submitted to the Audit and Governance Committee on 18 September 2008 and the Council at its next meeting on 25 September 2008.

Noted that the overall Council finances were not affected by this revision to the Statement of Accounts but it was anticipated there could be a detrimental effect on the Council's Use of Resources Assessment.

Noted that as part of this process a letter would be required from the Monitoring Officer concerning contingent liabilities outlined in the Statutory Statement.

**Action:**

**R Palmer to pursue.**

**C O'Boyle to sign letter.**

**53. WASTE MANAGEMENT INSPECTION REPORT**

Noted that this report would be submitted to the Audit and Governance Committee but the Cabinet Committee on Finance and Performance Management would need to consider compiling an Action Plan of how to respond beforehand.

Agreed that the Inspection Report and accompanying officer report be presented to the next Finance and Performance Management Committee and a subsequent meeting of the Audit and Governance Committee.

**Action:**

**J Gilbert to note.**

**54. WESTLAW SOFTWARE - STATUTORY RESEARCH FACILITY**

Noted that a member of the Council had sought permission to make use of the Council's Westlaw software in connection with his Portfolio Holder duties.

Agreed that due to complications with user licences, external access and the precedent set for other Council systems, this application be refused.

Noted that, in any event, legal advice would be available from Legal Services.

**Action:**

**C O'Boyle to pursue.**

**55. DATE FOR FUTURE MEETINGS**

Next meeting: 24 September 2008 at 9.00 a.m. in the Chief Executive's Office.

**EPPING FOREST DISTRICT COUNCIL  
CORPORATE GOVERNANCE GROUP MEETING**

**WEDNESDAY, 24 SEPTEMBER 2008  
(9.00 - 11.30 AM)**

**Present:** P Haywood (Chief Executive), J Akerman (Chief Internal Auditor), C O'Boyle (Director of Corporate Support Services), R Palmer (Director of Finance and ICT), D Macnab (Deputy Chief Executive) and I Willett (Assistant to the Chief Executive)

**Apologies for  
Absence:**

**Place:** Room 1.29, 323 Building, Civic Offices, High Street, Epping

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**56. MINUTES OF THE PREVIOUS MEETING - 3.9.08**

Agreed.

**57. MATTERS ARISING**

**(a) District and Parish Remuneration Panels – Vacancy (Minute 45)**

Noted that interviews will be held on 25 September 2008.

**ACTION:**

**I Willett to report back.**

**(b) Statutory Statement of Accounts (Minute 52)**

Noted that the Council's External Auditors had determined that the Statutory Statement of Accounts for 2007/8 was not subject to material errors but to non-trivial errors which best practice suggested should be reported to the full Council.

Noted that the revised Statutory Statement of Accounts would be submitted to the Council meeting on 25 September 2008.

**(c) Westlaw Software – Statutory Research Facility**

Noted that the matter had been discussed with the Portfolio Holder concerned and the views of CGG conveyed.

**(d) Corporate Risk Register – Update (Minute 51)**

Agreed that the Risk Register be reviewed at the next meeting of CGG and the request of the Finance and Performance Management Cabinet Committee for an additional risk relating to the shortage of Assistant Directors in Planning and Economy be included in the revised register.

**ACTION:**

**R Palmer to report back.**

**(e) Waste Management Inspection Report (Minute 53)**

Noted that the Council had yet to be formally advised of the receipt of a report on the inspection on the Waste Management Service.

Agreed that the report and a covering item dealing with a response and action plan be submitted to the Finance and Performance Management Cabinet Committee and the Audit and Governance Committee at their next meetings.

Agreed that P Haywood would discuss with J Gilbert.

**ACTION:**

**P Haywood to pursue.**

**58. DECLARATIONS OF INTEREST**

None for this meeting.

**59. TERMS OF REFERENCE**

Noted.

**60. NATIONAL PERFORMANCE INDICATOR 187 (TACKLING FUEL POVERTY)**

Agreed that the conclusions and recommendations contained in the report be adopted.

Agreed that a minimum sample survey be conducted using only benefits records.

Agreed that relevant Service Directors be required to maintain backup Audit papers on the survey carried out.

**ACTION:**

**S Tautz to pursue.**

**Service Directors to note.**

**61. AUDIT AND GOVERNANCE COMMITTEE (15.9.08)**

Corporate Executive Forum considered a number of issues which had arisen at the last meeting of the Audit and Governance Committee.

**(a) Annual Governance Report (Internal Auditing Standard 260) – Monitoring of Action Plan**

Agreed that the various items to be included on the Action Plan be considered at future meetings of CGG.

**ACTION:**

**J Akerman to pursue.**

**(b) Gifts and Hospitality – Future Monitoring Arrangement**

Agreed that, arising from the recent internal Audit studies on gifts and hospitality and remarks made at the Audit and Governance Committee the following steps be taken:

- (a) all registrations of gifts and hospitality be included in bound books rather than loose-leaf sheets and that the books be page numbered sequentially;
- (b) agreed that there should be only one book per service area and that the books should be on the basis of the existing proforma which was being operated;
- (c) that these changes in the completion of gifts and hospitality register be drawn to the attention of the next meeting of the Management Board in order to emphasise the need to avoid any further difficulties of the kind experienced recently.

**ACTION:**

**Service Directors to note.**

**S Hill to refer to Management Board at its next meeting.**

**P Maginnis to prepare new registers for each directorate.**

**(c) Internal Audit Studies – Limited Assurance**

Noted that P Haywood would be attending the next meeting of the Committee to discuss concerns with Limited Assurance reports.

**62. USE OF CORPORATE LOGO**

Noted that the Council's logo appeared to be in use by external organisations in the District but without a corporate policy and a means by which use of the logo can be agreed.

Noted that the Waste Management and Leisure Management Contracts have clear requirements for the use of the logo.

Noted that, in respect of grant aid, it was a condition of funds being made available that the District Council should be acknowledged in publicity material involving the use of the logo.

Agreed that in future the use of the EFDC logo should only be used if the Council or another organisation is contractually committed to its use and that there should be no exceptions to this policy.

Agreed that the EFDC design guide should be revised to take account of this stipulation.

**ACTION:**

**Service Directors to note.**

**T Carne to pursue.**

**63. PUBLICATION OF PROSECUTION RESULTS**

Noted that a member of the public had complained about publication of personal details of a successful prosecution by the Council.

Noted that a request had been made that the information should not be personalised in this way.

Agreed that there should be no change in the current policy of publishing names of those subject to successful prosecutions by the Council for the following reasons:

- (a) the need for transparency and to demonstrate to the public that prosecutions were genuine and achieve results; and
- (b) to act as a deterrent factor.

Agreed that this complaint showed the need for a publicly available policy in this regard.

Agreed that a policy be prepared and published on the Council's website in the section relating to the National Fraud Initiative.

Agreed that the preparation of a policy be referred to the Website Board for consideration and also the question of how long prosecutions should remain on the website in future.

**ACTION:**

**Service Directors to note.**

**D Macnab to refer to the Website Board.**

**64. CITIZENS' ADVICE BUREAUX - GOVERNANCE ARRANGEMENTS**

Noted that the Citizens' Advice Bureau in the District was currently amalgamating three branches into one and reducing Council representation to one councillor.

Agreed that once a formal approach was received from the Citizens' Advice Bureau for this revised representation the matter should be discussed with the Portfolio Holder as there were reservations about this reduction in representation bearing in mind the significant funding provided by the Council to the organisation.

**ACTION:**

**I Willett to monitor.**

**65. WORKING GROUP ON FINANCIAL REGULATIONS - CONTRACT STANDING ORDERS AND DELEGATED AUTHORITIES (MEETING ON 2.9.08)**

Agreed that the minutes of the Working Party held on 2 September 2008 be agreed subject to the following amendments to minute 13 (Contract Standing Orders – Provisions for Appointment of Consultants):

- (a) amendment to minute 13(a) to include reference to covering establishment posts as part of the definition; and
- (b) amendment to paragraph (b) to add reference to covering an established post and inclusion in the definition of temporary members of staff of a time limit for recruitment.

Agreed that further research be carried out on the appropriate cut-off point for temporary appointments in relation to the acquisition of employment rights.

**ACTION:**

**I Willett to revise report to members regarding the changes to Contract Standing Orders.**

**C O'Boyle to research a cut-off point for temporary staffing.**

**66. STANDARDS COMMITTEE**

**(a) Update on Current Investigation**

Noted.

**(b) Standards Committee – Additional Parish Council Representative**

Noted that the additional Parish/Town Council representative on the Standards Committee had still to be notified;

**(c) Reviews Sub-Committee**

Noted that a meeting of the Reviews Sub-Committee of the Standards Committee had been convened to hear an appeal by a complainant about a previous decision not to investigate.

**67. DRIVER VEHICLE LICENSING CENTRE - COMPLAINT**

Noted that the DVLC had formally complained to the Council about irregularities in the use of vehicle registration data.

Agreed that a report be made to P Haywood as a result of discussions with the staff concerned and that if necessary Internal Audit be brought in to investigate the matter in greater detail.

**ACTION:**

**P Haywood to pursue.**

**J Akerman to note.**

**68. DATE FOR FUTURE MEETINGS**

Next meeting 22 October 2008 at 9.00 a.m. in the Chief Executive's office.

**69. ANY OTHER BUSINESS**



**EPPING FOREST DISTRICT COUNCIL  
CORPORATE GOVERNANCE GROUP MEETING**

**WEDNESDAY, 22 OCTOBER 2008  
(9.00 - 10.55 AM)**

**Present:** P Haywood (Chief Executive), J Akerman (Chief Internal Auditor), C O'Boyle (Director of Corporate Support Services), R Palmer (Director of Finance and ICT), D Macnab (Deputy Chief Executive) and I Willett (Assistant to the Chief Executive)

**Apologies for  
Absence:**

**Place:** Room 1.29, 323 Building, Civic Offices, High Street, Epping

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**69. MINUTES OF THE PREVIOUS MEETING - 24.9.08**

Agreed.

**70. MATTERS ARISING**

**(a) Corporate Risk Register – Update (Minute 57(d))**

Supplementary report of R Palmer received.

Agreed that the additional risks concerning shortage of Senior Management posts in Directorate of Planning and Economic Development, and investment losses be included in the register.

Agreed that an amended version of the Corporate Risk Register be submitted to the Finance and Performance Management Cabinet Committee on 17 November 2008.

Agreed that the Action Plan relating to the changes in the Risk Register be approved for submission to the Committee.

**ACTION:**

**R Palmer to pursue.**

**(b) Gifts and Hospitality – Future Monitoring Arrangements (Minute 61(b))**

Third Action Point to be amended to read “M Tipping to arrange”.

**(c) Use of Corporate Logo (Minute 62)**

Noted that T Carne had met with a Designer to review the matters raised and the design guide.

**(d) Publication of Prosecution Results (Minute 63)**

Noted that the Council's External Auditors had been provided this minute in the context of evidence of attention to the management of fraud issues.

**71. DECLARATIONS OF INTEREST**

I Willett – Item 7 in relation to the Royal Bank of Scotland.

**72. TERMS OF REFERENCE**

Noted.

**73. INTERNAL STANDARDS ON AUDITING (ISA) 260 - ACTION PLAN MONITORING**

Action Plan noted subject to future progress reports omitting those items from the schedule which had been completed.

**74. EXTERNAL AUDITORS - GOVERNANCE STATEMENT AND BENEFITS**

Noted that an approach had been received from the Audit Commission to hold a meeting with relevant Council Officers to discuss potential performance issues and sustainability of improvement in respect of benefits.

Noted that the background to this request was not known.

Noted that the External Auditors had commented on the 2007/08 Governance Statement stating that in their view the document appeared to be of excessive length.

Agreed that the Governance Statement should be reviewed with a view to being more concise in future.

**ACTION:**

**(1) P Haywood/R Palmer to pursue meeting regarding benefits.**

**(2) J Akerman to note in respect of the Governance Statement.**

**75. COUNCIL INVESTMENTS**

Noted that the Cabinet at its meeting on 20 October 2008 had accepted R Palmer's report and findings concerning the Council's investments in foreign banks.

Noted that R Palmer had re-formatted this report into a report from the Cabinet to the Council.

Noted that at a Conference held yesterday, the Council's brokers had recommended that Councils should concentrate for the time being on investments of no more than 3 months' duration.

Agreed that this should be the Council's policy and that further research be carried out on appropriate Government funds in which to invest which would offer more secure prospects.

Noted that predictions in respect of the base interest rate for 2009/10 were indicating a reduction to 3.5% or at the most pessimistic assessment 1.5%.

Noted that this would have a significant impact on the budget for next year in terms of lost investment income if these rate predictions came about.

Noted that this would have a greater affect on the HRA where two-thirds of investment income received by the Council were credited to that account (£3.069 million in the current year).

Noted that budget growth lists were due to be submitted to the Finance and Performance Management Cabinet Committee in November 2008.

Agreed that a report should be added on risk to the budget arising from the interest rate position.

Noted that in respect of the forthcoming review of Treasury Management by Internal Audit, the Chief Internal Auditor advised that this was a planned Systems Audit which would also take account of the contents of the report to the Cabinet on 20 October 2008.

**ACTION:**

**R Palmer/J Akerman to pursue.**

**76. STANDARDS COMMITTEE**

**(a) Current Complaint**

Report on the investigation being drafted.

**(b) Appeal against finding of no investigation**

Noted that the Standards Committee dismissed the appeal submitted by the Complainant.

**(c) Additional Parish Council Representative**

Details still awaited.

**77. AUDIT COMMISSION INSPECTION OF THE WASTE MANAGEMENT SERVICE**

Agreed that in respect of the Governance aspect of the Audit findings, the report be agreed subject to the following clarifications:

(a) Resource Implications – clarify the meaning.

(b) Review Paragraphs 4 and 7.

Agreed that D Macnab discuss the report with J Gilbert.

**ACTION:**

**D Macnab/J Gilbert to pursue.**

**78. REFUSE COLLECTION CONTRACT**

Report agreed subject to being placed in private session due to the contractual issues involved in the report.

Agreed that the results of consultation on the Refuse Service be published as a Part 1 item in the budget and included in the Members' Bulletin and the Council's Website at the earliest opportunity.

Agreed that no further changes should be made to the report to be dealt with in Private Session.

**ACTION:**

**J Gilbert to pursue.**

**79. POLICE INVESTIGATION**

Noted that a Council employee had been contacted by the Police as part of an investigation into a fraud issue.

Agreed that Senior Management of the Directorate concerned should conduct an operational risk assessment in the light of this case.

**ACTION:**

**D Macnab to pursue.**

**80. DATE FOR FUTURE MEETINGS**

Next meeting 19 November 2008 at 9.00 a.m. in the Chief Executive's Office.

D Macnab to chair in the absence of P Haywood.



Accountants &  
business advisers

## **Epping Forest District Council**

### **Report to those charged with governance (revised)**

November 2008

Final

# 1 Report status

- 1.1 The 2007/08 *Report to those charged with governance* was presented to the Audit and Governance Committee in draft on 18 September 2008. At this time the audit was still in progress and the Committee, after being appraised of the nature of the outstanding issues, agreed that its Chairman would receive the final version of the report prior to the audit opinion being given.
- 1.2 Accordingly the final report was discussed and approved by the Chairman of the Audit and Governance Committee on 25 September 2008, which facilitated full compliance with International Standard on Auditing 260, and the audit opinion, value for money conclusion and certificate were given on 26 September 2008.
- 1.3 This final report is now being presented to the full Audit and Governance Committee, for information. The key changes made between the version previously presented, and this one, are summarised as:
- Executive summary updated to reflect the final position
  - Paragraphs 3.25 to 3.29 amended to reflect the final position regarding the errors on the housing stock revaluation
  - Paragraphs 3.35 to 3.36 and 3.41 added to reflect issues identified in respect of the cash flow statement and the resultant uncorrected non-trivial balancing error
  - Paragraphs 3.38 and 3.40 wording amended to update to final position
  - Paragraph 3.42 has been amended to remove all references to outstanding work and include the date of the opinions
  - Appendix A – amended to add recommendations 26 to 31 to deal with issues identified in respect of the nominal ledger, building control account deficit, trust funds treatment and the Annual Governance Statement and to include responses from officers for all recommendations made
  - Appendix C - updated to reflect the uncorrected cash flow error.



Accountants &  
business advisers

# **Epping Forest District Council**

## **Report to those charged with governance**

September 2008

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- A Recommendations arising from our audit
- B Draft letter of representation
- C Unadjusted misstatements
- D Draft independent auditors' report
- E Reports issued to date in respect of 2007/08

### **Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission contains an explanation of the respective responsibilities of auditors and of the audited body. Reports and letters prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.



# 1 Executive Summary

- 1.1 This report summarises the results of the work completed to date for the 2007/08 financial year and is presented to Members in accordance with the provisions of International Auditing Standard 260 (ISA 260), which requires us to communicate our audit findings to “those charged with governance”, prior to issuing our opinion on your Statement of Accounts (the Accounts) and our conclusion on the adequacy of your arrangements for securing economy, efficiency and effectiveness in your use of resources (our VFM conclusion).

## Findings and conclusions

- 1.2 A summary of audit findings and conclusions is included in the table below:

Area of audit	Findings & Conclusion
<b>Accounts</b>	
Key financial systems	The majority of the key financial systems are adequate as a basis for preparing the financial statements. However, there are <b>significant control weaknesses in the income and debtors system and creditors and payments system</b> , which resulted in the need for additional substantive testing to be completed in order to mitigate the risk of material misstatement having occurred in the Accounts. Recommendations to improve the control environment in these two systems have been made and agreed.
Statement of Accounts	<b>No material errors were identified from our audit work.</b> A number of non-trivial, but not material, errors have been identified and corrected. <b>We anticipate issuing an unqualified opinion on the Accounts on 26 September 2008.</b>
<b>Use of Resources</b>	
Use of resources judgements	This is currently work in progress and a separate detailed report will be presented to the Audit & Governance Committee once complete. However, <b>we are satisfied that sufficient evidence has been provided to demonstrate that your arrangements are at least “adequate” for VFM conclusion purposes.</b>
Data Quality	<b>Management arrangements in place for data quality are “adequate” for VFM conclusion purposes.</b>
Best Value Performance Plan	<b>We issued an unqualified opinion on the 2007/08 BVPP.</b>
VFM Conclusion	<b>Based on the work undertaken to date we expect to issue an unqualified VFM conclusion on 26 September 2008.</b>

## Acknowledgement

- 1.3 We would like to thank the staff of the Council for the co-operation and assistance provided to us during the audit.

## 2 Introduction

- 2.1 Our Annual Audit and Inspection Plan for 2007/08 outlined the work we would be carrying out at Epping Forest District Council (the Council) in order to meet our responsibilities under the Audit Commission's Code of Audit Practice.
- 2.2 This report summarises the results of our audit work completed to date in respect of the Council's Statement of Accounts (the Accounts) and the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 2.3 Our report is presented to Members in accordance with the provisions of International Auditing Standard 260 (ISA 260) which requires us to report certain matters to "those charged with governance", prior to issuing our opinion on the Accounts and conclusion on the adequacy of your arrangements for securing economy, efficiency and effectiveness in your use of resources.

### Findings

- 2.4 Detailed recommendations in response to the key findings identified by our audit (both systems and final accounts stages) are provided in the action plan at Appendix A. These recommendations have been discussed with appropriate officers and their responses are included.
- 2.5 In this report we do not provide a comprehensive statement of all weaknesses that may exist in the accounting and control systems, but only those matters which have come to our attention as a result of the audit procedures performed.
- 2.6 We have not restated recommendations already made by Internal Audit. However, since issuing their previous system reports Internal Audit have completed some additional "top up testing" of controls at our request. This work identified a number of additional control weaknesses that, due to the timing of the additional work, have not yet been reported to the Council. Consequently, recommendations in relation to these matters have been included in this report at Appendix A.

### Status of our report to the Council

- 2.7 This report has been prepared for Members' and Officers' information only and is not intended to include every matter that may have come to our attention. We accept no responsibility for any reliance that might be placed on it for any purpose by third parties, to whom it should not be shown without our prior written consent.

### Independence

- 2.8 We confirm that we are not aware of any relationships that may bear on our independence and objectivity as auditor and that our independence declaration, included in the Annual Audit and Inspection Plan 2007/08, has remained valid throughout the period of the audit.

## 3 Accounts

### Requirements

- 3.1 The Council is required to publish audited Accounts in accordance with proper practices as set out in CIPFA/LASAAC's Code of Practice on Local Authority Accounting in the United Kingdom 2007: A Statement of Recommended Practice (SORP). The Director of Finance and ICT is responsible for the preparation of the Accounts in accordance with the SORP.
- 3.2 The Code of Audit Practice requires us to provide an opinion on whether the Accounts present fairly the financial position of the Council and its income and expenditure for the year, and whether it has been properly prepared in accordance with appropriate legislation.

### Systems, risks and materiality

- 3.3 In carrying out this work we consider:
- the extent to which your accounting and internal control systems are a reliable basis from which to prepare the Accounts
  - the robustness of your accounts preparation processes.
- 3.4 In carrying out this review, we consider the environment within which those controls operate and evaluate specific controls that respond to significant risks. Following our evaluation we assess whether we shall be placing reliance on particular controls and where reliance is to be placed, we will conduct testing of the relevant controls.
- 3.5 Your key financial systems are:
- Main accounting system
  - Cash and bank
  - Payments and creditors
  - Income and debtors
  - Payroll and employment costs
  - Council tax
  - Housing and council tax benefits
  - Non domestic rates (NDR)
  - Housing rental income
  - Investments and investment income
  - Information technology
- 3.6 We also consider the risk of material misstatements, including the risk of fraud and error, which may have an impact on our opinion. This requires us to:
- review the adequacy of the financial systems for accounting for transactions
  - review internal controls that are designed to prevent, or detect and correct, misstatements in the accounts
  - review the arrangements for preparing the Accounts
  - select and test transactions and balances, including review of significant balances against expectations and substantiate individual items
  - assess the significant estimates and judgements made by officers in preparing the Accounts
  - consider the adequacy of presentation and disclosures included in the Accounts.

## Reporting to those charged with governance

- 3.7 In accordance with the requirements of auditing standards, auditors are required to communicate relevant matters relating to the audit to “those charged with governance”.
- 3.8 In particular we are required to report:
- qualitative aspects of accounting practices and financial reporting
  - the final draft letter of representation to be agreed by management and those charged with governance
  - unadjusted misstatements
  - expected modifications to the audit report
  - material weaknesses in accounting and internal control systems identified during our work
  - matters required to be communicated by other ISAs
  - any other audit matters of governance interest.
- 3.9 Our comments in each of these areas are set out below:

## Accounting practices and financial reporting

### *Application of accounting policies*

- 3.10 The key changes introduced by the 2007 SORP were:
- the introduction of a revaluation reserve, with a “Year 1” nil opening balance
  - the introduction of Financial Reporting Standards 25, 26 and 29 relating to the accounting treatment for financial instruments
- 3.11 The Council has dealt with the implementation of the revaluation reserve disclosures in an appropriate manner.
- 3.12 Some areas for improvement to the completeness and accuracy of disclosures were noted in respect of the implementation of FRS 25, 26 and 29. The Council made appropriate enhancements to disclosures to address these matters.

### *The accounts preparation process*

- 3.13 The draft Accounts, with some amended papers, were approved by the Council on 26 June 2008, in line with the statutory timetable. The audit was scheduled to start on 28 July 2008 to give sufficient time for the Council to prepare the information required for it.
- 3.14 Overall there is notable scope for improvement to the accounts and audit preparation processes. We recognise that, in the first year of a change of auditor, there is a learning curve to be navigated as the two teams acclimatise themselves to the working methodologies of the other. This will inevitably have been a contributing factor that can be addressed jointly by the teams in future years. We also understand that this was a difficult year for the Council with key staff changes during the closedown period. We have arranged a joint ‘debrief’ meeting for the two teams to reflect on arrangements and develop an action plan to secure improvements and find the optimum way forward for an efficient audit.

### *Comprehensive working papers*

- 3.15 As part of our planning for the final accounts audit, we had prepared and provided to officers a detailed document request listing which outlined the information that we would require to complete the audit on the basis set out in our audit plan (the Records Required List).

- 3.16 This document was not used by the Council to prepare for the audit and, as a result, a fully comprehensive set of cross referenced working papers was not received at the start of the audit. We did receive lead schedules and supporting ledger analysis for most key account areas, but a number of key working papers were not available until much later.
- 3.17 This undermined the efficiency of the audit and adversely impacted the audit timetable. In addition it increased the amount of queries raised by the audit team and, consequently, the level of demand placed by the audit team upon the Council's Officers, particularly Finance Department staff.
- 3.18 Nevertheless, the Finance Department staff were responsive and worked to address audit queries as timely as possible and we appreciate the co-operation afforded by them.

### **Staff availability**

- 3.19 The majority of the key contacts within the Finance Department were on annual leave of a week or more at some point during the initial four week period scheduled for the audit. Although every effort was made to maximise access to those key staff during the times they were available, this again placed pressure on the audit timetable and increased the burden on the Assistant Director of Finance, and some other staff, as audit queries were rerouted by necessity in the absence of key contacts.

### **Testing of transactions and balances**

- 3.20 As part of our audit, all material balances were subject to testing. There were a number of errors identified through this testing, none of which were material to the Accounts.
- 3.21 Details of the significant non-trivial but not material errors identified and adjusted for, and their impact on the Accounts, are set out below.
- 3.22 Details of the non-trivial uncorrected misstatements in the Accounts are set out in Appendix C.

### **Revaluation reserve**

- 3.23 The Council disposed of a number of assets during 2007/08 with a total net book value of £9.5m. The SORP requires that, on disposal, any revaluation gain previously recognised in the Revaluation Reserve for the assets disposed be reversed out of the reserve. The revaluation gain recognised in the Revaluation Reserve in relation to those assets was £2.6m. The latter should have been reversed out of the Revaluation Reserve in order to comply with the SORP, but the Council instead debited the reserve with the full net book value of the assets disposed. The resultant error of £6.9m was corrected. This was a balance sheet error only, having no impact on the Income and Expenditure Account or the General Fund.

### **Valuation of housing stock**

- 3.24 The Council's policy on revaluation provides for a desk top revaluation of housing stock (including garages) to be completed annually by the District Valuer. This revaluation is based upon the housing stock figure notified by the Council in 2005, adjusted each year for disposals. The audit identified a mismatch between the number of houses and garages used in the District Valuer's revaluation and the figures disclosed in the Accounts.
- 3.25 Further investigation identified that this was as a result of failure to notify the District Valuer of housing stock transfers to Registered Social Landlords (totalling 59 properties), and from errors in the figures notified to the District Valuer in the year 2000 (totalling a further 16 properties and 80 garages).

- 3.26 The Council has sought and received a corrected revaluation from the District Valuer in relation to the 59 properties that were transferred to Registered Social Landlords. This quantified the error in respect of these properties as a £3.5m overstatement of fixed assets and the revaluation reserve.
- 3.27 In respect of the remaining 16 properties and 80 garages, an accounting estimate for the correction required has been calculated by the Finance Department, from a desk top review against the beacon values for similar properties, with the assistance of the Housing and Estates Departments. The error was estimated as a further £1.5m overstatement of fixed assets and the revaluation reserve. We consider the basis of this estimate to be reasonable.
- 3.28 Both these errors had an impact on the accuracy of depreciation charges and the vacant possession values reported in the notes to the Housing Revenue Account.
- 3.29 None of the errors identified were material to the Accounts and there was no impact on the Income and Expenditure Account or the General Fund. Nevertheless they have all been corrected in the revised accounts.

### Reserves

- 3.30 The Council has an insurance reserve in the Accounts of £981,000 the intended purpose of which is to cover costs for claims that are not covered by the Council's insurance policies.
- 3.31 The reserve has accumulated over a number of years, with an annual average increase in the region of £150,000. Although the reserve has now been 'capped' at £981,000 there has been no utilisation of the reserve in at least the last five years and no critical review of the ongoing need for such a high level of reserve in the accounts. This calls into question the reasonableness of the level of reserve which does not match historical activity in terms of likely charges against it. Recommendations have been made in Appendix A regarding critical review and assessment of the ongoing need for this reserve.

### Debtors

- 3.32 During our review of debtors we identified the following errors which have now been corrected in the Accounts:
- **Bad debt provision:** The Non Domestic Rates (NDR) bad debt provision had been incorrectly calculated due to the presence of an error in the formula in the calculation spreadsheet that resulted in double counting. Consequently, the provision was overstated by £319,141 which, in turn, affected the values for the payment to the NDR National Pool and the non domestic rates income in the Collection Fund, which were understated by the same amount.
  - **Receipt from the NDR National Pool:** As part of the year end close down procedures, the Council estimated the receipt from the National Pool to be £1,678,000 based on the latest information available. From review of the subsequent confirmation in August 2008, received from the Department of Communities and Local Government, the receipt was confirmed to be £1,275,236. The variance of £402,000 has been adjusted for in the Accounts.
  - **VAT return:** The Accounts included a year end debtor of £172,000 in respect of the year end VAT return. From review of the quarter 4 VAT return submitted by the Council, it was identified that the value of £519,379 was reported as the net VAT to be repaid by Her Majesty's Revenue and Customs (HMRC). The difference between the VAT return and the debtor balance of £347,000 had been incorrectly included within creditors.

### **Income and expenditure**

- 3.33 The Housing Revenue Account (HRA) expenditure value recorded on the face of the Income and Expenditure Account differed to the total expenditure value reported on the face of the HRA by £250,000.
- 3.34 From our review of the adjustments made by the Council during the consolidation of the HRA into the Income and Expenditure Account it was identified that this was in fact Cultural Services general fund expenditure. As such it is considered more appropriate that the adjustments be reclassified on the face of Income and Expenditure Account to show them under the service headings to which the expenditure actually relates. The Council has now corrected this error within the Accounts and made adjustments to the prior year comparative values.

### **Cash flow statement**

- 3.35 The audit of the cash flow statement identified a number of non-trivial misclassifications within the separate lines of the statement. These had no effect on the overall net increase in cash reported and have been corrected.
- 3.36 However, there is an unadjusted balancing error included in the movement in revenue creditors line of the cash flow statement of £269,000 for which we are unable to satisfy ourselves of the accuracy of classification. This is not material to the accounts but has been included in Appendix C as an unadjusted non-trivial error. A recommendation has been raised in Appendix A for further work to be done to ensure that this is investigated with a view to preventing recurrence in future years.

### **Housing revenue account**

- 3.37 There was some ambiguity in respect of previously received guidance on the accounting treatment of the opening capital financing requirement when calculating the Item 8 credit in the HRA. This is not considered to be an error in the accounts but a matter of professional interpretation in respect of a technical accounting issue and we will work with the Council to review and agree the accounting treatment in respect of 2008/09.

### ***Adequacy of disclosures***

- 3.38 Aside from the relevant matters identified as errors above, there have been no significant matters of non compliance with the disclosure requirements of the SORP and Financial Reporting Standards, although there have been a number of enhancements made to improve the comprehensiveness and presentation of notes.
- 3.39 It is a requirement of the SORP that authorities disclose any related party transactions. As part of the process for identifying whether there are any relevant related party transactions that require disclosure, Members and Officers are requested to complete and sign declarations outlining any potentially relevant transactions.
- 3.40 At the time of presenting the initial draft of this report to the Audit and Governance Committee on 18 September 2008 declarations had not been received from three current serving Members. Failure to return declarations could prevent us from concluding that there are no material misstatements in respect of related party transactions.

### **Letter of representation**

- 3.41 The draft letter of representation has been attached as Appendix B. This has been amended since our initial draft report to include the unadjusted error in respect of the cash flow statement.

## Unadjusted misstatements

- 3.42 We set out at Appendix C all of the non-trivial misstatements which we noted during the course of our audit and which management do not intend to adjust. On behalf of the Audit and Governance Committee, as agreed at their meeting on 18 September 2008, the Chair of the Committee agreed that these items will not be adjusted in the Accounts. This was subsequently confirmed in the Letter of Representation received on 25 September 2008.

## Audit report

- 3.43 At the time of drafting this report we are proposing to issue an unqualified opinion on the Accounts on 26 September 2008, in accordance with the statutory deadline of 30 September.

## Accounting and internal control systems

- 3.44 We have reviewed the key financial systems in place across the Council, which contribute to the preparation of materially accurate Accounts, to assess the extent to which we can place reliance on them for this purpose.
- 3.45 Under Auditing Standards we also have a responsibility to give specific consideration to the potential risk of material misstatement in the Accounts due to fraud and error, including the risk of fraudulent financial reporting.
- 3.46 The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect material fraud and corrupt practices lies with management and those charged with governance.
- 3.47 Our approach to the audit of the financial systems has involved considering key control areas for each system and satisfying ourselves that they are operating as intended and are sufficient to prevent material misstatements within the Accounts. In assessing the reliability of systems as a basis for providing financial information, systems notes were prepared for each financial system and we have evaluated the controls within those systems, with particular focus on assessing whether the controls in place to mitigate significant risks are suitably designed and operating as intended to meet their objective.
- 3.48 Where possible, we have placed reliance on Internal Audit's work and thereby avoided unnecessary duplication of audit effort. To ensure this approach was valid, we have undertaken the following:
- reviewed Internal Audit's working papers and reports
  - considered the robustness of the key financial systems on the evidence of this work
  - relied on Internal Audit's evaluation of controls and re-perform a sample of their testing of the effectiveness of controls, to ensure that their conclusions are soundly based
  - considered Internal Audit's review of the effectiveness of internal control.
- 3.49 We were able to place reliance on the work of Internal Audit. Some areas for improvement in our joint working arrangements have been identified and discussed with the Chief Internal Auditor, recommendations for which have been included in Appendix A. We will work closely with Internal Audit to ensure the maximum reliance can be placed on their work in future years, securing optimum use of total internal and external audit resource.



- 3.50 In order to identify the fraud risks, and the controls you have put in place to mitigate those risks, we have:
- discussed your anti fraud and corruption arrangements with officers and those charged with governance
  - considered the extent to which the work of Internal Audit is designed to detect material misstatements in the accounts arising through fraud
  - made inquiries regarding instances of actual fraud you have identified.

### **Conclusion**

- 3.51 The majority of the Council's key financial systems are adequate as a basis for preparing the Accounts. However, significant control weaknesses were identified within the creditors and payments system and the debtors and income system that resulted in the need for additional substantive testing to be undertaken as part of our audit of the Accounts. These weaknesses are outlined below:
- **Creditors and payments system:** Lack of controls around segregation of duties makes it possible for the same individual to order and receive goods and then subsequently authorise the payment for those goods. This control weakness and recommendations for strengthening the control environment were reported by Internal Audit. We have not repeated these recommendations in this report.
  - **Debtors and income system:** There are no controls in place to ensure that income not processed through the income and debtors IT system (AIMs) or the Cash Receipting system e.g. income in respect of car parking, penalty charge notices, building control and licensing is received and accurately accounted for in the general ledger. Several control weaknesses have been reported previously by Internal Audit in relation to some of these income streams but not in respect of the 2007/08 financial year (due to the timing of the findings), hence we have made supplementary recommendations for improvement in Appendix A to this report.

### **Matters required to be reported by other auditing standards**

- 3.52 There are no other matters arising from our work that we are required by other auditing standards to bring to the attention of those charged with governance.

### **Other audit matters of governance interest**

#### **Annual Governance Statement (AGS)**

- 3.53 In June 2007 CIPFA, in conjunction with the Society of Local Authority Chief Executives (SOLACE), published Delivering Good Governance in Local Government: Framework. This framework, and the accompanying guidance notes, replaces the previous CIPFA/SOLACE framework, Corporate Governance in Local Government – A Keystone for Community Governance: Framework, which was published in 2001. The framework applies to all local government bodies and is directly relevant to a number of use of resources Key Lines of Enquiry (KLoE), in particular the three internal control KLoE.
- 3.54 Of particular importance is the introduction through the CIPFA/SOLACE framework, from 2007/08, of an integrated "annual governance statement". This subsumes the requirements of Regulation 4(2) of the Accounts and Audit Regulations 2003 (as amended by the Accounts and Audit (Amendment) (England) Regulations 2006) for the production of a statement on internal control (SIC).

- 3.55 The framework reflects the Commission's own definition of corporate governance as:  
*"... about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, open, honest and accountable manner.  
It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities."*
- 3.56 The Council has a responsibility to publish a Governance Statement, including the outcome of a review of its effectiveness, with its 2007/08 Accounts.
- 3.57 We have reviewed the Annual Governance Statement, and the supporting review of effectiveness that has been undertaken, and we are satisfied that the Statement is not inconsistent with the evidence provided in the review of effectiveness and our knowledge of the Council.

## 4 Use of Resources

- 4.1 The Audit Commission's Code of Audit Practice requires us to be satisfied that proper arrangements have been made by the Council to secure economy, efficiency and effectiveness in the use of resources (value for money).

### Value for money conclusion

- 4.2 Our VFM conclusion is based on considering the results of the Use of Resources KLoE assessment and the results of the Data Quality management arrangements (Stage 1) assessment. The conclusion also draws on the results of local risk based audit work, as well as consideration of the Council's processes underpinning its review of the effectiveness of its controls as described in the Annual Governance Statement.
- 4.3 The Use of Resources KLoE assessment work has been sufficiently completed to enable the delivery of the VFM conclusion and will be finalised in November 2008, as required by the Audit Commission's timetable for quality assurance. A detailed report of findings will be provided to Officers later in the year.
- 4.4 The Data Quality management arrangements assessment has been sufficiently completed to enable the delivery of the VFM conclusion and will be finalised in October 2008, as required by the Audit Commission's timetable. A detailed report of findings will be provided to Officers later in the year.
- 4.5 This work will contribute to forming our overall conclusion on your arrangements to secure economy, efficiency and effectiveness in the use of resources, as audited bodies are required to reach expected minimum requirements in each of the 12 VFM conclusion criteria reviewed, to achieve an unqualified opinion.

### Proposed conclusion

- 4.6 Our work in this area is incomplete at the time of drafting this report. However, from the work completed to date and based on our knowledge of the Council gained through attendance at Committee meetings and through liaison, we anticipate giving an unqualified VFM conclusion, in line with that included at Appendix D, on 26 September 2008.

### Statutory report on the 2007/08 Best Value Performance Plan

- 4.7 The audit of the Best Value Performance Plan 2007/08 ("BVPP") was completed in 2007 and we reported that the Council had prepared and published its BVPP in all significant respects in accordance with section 6 of the Local Government Act 1999 and statutory guidance issued by the Government. An unqualified opinion was issued on 14 December 2007.
- 4.8 No recommendations have arisen from this work.

## Appendix A: Recommendations arising from our audit

Conclusions from work	Recommendations	Priority	Response	Responsibility	Timing
<b>SYSTEMS</b>					
<b>Internal Audit</b>					
<p>Overall we concluded that we were able to rely on the work of Internal Audit in discharging our duties under the Audit Commission's Code of Audit Practice.</p> <p>Nevertheless, some specific areas for improvement in the structure and coverage of their audits were noted. In particular, the timing of audits resulted in the testing of controls not covering all quarters of the financial year for all key financial systems. This undermines the strength of assurance that can be given in respect of the effectiveness of the operation of key controls for the whole financial year, but was later addressed through the delivery of agreed 'top up testing'.</p> <p>However, we also noted that Internal Audit's Non Domestic Rates working paper file was of particularly good quality, being well structured, fully cross referenced and comprehensive in terms of the depth of evidence retained in support of the conclusions drawn. This would be a good example to use in formulating standard working papers and structures for use in all Internal Audit work.</p>	<ol style="list-style-type: none"> <li>1. Perform top-up testing on each system to ensure that the testing of the key controls covers all quarters of the financial period under review.</li> <li>2. Adopt a standard methodology for documenting the results of the testing of controls, by including the following information within the working papers: <ul style="list-style-type: none"> <li>• Justification for the sample size selected and details of the method used to select the sample.</li> <li>• An overall results schedule for each control tested, including the results for each item tested.</li> <li>• An overall conclusion for each control tested.</li> <li>• The reasoning behind the decision on whether or not to undertake additional audit testing when errors are identified within the original sample tested.</li> </ul> </li> </ol>	<p>High</p> <p>Medium</p>	<ol style="list-style-type: none"> <li>1. Agreed. Provision for top-up testing has already been made in the 2008/09 Audit Plan for this purpose. (The main reason for this issue arising is the practical restriction around staff resource allocation which prevents all finance system audits being undertaken in quarter 4. Top up testing is the means of providing the necessary level of assurance).</li> <li>2. Agreed. The first three bullet points are generally included within audit working papers but standard headings will be included in future to ensure a consistency of approach. Appropriate explanations in respect of the last bullet point will also be included.</li> </ol>	<p>Joe Akerman, Chief Internal Auditor</p> <p>Joe Akerman, Chief Internal Auditor</p>	<p>October 2008</p> <p>October 2008</p>

Conclusions from work	Recommendations	Priority	Response	Responsibility	Timing
<b>Cash and bank</b>					
<p>No evidence of the three authorised signatories for signing manual cheques, as recognised by the bank, was provided for audit.</p> <p>We understand that this information had been received from the bank previously but this could not be located.</p> <p>This reduces the assurance that can be gained from controls over the authorisation of manual cheques and mitigation of potential fraud.</p>	<p>3. Obtain and retain evidence from the bank of the recognised authorised signatories for manual cheques.</p>	Medium	Agreed.	Peter Maddock, Assistant Director of Finance	October 2008
<b>Income and debtors</b>					
<p>There are no controls in place to ensure that all income due is received and accurately accounted for in respect of a number of material income streams, for example, income in respect of car parking, penalty charge notices, building control and licensing where income is not processed using the AIMs or cash receiving systems.</p> <p>This increases the risk of material error occurring in the accounts.</p> <p>These control weaknesses have previously been reported by Internal Audit but have the potential to materially affect the accuracy of the accounts and, hence, resulted in the need for us to carry out additional substantive testing on your Accounts.</p>	<p>4. Undertake regular reconciliations of all expected income to invoices raised or income due, for all material income streams outside of the AIMs and cash receiving system.</p>	High	Agreed in principle. All income streams outside of the AIMs and Cash Receiving systems will be reviewed individually to determine the best control mechanisms to implement for each.	Peter Maddock, Assistant Director of Finance	December 2008

Conclusions from work	Recommendations	Priority	Response	Responsibility	Timing
<p><b>Payroll</b></p> <p>There is no independent check performed on the accuracy of the system parameters that are updated by the Payroll Manager.</p> <p>This increases the risk of material error occurring in the Accounts as a result of possible inaccuracies in the updates not being detected.</p>	<p>5. Perform an independent check on the system parameters uploaded onto the Payroll system by vouching to reference documentation.</p> <p>6. Retain evidence of this check by way of a signature and date on the system parameters report produced from the Payroll system.</p>	<p>Medium</p> <p>Medium</p>	<p>The payroll officers will perform a sample check.</p>	<p>Anita James &amp; Brenda Corder, Payroll Officers</p> <p>Anita James &amp; Brenda Corder, Payroll Officers</p>	<p>September 2008</p> <p>September 2008</p>
<p>The details of starters and leavers are not always being recorded on the monthly payroll returns that are completed by budget holders.</p> <p>This increases the risk of undetected error occurring as a result of failure to notify or late notification payroll changes to the Payroll Department.</p> <p>This weakness was identified from Internal Audit's top-up testing which was performed after the issue of their 2007/08 report on the payroll system.</p>	<p>7. Remind budget holders of their responsibility to fully complete the monthly payroll returns and send them to payroll on a timely basis for processing.</p>	<p>Medium</p>	<p>Employing departments will be reminded again to fully complete the monthly payroll returns and send them to the Payroll Department on a timely basis for processing.</p>	<p>Paula Maginnis, Assistant Director of Human Resources</p>	<p>October 2008</p>
<p>Our review identified that the Payroll Manager undertakes sample checks of the accuracy of employee tax and national insurance calculations. However, no evidence of these checks is retained.</p> <p>Retention of documentation to evidence these checks strengthens the control environment and improves the assurances that can be given in respect of the accuracy of pay costs in the Accounts.</p>	<p>8. Retain the evidence for all sample checks made in respect of tax and national insurance calculations.</p>	<p>Low</p>	<p>The sample payslip (where tax and NI are checked) will be signed by the Payroll Manager.</p>	<p>Jayne Howell, Payroll Manager</p>	<p>September 2008</p>

Conclusions from work	Recommendations	Priority	Response	Responsibility	Timing
<b>Payroll (continued)</b>					
<p>There is no overall sign-off by the payroll officers that perform monthly reasonableness checks on payroll data.</p> <p>This reduces the assurance that can be gained that the control was in place and operating effectively for the whole financial year.</p> <p>This weakness was identified from Internal Audit's top-up testing which was performed after the issue of their 2007/08 report on the payroll system.</p>	<p>9. Sign and date the first page of the monthly payroll data to provide evidence that the monthly payroll reasonableness checks have been completed satisfactorily.</p>	Low	<p>The checking officer will sign and date the first page of the payslips.</p>	<p>Jayne Howell, Payroll Manager Anita James &amp; Brenda Corder, Payroll Officers</p>	September 2008
<b>Information technology</b>					
<p>The ICT Department has a disaster recovery plan embedded within the overall corporate plan. However, the current plan has not been reviewed for at least 18 months, since the IT Department merged with the Communication Department.</p> <p>There is a risk that there is insufficient information in the plan regarding the new merged department. Also any new systems that have been implemented since the original plan was designed will not be covered in the plan, increasing the exposure of those systems in the event on an adverse ICT incident occurring.</p>	<p>10. Design, document and test a stand alone disaster recovery plan for the ICT Department.</p>	Medium	<p>A comprehensive revision of the Council's Business Continuity Plans is currently underway. This recommendation will be picked up as part of this process.</p>	<p>David Newton, Assistant Director – ICT</p>	September 2008

Conclusions from work	Recommendations	Priority	Response	Responsibility	Timing
<b>Benefits</b>					
<p>Although there are accuracy checks made after the update of the revenues and benefits IT system (ORBIS) parameters for Department of Work and Pension circulars, no physical record is retained of the checks.</p> <p>Retention of documentation to evidence these checks strengthens the control environment and improves the assurances that can be given in respect of the accuracy of benefits transactions in the Accounts.</p>	<p>11. Retain evidence for all the checks made of the updated parameters and for any subsequent calculation checks performed on benefits claims using the updated parameters. This should include signing and dating screen prints showing the updated parameters.</p>	Medium	<p>Parameters are input and checked by at least two Officers but currently there is no paper record of the checking. Paper records as recommended will be kept during year end processing 2009/10.</p>	<p>Julian Lewis, Benefits Manager</p>	<p>March 2009</p>
<b>Non domestic rates (NDR)</b>					
<p>There is no independent review of the Valuation List to ORBIS reconciliations.</p> <p>This increases the risk that errors will not be detected and ORBIS not correctly updated.</p>	<p>12. Independently review Valuation List to ORBIS reconciliations and sign to evidence that this review has taken place.</p>	Medium	<p>Management will implement this change.</p>	<p>Gerry Greenwold, Senior NDR Control Officer</p>	<p>September 2008</p>



Conclusions from work	Recommendations	Priority	Response	Responsibility	Timing
<b>Non domestic rates (continued)</b>					
<p>Whilst we understand that there are cyclical controls (once every 5 years) in place to check the ongoing entitlement of business ratepayers to mandatory and discretionary reliefs granted, no evidence could be provided at audit of this having been done.</p> <p>This increases the risk of over provision of relief resulting in inaccurate reduction of income due.</p> <p>This issue does not relate to small business rate relief or empty property relief which is subject to separate controls that were tested and found to be satisfactory.</p> <p>This weakness was identified from Internal Audit's top-up testing which was performed after the issue of 2007/08 their report on the NDR system.</p>	<p>13. Retain evidence of the operation of controls to check the ongoing entitlement of business ratepayers to reliefs given.</p>	<p>Medium</p>	<p>Agreed. The new Academy IT system has improved functionality in this respect, which will be utilised.</p>	<p>Gerry Greenwold, Senior NDR Control Officer</p>	<p>Commencing April 2009</p>
<p>There was no formal sign-off of the annual billing list amendments for NDR. A document was retained which showed that it has been ticked, but it was not signed to show who had completed this check, or when.</p> <p>Extending the annotation to the reports to evidence checks with the checkers signature and date strengthens the control environment and improves the assurances that can be given in respect of the accuracy of NDR transactions in the Accounts.</p>	<p>14. Sign and date the checks on the annual billing list amendments to the parameters in the Academy system.</p>	<p>Low</p>	<p>The annual billing changes will be formally signed off in the future.</p>	<p>Rob Pavey, Assistant Director - Revenues</p>	<p>February 2009</p>

Conclusions from work	Recommendations	Priority	Response	Responsibility	Timing
<b>Non domestic rates (continued)</b>					
<p>There are three clerical assistants within the NDR and Council tax Teams who also perform relief cashier duties and, as such, have access to both ORBIS and the Cash Receiving System.</p> <p>Although it was noted that the relief cashier function is rarely performed, the officers in question still have access to update NDR and Council Tax billing accounts and receipt income on the Cash Receiving System.</p> <p>Segregation of duties is primarily a fraud prevention control, however, there is also an increased risk of error to the accounts.</p>	<p>15. The Council should consider restricting the system access of the NNDR and Council Tax Clerical Assistants to either:</p> <ul style="list-style-type: none"> <li>No longer having access to the Cash Receiving System; or</li> <li>Having read only access to ORBIS so that changes to Council Tax and NNDR billing accounts cannot be made.</li> </ul>	Low	<p>This position has been discussed in previous audits. Management accepts there is a risk but the level of risk is sufficiently low to justify the benefits of the emergency cashier cover the clerical assistants bring.</p>	N/A - not agreed.	N/A – not agreed.
<b>ACCOUNTS</b>					
<b>Accounts preparation</b>					
<p>We prepared and provided to officers a detailed document request, the Records Required List (RRL) which set out the information and working papers that we would require to undertake the audit.</p> <p>The RRL was not used to prepare for the audit and, as a result, a fully comprehensive set of cross referenced working papers was not received.</p> <p>This undermined the efficiency of the audit and adversely impacted the timetable.</p>	<p>16. Utilise the Records Required Listing as a basis for compiling a comprehensive set of working paper files for the audit. This should include:</p> <ul style="list-style-type: none"> <li>Cross referencing of the RRL to individual working papers provided</li> <li>Retention of evidence supplied by other departments in support of the accounts within the central working paper files provided for audit.</li> </ul>	High	Agreed.	Peter Maddock, Assistant Director of Finance	March 2009

Conclusions from work	Recommendations	Priority	Response	Responsibility	Timing
<b>Fixed assets</b>					
The housing stock numbers used by the District Valuer in preparing the annual desktop revaluation of Council dwellings and garages were incorrect. This resulted in a non-trivial error to the accounts, the scale of which is still to be determined but it is not considered likely to be material.	17. Provide the District Valuer a full annual analysis of changes to the housing stock (including garages). 18. Check the accuracy of the housing stock numbers used in the District Valuer's report back to Housing Department records as part of the accounts closedown and preparation procedures.	High High	Agreed. Agreed.	Peter Maddock, Assistant Director of Finance Peter Maddock, Assistant Director of Finance	March 2009 March 2009
<b>Related parties</b>					
Related Party disclosure declaration forms had not been received from three currently serving Councillors five months after the year end and two months after approval of the Council's financial statements. This increases the risk of material error in the accounts as defined in Financial Reporting Standard 8 (FRS8).	19. Complete and return declarations timely and, at the latest, before the approval of the draft accounts. 20. Review the arrangements for monitoring and securing receipt of completed declarations. This could include, for example, monitoring through the Audit and Governance Committee or Finance Cabinet Committee.	High Medium	Agreed. Agreed.	All Officers and Members Bob Palmer, Director of Finance and ICT	June 2009 March 2009
<b>Building control account</b>					
There is a three year cumulative deficit on the chargeable part of the Building Control Account of £132,000. There is a statutory requirement for the Council to achieve a breakeven position on the account. Failure to review this position annually and take appropriate action could put the Council in breach of legislation.	21. Devise and implement a plan for bringing the cumulative position on the Building Control Account into break even. 22. Seek approval of the plan from the Finance Cabinet Committee.	High	Agreed.	John Preston, Director of Planning and Economic Development	March 2009

Conclusions from work	Recommendations	Priority	Response	Responsibility	Timing
<p><b>Reserves</b></p> <p>There is an insurance reserve in the accounts of £981,000 the intended purpose of which is to cover costs for claims that are not covered by the Council's insurance policies. The reserve has accumulated over a number of years and has recently been capped. There has been no utilisation of the reserve for at least the last five years and no critical review of the ongoing need for such a high level of reserve in the accounts. This calls into question the reasonableness of the level of reserve which does not match historical activity in terms of likely charges against it.</p> <p>In addition, we understand that any excesses payable in respect of Council insurance claims would likely be charged against this reserve if not charged directly to the Service Departments. This would normally be accounted for through the creation of a specific provision within the accounts, under FRS 12.</p>	<p>23. Critically review the ongoing requirement for, and level of, the insurance reserve held.</p> <p>24. Report the findings of the review to Council for approval of any proposed action in respect of write back or likely utilisation of the reserve.</p> <p>25. Create a provision in the accounts for the excess in respect of known insurance claims payable that are not to be recharged to the Service Departments.</p>	<p>High</p> <p>High</p> <p>Medium</p>	<p>Agreed.</p> <p>Agreed. This will be done as part of the next Budget Report.</p> <p>Agreed.</p>	<p>Bob Palmer, Director of Finance and ICT</p> <p>Bob Palmer, Director of Finance and ICT</p> <p>Peter Maddock, Assistant Director of Finance</p>	<p>February 2009</p> <p>February 2009</p> <p>March 2009</p>

Conclusions from work	Recommendations	Priority	Response	Responsibility	Timing
<b>Cash flow statement</b>					
The audit of the cash flow statement identified a number of non-trivial misclassifications within the separate lines of the statement and balancing error included in the movement in revenue creditors line of £269,000 for which we are unable to satisfy ourselves of the accuracy of classification.	26. Investigate the cause of the imbalance, and critically review the process used to construct the cash flow statement, with a view to preventing recurrence in future years.	High	Agreed.	Peter Maddock, Assistant Director of Finance	November 2008
<b>Nominal ledger</b>					
The accounting code structure within the CEDAR IT system (nominal ledger) was incorrectly set up on implementation. Consequently each year the ledger attempts to incorrectly roll forward revenue accounts, and their income and expenditure totals. This processing error generates the need for increasingly large (and material) journal transactions to be posted as part of the accounts close down, in order to correct the processing errors. From our audit testing we were able to gain sufficient assurances that these correcting journals had been accurately processed and that the accounts were not materially inaccurate in 2007/08. Nevertheless this creates an unnecessary burden in terms of increase time and costs required to identify, correct and audit the adjustments.	27. Work with the CEDAR software provider to correct the software set up errors before the 2008/09 closure of the ledger is required.	High	Discussions with CEDAR are ongoing to upgrade the system and implement these changes.	Peter Maddock, Assistant Director of Finance	March 2009

Conclusions from work	Recommendations	Priority	Response	Responsibility	Timing
<b>Debtors</b>					
<p>The Council currently has no Member approved policy in place for providing against bad and doubtful debts.</p> <p>Whilst the percentages used to create a provision in the Accounts appear reasonable it is good practice to have a documented policy, approved by Members, that is reviewed periodically for ongoing appropriateness.</p>	<p>28. Document the policy in respect of provision for bad and doubtful debts and seek its approval from the Finance Cabinet Committee.</p> <p>29. Periodically (at least once every 3 years) review the policy for ongoing relevance and appropriateness, amending and re-approving as necessary</p>	<p>Low</p> <p>Low</p>	<p>Agreed. We will expand the existing Sundry Income and Debt Policy to include bad and doubtful debt provision and develop a policy for other debt types.</p> <p>Agreed.</p>	<p>Peter Maddock, Assistant Director of Finance</p> <p>Peter Maddock, Assistant Director of Finance</p>	<p>March 2009</p> <p>Commencing 2010</p>
<b>Trust funds</b>					
<p>Charitable trust fund balances have been included in creditors within the balance sheet in the Accounts.</p> <p>Whilst the amount of £54,000 is considered to be trivial, this does not comply with the SORP which specifically states that trust funds should be excluded from an authority's balance sheet.</p>	<p>30. Exclude trust fund balances from the balance sheet in future years.</p>	<p>Low</p>	<p>Agreed.</p>	<p>Peter Maddock, Assistant Director of Finance</p>	<p>June 2009</p>
<b>Annual Governance Statement</b>					
<p>The Annual Governance Statement was found to be consistent with our knowledge. However, we considered that there was some scope to reduce the length of the statement and streamline its content in order to improve its impact.</p> <p>We will work with the Council in order to achieve this in 2008/09.</p>	<p>31. Review the content and format of the Annual Governance Statement with a review to streamlining it in 2008/09.</p>	<p>Low</p>	<p>Agreed.</p>	<p>Bob Palmer, Director of Finance and ICT</p>	<p>February 2009</p>

## Appendix B: Draft letter of representation

PKF (UK) LLP  
16 The Havens  
Ransomes Europark  
Ipswich  
Suffolk  
IP3 9SJ

25 September 2008

Dear Sirs

### Statement of Accounts of Epping Forest District Council for the year ended 31 March 2008

#### 1 Representations of the Director of Finance and ICT

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of other officers and members of the Council, the following representations given to you in connection with your audit of the Council's Statement of Accounts.

#### 2 Responsibility for the Statement of Accounts

I acknowledge as the Director of Finance and ICT and s151 Officer my responsibilities for the Statement of Accounts.

#### 3 Completeness of information

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all management and committee meetings (held during the year and up to the date of this letter) have been made available to you.

#### 4 Internal control

I acknowledge my responsibility for the design, implementation and maintenance of internal control relevant to the preparation and presentation of the Statement of Accounts that are free from misstatement, whether arising from fraud or error.

#### 5 Fraud

I have disclosed to you the results of my assessment of the risk that the Statement of Accounts could be materially misstated as a result of fraud.

I am not aware of any fraud or suspected fraud affecting materially the Statement of Accounts, nor have any allegations of fraud or suspected fraud been communicated to me by employees, former employees, councillors, regulators or others which might affect materially the Statement of Accounts.

#### 6 Compliance with law and regulations

I am not aware of any possible or actual instances of non-compliance with laws or regulations which are central to the Council's ability to carry on business or which would otherwise have a potentially material effect on the Statement of Accounts.

**7 Transactions with related parties**

I confirm that I have put in place appropriate arrangements to identify related party transactions.

I am satisfied that the disclosure in the Statement of Accounts of related party transactions is appropriate and complete and contains all the elements necessary for an understanding of the Statement of Accounts.

**8 Contingent liabilities**

I am not aware of any significant contingent liabilities, including pending claims, proceedings or litigation involving the Council.

**9 Uncorrected misstatements**

You have brought to my attention uncorrected misstatements in the Statement of Accounts as listed in Appendix C to this letter. I do not wish to correct these misstatements as I consider them to be immaterial to the view given by the Statement of Accounts.

**10 Pension fund assumptions**

I confirm that the actuarial assumptions underlying the valuation of the Local Government Pension Scheme (LGPS) scheme liabilities, as applied by the scheme actuary, are reasonable and consistent with my knowledge of the business. These assumptions include:

- Rate of inflation 3.60 %
- Rate of increase in salaries 5.10%
- Rate of increase in pensions 3.60%
- Rate for discounting scheme liabilities 6.10%

I also confirm that the actuary has applied up-to-date mortality tables for life expectancy of scheme members in calculating scheme liabilities.

**11 Subsequent events**

There have been no events since the balance sheet date which necessitate revision of the figures included in the Statement of Accounts or inclusion of a note thereto where revisions of the Accounts have not been made or notes not included. Should any material events occur, which may necessitate revision of the figures included in the Statement of Accounts or inclusion of a note thereto, I will advise you accordingly.

Yours faithfully

**Bob Palmer**  
Director of Finance and ICT



*Representations of the Council***1 Responsibility for the Statement of Accounts**

We acknowledge our responsibilities to make arrangements for the proper administration of the Council's financial affairs and to approve the Statement of Accounts.

**2 Uncorrected misstatements**

We have considered the uncorrected misstatements in the Statement of Accounts as listed in Appendix 1 to this letter together with the explanations provided by the Director of Finance and ICT for not correcting these misstatements, and we consider them to be immaterial to the view given by the Statement of Accounts.

**3 Annual Governance Statement**

We confirm that the Council has conducted a review during the year of the effectiveness of its system of internal control. We are satisfied that the Annual Governance Statement appropriately reflects the circumstances of the Council and includes an outline of the actions taken, or proposed, to deal with significant internal control issues.

Yours faithfully

**Cllr John Knapman**  
**Chair of the Audit and Governance Committee**

Signed on behalf of the Council

**Note: Appendix 1 referred to in this letter relates to Appendix C in this report**

## Appendix C: Unadjusted misstatements

The table below details the potential differences recorded during the audit which are not adjusted for currently within the Accounts:

Unadjusted misstatements	Income Over/ (Under) £'000	Expenses (Over)/ Under £'000	Assets (Over)/ Under £'000	Liabilities Over/ (Under) £'000	Reserves Over/ (Under) £'000	Management comments
<b>Misstatements of fact (specific misstatements)</b>						
Balancing error within the cash flow statement	(269)	269				
<b>Misstatements of subjective decisions (estimates or application of accounting policy)</b>						
None						
<b>Likely misstatements (extrapolation of errors)</b>						
None						
<b>Total net misstatements</b>	(269)	269				
- Net understatement of costs						
- Net overstatement of net assets						

## Appendix D: Draft audit opinion

### *Independent auditor's report to the Members of Epping Forest District Council*

#### **Opinion on the financial statements**

We have audited the Statement of Accounts and related notes of Epping Forest District Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Statement of Accounts comprise the Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Epping Forest District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

#### **Respective responsibilities of the Director of Finance and ICT and auditor**

The Director of Finance and ICT's responsibilities for preparing the Statement of Accounts in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Statement of Accounts present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Council and its income and expenditure for the year.

We review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the Statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

We read other information published with the Statement of Accounts, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounting statements. Our responsibilities do not extend to any other information.

#### **Basis of audit opinion**

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Council in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Council's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

## Opinion

In our opinion the Statement of Accounts present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Council as at 31 March 2008 and its income and expenditure for the year then ended.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Name: PKF (UK) LLP  
Farringdon Place, 20 Farringdon Road, London, EC1M 3AP

## Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

### *Council's Responsibilities*

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

### *Auditor's Responsibilities*

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Council has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### *Conclusion*

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, we are satisfied that, in all significant respects, Epping Forest District Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

### *Best Value Performance Plan*

We issued our statutory report on the audit of the Council's 2007 best value performance plan on 14 December 2007. We did not identify any matters to be reported to the Council and did not make any recommendations on procedures in relation to the plan.

### *Certificate*

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

Name: PKF (UK) LLP  
Farringdon Place, 20 Farringdon Road, London, EC1M 3AP

## Appendix E: Reports issued to date in respect of 2007/08

Annual Audit and Inspection Plan	May 2007
Opinion on 2007/08 BVPP	December 2007
Health Inequalities	March 2008
Final report to those charged with governance	September 2008

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## ***Report to the Audit & Governance Committee***



**Epping Forest  
District Council**

***Date of meeting: 24 November 2008.***

**Portfolio: Environment.**

**Subject: Audit Commission Inspection of the Waste Management Service.**

**Responsible Officer: John Gilbert (01992 564062).**

**Democratic Services Officer: Gary Woodhall (01992 564470).**

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### **Recommendations/Decisions Required:**

- (1) To note the action plan and forward any comments to the Cabinet to be considered with any comments of the Finance and Performance Management Cabinet Committee; and**
- (2) To consider the basis upon which the action plan should be monitored.**

### **Report:**

1. The terms of reference for the Committee includes the monitoring of management action in response to issues raised by External Audit and other inspection agencies.
2. The attached report includes a draft action plan in response to the findings of the Audit Commission inspection of the Waste Management Service. This is due to be considered by the Finance & Performance Management Cabinet Committee on 17 November 2008 and will be submitted with their minutes for approval by the Cabinet on 15 December 2008.
3. If the Committee wishes to comment on the action plan or the audit findings, they should submit these to the Cabinet for consideration alongside the minutes of the Cabinet Committee. At a later stage, the Committee may wish to carry out a review of progress with the action plan. This could, for example, be a periodic exception report following detailed monitoring by the Corporate Governance Group

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**Report to the Finance and Performance  
Management Cabinet Committee**



**Report Reference:** FCC-014-2008/09.  
**Date of meeting:** 17 November 2008

**Epping Forest  
District Council**

**Portfolio:** Environment

**Subject:** Audit Commission Inspection of the Waste Management Service

**Responsible Officer:** John Gilbert (01992 564062).

**Democratic Services Officer:** Gary Woodhall (01992 564470).

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**Recommendations/Decisions Required:**

- (1) To note the outcome of the Audit Commission inspection of the waste management service;**
- (2) To note the recommendations and associated time scales; and**
- (3) To agree the action plan and to note the progress made to date.**

**Executive Summary:**

The Audit Commission undertook an inspection of the Council's Waste Management Service in May 2008. The Inspectors were present on site for a week and interviewed a wide range of officers, Members and colleagues from partner organisations and agencies. A draft report was presented to officers and the Portfolio Holder in June 2008 following which a number of agreed amendments were made. The final report was published in late August 2008. Its key findings were as follows:

- (a) recycling performance is high; and
- (b) a wide range of recyclable materials are collected; but
- (c) the service is "fair" with "uncertain prospects" for improvement;
- (d) the service costs are comparatively high;
- (e) the overall weight of waste collected is not reducing;
- (f) accessibility should be improved; and
- (g) the Council's overall environmental performance is poor.

Given the difficulties that had been faced by the Council through the contract collapse in 2006 and the arrangements which followed, this was a disappointing judgement. It is considered that the judgement is harsh, is in some cases not based on accurate data comparisons and does not properly reflect the true position.

The report which follows sets out the key findings and recommendations flowing from the report, and puts forward an action plan for consideration. The report also sets out those key areas where it is considered that the Audit Commission judgement is flawed and therefore not representative of circumstances.

## **Reasons for Proposed Decision:**

The Committee's Terms of Reference include "To receive final and draft reports from External Audit (including the Audit Management letter and External Audit Plan) from time to time received by the Council and to make recommendations to the Cabinet. This report enables the Committee to review the recommendations, consider the proposed action plan and recommend to Cabinet accordingly.

## **Other Options for Action:**

Given the findings of the inspection and the timescales for delivering improvements, there are no other options presented for consideration

## **Report:**

### Background

1. Following the difficulties experienced by the Council caused by the demise of the waste contract with South Herts Waste Management in early 2006, the Audit Commission decided that it would conduct a full-scale inspection of the Council's waste management service. This was scheduled for April 2008.
2. The inspection covered a larger scope than just waste management since it also included a review of the Council's wider environmental role, such as climate change and energy management etc.
3. As part of the preliminary work ahead of the actual inspection a lot of work was required through:
  - (a) the collation of an extensive range of information; and
  - (b) the production of a self assessment where the Council was invited to describe the current service provision and provide its own assessment of the possible audit outcome.

The latter document is appended to this report for information, and it can be seen that the Portfolio Holder and officers judged the service to be "Good" (2 star) with "Promising prospects for improvement"

### The inspection process

4. The inspectors were present on site for a week, during which time they interviewed a wide range of Members and Officers as well as colleagues from partners organisations and agencies. Throughout the week they interviewed:
  - the Environment Portfolio Holder
  - the Chief Executive
  - the Director of Environment & Street Scene
  - the Waste & Recycling Manager
  - the Waste Team
  - the Customer Services Team
  - the Environmental Co-ordinator
  - Assistant Directors
  - Finance Portfolio Holder
  - the Leader of Council
  - the Chairman of Overview & Scrutiny
  - the Chief Internal Auditor
  - the Assistant Head of Planning (Development Control)

- the Director of Housing (in his capacity of Chairman of the Value for Money working group)

They also held interviews with County Council waste officers, Essex district waste officers and the Chairman of the Waltham Abbey Town Centre Partnership

5. Prior to the formal inspection week, the inspection team had been taken on a guided tour of the district. They had also undertaken independent checks of the district to establish levels of street cleanliness etc. Some of this was repeated during the inspection week itself.

6. At the end of the week the inspection team reported back on their initial findings and sought the Council's immediate views. It was clear at this stage that the likely outcome was to be disappointing. The inspection team provided a first draft of their inspection report a few weeks later following which there were two further meetings at which the Portfolio Holder and officers sought to ensure that the report was, in its eyes, accurate but as importantly, fair and balanced in its judgement. Some amendments were agreed to reflect the Council's views, but the Commission could not be persuaded to amend its final judgement.

### The inspection outcome

7. The inspection report is 32 pages long and contains 92 paragraphs. The report is appended to this agenda for Members' information. However, this report focuses on the summary part of the report, pages 5 to 12 which include the judgements and the recommendations and associated timescales.

8. The judgement was that the service was a "fair" one star service with uncertain prospects for improvement. The following forms the basis of the "fair" judgement:

- the Council has a good recycling performance, in the top quartile;
- the Council collects a wide range of recyclable materials, with good access to services and reasonable resident satisfaction levels; and
- the reliability of the waste management service has improved.

However:

- the Council's street cleansing performance is very uncertain, and it does not engage sufficiently with third party landowners in dealing with problems;
- overall resident satisfaction with the waste service is low;
- there has been insufficient engagement with the community in shaping the services being delivered;
- there has been insufficient community education and information in support of the services;
- service delivery is not consistent, with flats being excluded from recycling services;
- the Council's approach to trade waste services is inconsistent;
- the weight of overall waste being collected is rising rather than falling;
- the service is expensive and does not represent value for money; and
- procurement arrangements have been inconsistent.

9. The following forms the basis of the "uncertain prospects for improvement" judgement:

- the Council is not demonstrating environmental leadership with no overarching corporate sustainability strategy;
- the service cannot demonstrate a plan for the delivery of national and regional waste management priorities;
- the Essex Joint Municipal Waste Management Strategy (EJMWMS) is not yet adopted;
- poor management of change, especially the initial introduction of wheeled bins and

- alternate weekly collections;
- performance arrangements within the new Environment & Street Scene Directorate not yet fully in place, and waste contract yet to be signed; and
- inconsistent application of procurement standing orders.

However:

- recycling rates and overall service reliability is improving;
- Council has the financial capacity to deliver planned improvements;
- the new Directorate structure has increased front line resources; and
- there is a clear commitment to improving service delivery.

10. Whilst there remains disappointment at the one star rating for the current service, this was a less contentious issue than the rating for potential service improvement. It was considered on the Council's part, and accepted by the Commission's inspection team that it had clearly demonstrated:

- (i) a clear commitment to improve;
- (ii) made resources available; and
- (iii) demonstrated improving services and performance;

and that given the Commission's position that it dealt with outcomes for residents rather than intent, this was sufficient to remove any uncertainty. However, the Commission seemed to apply considerable weighting to strategic documents such as the EJMWS which had not yet been adopted, even though it was out to consultation and was not therefore able to be adopted. Similarly, weighting was apparently placed upon the internal performance management arrangements within the new Environment & Street Scene Directorate, at a time when the Directorate had only recently been formed and key appointments were still in progress. The one accepted area of difficulty was around the council's corporate sustainability policies, and it is unfortunate that this corporate shortcoming significantly affected the outcome of the waste service inspection.

11. The final version of the report was published in late August, at which time the Council robustly defended its position and restated its disappointment with the outcome.

#### Recommendations and action plan

12. Irrespective of the disappointment felt with the outcome of the inspection, the Council has to address the recommendations contained in the report. The recommendations and their associated timescales were again the subject of considerable discussion with the Commission and they reflect, as far as possible, the Council's position and concerns.

13. Appendix 1 to this report sets out the recommendations made by the Commission's inspection team. Recommendations 1 and 2 are scheduled for completion by April 2009 and recommendation 3 by March 2009. Appendix 2 transposes these into an action plan with progress to date indicated in the table.

#### **Resource Implications:**

The resource implications arise from the management of the recommendations and arise from:

- (a) undertaking service review;
- (b) implementation of the service review; and
- (c) interim management measures.

These costs form part of other reports being prepared for Cabinet at this time, but will be

significant. Current service cost overall is around £5 million per annum (including on costs) and therefore, in accordance with the Audit Commission's assessment of low, medium and high cost (see appendix 1), the following arises:

- |       |                                      |                          |
|-------|--------------------------------------|--------------------------|
| (i)   | low cost (up to 1% of service cost): | £ 50,000 (less than);    |
| (ii)  | medium cost (1% to 5%):              | £ 50,000 to £250,000; or |
| (iii) | high cost (more than 5%)             | £250,000 plus.           |

#### **Legal and Governance Implications:**

The Audit Commission report is important since it will form a critical part of future inspection arrangements including the forthcoming Direction of Travel and Use of Resources assessment. It is therefore essential that the Council can demonstrate a full understanding of the recommendations and is able to evidence progress against them in accordance with the agreed time frame.

#### **Safer, Cleaner and Greener Implications:**

The effective management and delivery of the waste management service is a key component of the Council's Safer, Cleaner, Greener initiative. The need for the Council to make progress towards the adoption of a climate change and environmental strategy is also key to the initiative.

#### **Consultation Undertaken:**

None other than that undertaken by the Audit Commission inspection team.

#### **Background Papers:**

Wide range of information and data provided to the Audit Commission inspection team leading into or as part of the inspection process.

#### **Impact Assessments:**

Completion of the action plan and compliance with recommendations will ensure the equality of service provision to all residents.

Progress towards and eventual compliance with the recommendations by the due date will have a positive impact on future Direction of Travel and Use of Resources Assessments.

## Appendix 1 – Inspection report recommendations

### Recommendations

To rise to the challenge of continuous improvement, councils need inspection reports that offer practical pointers for improvement. Our recommendations identify the expected benefits for both local people and the Council. In addition we identify the approximate costs<sup>2</sup> and indicate the priority we place on each recommendation and key dates for delivering these where they are considered appropriate. In this context the inspection team recommends that the Council should do the following.

Recommendation	
<b>R1</b>	<p>The Council should clarify its strategic aims for a sustainable environment and develop plans that set out how these will be delivered by:</p> <ul style="list-style-type: none"><li>• agreeing a strategy that sets out the Council's response to its signing up to the Nottingham declaration on climate change;</li><li>• developing a medium- to long-term plan that delivers the Council's obligations under the Essex Municipal Waste Strategy and Environment theme of the new LAA once agreed;</li><li>• developing robust implementation plans for the Council's 'safer greener cleaner' initiative that is backed up with clear enforcement policies; and</li><li>• developing plans for improving the street cleaning service with key partners and other stakeholders that integrate with the 'safer greener cleaner initiative'.</li></ul>

The expected benefits of this recommendation are:

- the Council will be able to take a leading role in sustainability issues and demonstrate community leadership;
- a strategic approach that provides clarity for staff, local people and other key partners on how the Council will deliver on its ambitions;
- implementation plans are measurable, resourced time bound, integrated and backed up by appropriate policies; and
- better partnership working and coordination leading to added value for local communities.

The implementation of this recommendation will have **high impact** with **medium costs**. **This should be implemented by April 2009.**

**NB: Low cost is less than 1% of annual cost, medium cost is between 1% and 5% and high cost is greater than 5%**

### Recommendation

- R2** The Council should review its arrangements for assessing and delivering value for money within the service ensuring:
- the waste management contract Partnership Board and Innovation Forum focuses on driving improvements in service quality and efficiency and contractor underperformance is rectified quickly;
  - reviewing the green waste service to include environmental sustainability as an assessment criteria; and
  - full compliance with the Council's policies and standing orders on procurement.

The expected benefits of this recommendation are:

- there will be an effective mechanism in place to ensure the contract is delivered as intended; and
- an improvement in value for money (VFM) in the service and from procurement of goods and services.

The implement of this recommendation will have **high impact** with **medium costs**. The Partnership Board and Innovation Forum should be set up by June 2008, with the **reviews completed by April 2009**.

**NB: Low cost is less than 1% of annual cost, medium cost is between 1% and 5% and high cost is greater than 5%**

### Recommendation

- R3** Improve the accessibility of the service and engagement with all communities in the district by:
- developing proactive education and awareness campaigns on environmental issues that concern local people; making better use of the Council's website, local press and existing partnerships to support this;
  - improving communication with residents before and after planned changes take place;
  - ensuring the service is accessible for people with diverse needs;
  - ensuring sufficient resources are available to deal with customer contacts during planned changes, service failures or emergencies;
  - clarifying and promoting the criteria for an emergency call-out to deal with clean-ups, offensive graffiti etc; and

- ensuring the Council's policy to arrange a trade waste service on request is consistently implemented.

The expected benefits of this recommendation are:

- Increased capacity to influence change and support for environmental issues in local communities; and
- Improved accessibility by all parts of the community.

The implementation of this recommendation will have **high impact** with **medium costs**. **This should be implemented by March 2009.**

**NB: Low cost is less than 1% of annual cost, medium cost is between 1% and 5% and high cost is greater than 5%**



**Appendix 2 – Inspection report recommendations and action plan**

Recommendation	Progress as at October 2008
<p><b>R1 (APRIL 2009) The Council should clarify its strategic aims for a sustainable environment and develop plans that set out how these will be delivered by:</b></p> <ul style="list-style-type: none"> <li>• agreeing a strategy that sets out the Council's response to its signing up to the Nottingham declaration on climate change;</li> <li>• developing a medium- to long-term plan that delivers the Council's obligations under the Essex Municipal Waste Strategy and Environment theme of the new LAA once agreed;</li> <li>• developing robust implementation plans for the Council's 'safer greener cleaner' initiative that is backed up with clear enforcement policies; and</li> <li>• developing plans for improving the street cleaning service with key partners and other stakeholders that integrate with the 'safer greener cleaner initiative'.</li> </ul>	<ul style="list-style-type: none"> <li>• Officer working Group established under the Chairmanship of the Director of Planning. Group has met on a number of occasions. Bio-diversity plan and action plan complete. Energy audit undertaken and progress being made with establishing the base data for NI 185. Have registered with Defra in respect of the "Carbon Reduction Commitment". Awaiting legal process to be completed for undertaking a green fleet review. The first draft of the Climate Change Strategy is anticipated for December 2008.</li> <li>• Council has formally adopted the Essex Joint Municipal Waste Management Strategy. Review underway to align the Council's waste management service with the Strategy, with report proposed to the December 2008 Cabinet</li> <li>• "Safer, Cleaner, Greener" strategy document in preparation. This will be a high level document requiring a number of sub elements such as the review of current enforcement policies. This will follow the adoption of the basic strategy</li> <li>• This action needs to be combined with the action plans arising from the Encams assessment of street cleansing standards. This work has yet to commence.</li> </ul>

Recommendation	Progress as at October 2008
<p><b>R2 (APRIL 2009) The Council should review its arrangements for assessing and delivering value for money within the service ensuring:</b></p> <ul style="list-style-type: none"> <li>• the waste management contract Partnership Board and Innovation Forum focuses on driving improvements in service quality and efficiency and contractor underperformance is rectified quickly;</li> <li>• reviewing the green waste service to include environmental sustainability as an assessment criteria; and</li> <li>• full compliance with the Council's policies and standing orders on procurement.</li> </ul>	<ul style="list-style-type: none"> <li>• Waste Management Board has met twice and has received contract performance information. Innovation Forum has been working up the options for the forthcoming service reviews.</li> <li>• This is being undertaken as part of the previously mentioned service review. Cabinet also being requested to consider the service in the short term (i.e. spring &amp; summer 2009) in the event that the full service review cannot be implemented from April 2009</li> <li>• It is not considered that the Council's contract standing orders were breached in any significant part. This is an area of disagreement with the Commission. However, it is acknowledged that the CSOs must be adhered to at all times and that any requirement to amend them or set them aside should wherever possible be avoided and where necessary fully justified.</li> </ul>
<p><b>R3 (MARCH 2009) Improve the accessibility of the service and engagement with all communities in the district by:</b></p> <ul style="list-style-type: none"> <li>• developing proactive education and awareness campaigns on environmental issues that concern local people; making better use of the Council's website, local press and existing partnerships to support this;</li> <li>• improving communication with residents before and after planned changes take place;</li> </ul>	<ul style="list-style-type: none"> <li>• The new Directorate structure is now complete with the new posts of Service development Officer and Recycling Officer having been filled. This will provide the capacity to undertake educational and awareness campaigns. Web page content is under review</li> <li>• Consultation underway through Forester ahead of any future service change proposals.</li> </ul>

Recommendation	Progress as at October 2008
<ul style="list-style-type: none"> <li>• ensuring the service is accessible for people with diverse needs;</li> <li>• ensuring sufficient resources are available to deal with customer contacts during planned changes, service failures or emergencies</li> <li>• clarifying and promoting the criteria for an emergency call-out to deal with clean-ups, offensive graffiti etc; and</li> <li>• ensuring the Council's policy to arrange a trade waste service on request is consistently implemented.</li> </ul>	<ul style="list-style-type: none"> <li>• A review of the diversity component of the service plan is underway to assess progress. This will be considered further as part of the assessment of options for service change</li> <li>• Sufficient resources are in place and action is taken at critical times, as is evidenced by the recent transition from weekly to alternate weekly collections.</li> <li>• Currently under review</li> <li>• Currently under review alongside a similar review of waste from schools, religious establishments and charitable premises</li> </ul>

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## **Report to the Audit and Governance Committee**



**Epping Forest  
District Council**

**Date of meeting: 24 November 2008**

**Portfolio: Finance and Performance Management.**

**Subject: Council Investments and Insurance.**

**Responsible Officer: Bob Palmer (01992 564279).**

**Democratic Services Officer: Gary Woodhall (01992 564470).**

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### **Recommendations/Decisions Required:**

**To note the current position on the Council's investments and insurance.**

### **Executive Summary:**

Members will be aware of the general state of turmoil in financial markets and in particular the problems that Iceland has been going through. Reflecting on these concerns, on 12 October a Member of this committee requested details of the Council's investments and insurances. This issue was already being addressed and an additional meeting of the Council's Cabinet was convened on 20 October to consider the Council's investments. The report to Cabinet then went to Council on 28 October and is attached as Appendix 1. During the debate at Cabinet a listing of the Council's investments was requested and the list that was subsequently published in the Members Bulletin is attached as Appendix 2.

The Council's insurances are currently all with Zurich Municipal (ZM) under a long-term agreement. ZM have issued assurances about their financial position and a copy of their press release is attached as Appendix 3.

### **Reasons for Proposed Decision:**

The report has been presented in response to a request for information from a Member of the committee. As this is an information item no decision is required other than to note the report.

### **Other Options for Action:**

If Members are not satisfied with the information provided a further report could be requested.

### **Report:**

1. The full report made to Cabinet on 20 October and Council on 28 October is attached, and the Director of Finance and ICT will provide an oral update on any significant developments at the meeting.

### **Resource and other Implications:**

See attached Cabinet report – Appendix 1.

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## **Report to the Cabinet**

**Report reference:** C-049-2008/09  
**Date of meeting:** 20 October 2008



**Portfolio:** Finance and Performance Management  
**Subject:** Council's Investments  
**Responsible Officer:** Bob Palmer (01992-564279).  
**Democratic Services Officer:** Gary Woodhall (01992-564470).

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### **Recommendations/Decisions Required:**

- (1) To note the report on the Council's investments and agree that the report also be submitted to Council; and**
- (2) To note that Internal Audit will be bringing forward the Treasury Management audit and examining ways of enhancing controls in the current environment.**

### **Executive Summary:**

Financial markets are experiencing unprecedented turbulence. Across the globe stock markets have suffered dramatic falls and numerous banks and insurance companies have had to be rescued by their governments or have gone into administration. Given the current state of markets, it was felt appropriate to update Members on the Council's Treasury Management Strategy, investment position and the risks currently being faced.

### **Reasons for Proposed Decision:**

Members are not being asked to make any decisions, only to note the report and agree that it should also go to the wider audience of Council.

### **Other Options for Action:**

Members could ask for additional detailed information on the Treasury Management Strategy and the Council's investments. Alternatively, Members might not feel it appropriate that the report is presented as an information item to Council.

### **Report:**

1. The Treasury Management Strategy is approved annually as part of the budget setting process. Currently the strategy allows up to £12 million to be invested with banks that have a short-term rating of F1+ and a long-term rating of AA-. Whilst a maximum of £5 million can be invested with banks having a short-term rating of F1 and a long-term rating of A.
2. The credit ratings are provided by three agencies, Fitch, Moody's and Standard & Poor, and are then consolidated by the Council's advisers (Butlers) into a list of approved counter parties. This list shows the various financial institutions whose credit ratings meet the Council's requirements and, based on their credit ratings, the amount and the length of loan

that the Council will enter into with them.

3. Given the increasing size of the investment portfolio, and the need to ensure an adequate diversification of risk, Council decided to expand the counter-party list to include building societies and foreign banks in February 2005. This was in line with Government guidance and took place as part of the implementation of the Prudential Code. The additional financial institutions were subject to the same credit rating requirements and limitations.

4. Icelandic banks were included on the expanded counter-party lists as their credit ratings were good. The rates of interest offered by the Icelandic banks were competitive and a number of loans were entered into with them. In the seven-month period from 19 April 2007 to 15 November 2007 some twelve loans with a cumulative value of £17 million were transacted. All of these loans were repaid without problems on their due dates. However, concerns raised informally by Members late in 2007 meant that no new loans were entered into with banks based in Iceland after 15 November 2007. When considering these comments the status of Heritable Bank was reviewed and given the greater degree of confidence in it, as a bank registered and regulated in the United Kingdom, it remained on the counter-party list. This view was based on the strength of the credit ratings awarded to Heritable and the monitoring and regulation undertaken in the United Kingdom by the Financial Services Authority.

5. Heritable Bank had an "A" rating and so, in accordance with the Council's Treasury Management Strategy, could be lent up to £5 million. On 10 September a loan of £1.5 million was made to Heritable, the loan is due for repayment on 18 May 2009. This was followed on 15 September with a loan of £1 million, due for repayment on 18 June 2009. On 25 September the Fitch credit rating agency issued an update confirming the status of Heritable as "A" rated.

6. On 7 October, due to the difficulties being experienced by its Icelandic parent company, Heritable Bank was placed in administration. The ordinary savers accounts were transferred to the ING bank. However, the wholesale deposits were retained and form part of the administration that Ernst & Young have been appointed to manage. As more information emerged it became clear that over 100 authorities have deposits that have been affected by the collapse of the Icelandic banking industry. The LGA are lobbying both the government in this country and the administration in Iceland to try and safeguard the £1 billion that is at stake. It will probably be some time before a clear picture emerges of any outcomes from the LGA campaign.

7. Some favourable comments have been made about the asset base of Heritable and the early comments of the Administrators support that view. A clearer picture is unlikely to be available until mid-November but the following joint statement was issued by the LGA and Ernst & Young on 14 October:

*"In broad terms, the Administrators considered that the value of the book value of the assets of each business appeared to be of the same magnitude as the liabilities but that the recoveries for the Local Authorities would be dependant on the final level of actual realizations."*

8. The Council's treasury advisers (Butlers) are providing regular updates to our approved counterparty list as the different financial institutions have their credit ratings amended. We continue to adhere strictly to our policies and new loans are only entered into with those meeting our requirements. It was previously felt that the benefit of investing with highly rated counterparties was that these institutions would be of sufficient size that their governments would not let them fail. This has proved to be the case with both Northern Rock and Bradford and Bingley where the Government has intervened to ensure that both private



and corporate deposits have been safeguarded. The money that the Council had invested with Northern Rock was returned on the due date. There is still a loan of £1.5 million with Bradford and Bingley, due for repayment on 18 March 2009, which is covered by the Government guarantee.

9. The largest exposure in the investment portfolio is with Halifax Bank of Scotland (HBOS), which currently has £12 million of the Council's money. HBOS are subject to a Government sponsored take over by Lloyds TSB and as long as this transaction takes place the Council's funds will be safe.

10. On 30 September the Irish Government put in place a guarantee of both retail and wholesale deposits for two years. The Council had previously invested with Irish institutions and is now doing so more actively. The investment portfolio currently totals £63 million and of this £11.5 million is currently spread between four different Irish institutions.

11. The extraordinary events of recent times are still producing dramatic surprises and on 13 October it appeared that the Royal Bank of Scotland (RBOS) was going to be nationalised. Whilst the Government may not now take a controlling interest, their support provides additional confidence in RBOS and the Council will consider making additional investments with it. One deposit of £5 million is already with RBOS and, after allowing for the £2 million of funds kept in an account for instant access, up to a further £5 million could be placed with them.

12. Treasury Management is audited annually by Internal Audit and the work done in 2007/08 provided satisfactory assurance in the system. However, in order to assist with the development and implementation of additional controls the Director of Finance & ICT has requested that the audit of the system for 2008/09 be brought forward.

13. Further reports will follow as necessary until the financial markets have regained some degree of stability.

### **Resource Implications:**

The exact resource implications are not yet clear. The Council is a creditor in the administration of the Heritable Bank. Until the LGA campaign and the administration are concluded the extent of any losses cannot be stated with any degree of certainty.

It is anticipated that the money with Bradford & Bingley and HBOS will ultimately be returned to the Council.

### **Legal and Governance Implications:**

In the interests of good governance it was felt appropriate to report this matter to both Cabinet and Council.

### **Safer, Cleaner and Greener Implications:**

None

### **Consultation Undertaken:**

None

### **Background Papers:**

Report to Council 19 February 2008 that set the Treasury Management Strategy for 2008/09.  
Report to Cabinet 1 September 2008 detailing the Treasury Outturn and Prudential Indicators for 2007/08.

**Impact Assessments:**

There are no equalities impacts.

The state of near chaos in financial markets is a risky environment in which to manage an investment portfolio of £63 million. The Council seeks to mitigate risks by having a Treasury Management Strategy and a counter-party list based on credit ratings.

Council's Investments as at 20 October 2008

<u>Banks</u>	£m	<u>Maturity</u>
Bank of Scotland	12	£2m 10/11/08, £5m 10/09/09, £5m 23/04/13
Royal Bank of Scotland	5	11/05/11
HSBC	5	12/07/11
Irish Permanent	3	£1m 19/01/09, £1m 15/04/09, £1m 15/05/09
Anglo Irish	2.5	£1.5m 15/05/09, £1m 18/05/09
Heritable	2.5	£1.5m 18/05/09, £1m 18/06/09
Bradford & Bingley	1.5	18/03/09
	<u>31.5</u>	
 <u>Building Societies</u>		
EBS	5	£1m 17/11/08, £1m 18/03/09, £2m 15/04/09, £1m 17/07/09
Derbyshire	3	£1m 22/12/08, £1m 22/01/09, £1m 18/02/09
Nottingham	3	19/01/09
Stroud & Swindon	3	£2m 18/11/08, £1m 18/02/09
Kent Reliance	2.5	£1.5m 17/11/08, £1m 18/12/08
Skipton	2.5	18/03/09
Hinckley & Rugby	2	15/12/08
Norwich & Peterborough	2	18/02/09
Saffron Walden BS	2	18/02/09
National Counties	1.5	19/01/09
Cheshire	1	30/01/09
Dunfermline	1	23/10/08
Irish Nationwide	1	30/04/09
Progressive	1	17/04/09
West Brom	1	18/03/09
	<u>31.5</u>	

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We are largely unaffected by the credit issues in the US as Zurich's investment strategy is and always has been very conservative with the vast majority of our investments being with AAA security ratings attached to them. Over the last 3 quarters where a number of financial institutions have had significant write downs relating to sub prime investments, including one insurer having written down £18bn in that period, the Zurich write down has been in the low millions because of our ratio of AAA investments. In addition, Zurich have reported 23 quarters in a row of profitable growth which has been reflected positively by the market.

I also attach a draft press statement which I hope is of some help. This is an advance copy which may have some small amendments when it hits the Local Govt Press later today :-

## **Press Release**

### **Zurich moves to reassure local authorities in light of market developments**

*Zurich Municipal is taking swift action to reassure its customers in light of recent market developments.*

*Zurich Municipal has been a leading provider of insurance and risk management solutions to the public services sector for over 100 years. Its prudent approach to underwriting coupled with strong internal governance and risk management policies and practises, means the business remains ideally positioned as an insurer and risk management partner for local authorities and other public services companies, especially in the current volatile market.*

**Rob Allison**, Managing Director of Zurich's public sector business is seeking to reassure its customers, citing the organisation's own market approach:

**"Zurich's culture of financial and underwriting discipline, combined with our globally diverse portfolio position us well for any market conditions. We have stood firm on our underwriting strategy and we will continue to do so. We believe our approach will give public services customers the peace of mind they need when selecting an insurer and we will continue to price each risk individually to ensure pricing sustainability and promote stability for our customers."**

*Zurich Group's exposure to Lehman Brothers unsecured debt amounts is very limited and the Company's exposure to other Lehman-related instruments is not material. Thus, the direct impact of the Lehman Brothers bankruptcy on Zurich's investment returns should be minimal.*

#### **For further information contact:**

Susannah Mogg on t: 01489 561559 m: 07734076667 e: susannah.mogg@uk.zurich.com

#### **Notes to Editors:**

*Zurich Municipal is the leading provider of insurance to local authorities in the UK. We assist them with identifying and managing the insurable risks attached to their activities by informing them on risk assessment and risk management.*

*Zurich Financial Services is an insurance-based financial services provider with a global network of subsidiaries and offices in North America and Europe as well as in Asia Pacific, Latin America and other markets. Founded in 1872, the Group is headquartered in Zurich, Switzerland. It employs approximately 60,000 people serving customers in more than 170 countries.*

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## ***Report to the Audit and Governance Committee***

***Date of meeting: 24 November 2008.***

**Subject: Business and Governance Assurance Framework.**

**Responsible Officer: Joe Akerman (01992 564446).**

**Democratic Services: Gary Woodhall (01992 564470).**

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### **Recommendations/Decisions Required:**

**That the Audit and Governance Committee note and comment on the annual review of the Council's Business and Governance Assurance Framework for 2008/09.**

### **Executive Summary:**

1. The purpose of the report is to bring to the attention of the Committee the second annual review of the Council's Business and Governance Assurance Framework. The Framework was originally approved by the Council during 2006/07 having regard to current best practice in governance arrangements, and the improvement areas identified by the Audit Commission in its 'Use of Resources' Key Lines of Enquiry (KLOE) relating to internal control and the management of significant business risks.

2. The Business Assurance Framework should be subject to regular review, which falls within the remit of this committee.

### **Background:**

3. An assurance framework brings together a number of key internal controls into a set of policies, procedures and associated assurances to provide sufficient evidence that the Authority has sound governance processes in place. The Authority must report on the effectiveness of the Assurance Framework and Internal Control environment at least annually through the Annual Governance Statement (AGS).

4. At the meeting in November 2007 this Committee considered the content of the Council's Business and Assurance Framework, and were advised of the linkages between the Framework, the local Code of Governance and the AGS. It was noted that the Council already had effective processes to deal with many elements of the control framework, including its Financial Regulations, Contract Standing Orders and Risk Management processes. This Committee has continuous involvement in the process via its consideration of the quarterly Internal Audit monitoring reports and the monitoring of actions taken to ensure compliance with the Council's core policies and procedures.

5. To maintain this improvement the Framework should be subject to regular review, and updated to incorporate the wider implications of the new AGS, which was published for the first time with the Statutory Statement of Accounts for 2007/08 and reported to the June meeting of the Committee.

### **Use of Resources Assessment:**

6. The Use of Resources assessment focuses on financial management, but links to the wider strategic management of the Council. It looks at how financial management is integrated

with Council strategy and corporate management, supports Council priorities and delivers value for money. For district councils, Use of Resources assessments are carried out annually and will inform decisions about possible Comprehensive Area Assessment (CAA) categorisation.

7. The Audit Commissions has updated its Use of Resources assessment model for the 2008/09 scored judgements, to assist in their evaluation of how well authorities manage their resources. The 4-point scale has been retained so that 'adequate performance' (at minimum requirements) will score 2 and 'performing well' will score 3. The Council improved its overall rating for the Internal Control category (including risk management) in the last review to level 3, but in the sub-category for systems of internal control scored only 2. One of the level 3 requirements in the sub-category, is for the Council to have...“ put in place an assurance framework that maps the Council's strategic objectives to risks, controls and assurances”, to support the statutory Annual Governance Statement (AGS). This has been achieved and the Framework was adopted in September 2006 and reviewed for the first time by this Committee in November 2007.

#### **Code of Governance and Business Assurance Framework:**

8. The Committee will recall that the Council adopted a revised Code of Governance during 2007/08, which supported the development of the Governance Statement. The Code defines how the Council complies with the six principles of good governance laid down by the Independent Commission on Good Governance, adapted for local government purposes, namely:

- **Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area;**
- **Members and officers working together to achieve a common purpose with clearly defined functions and roles;**
- **Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;**
- **Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;**
- **Developing the capacity of members and officers to be effective; and**
- **Engaging with local people and other stakeholders to ensure robust public accountability.**

9. The Council already has effective processes dealing with many elements of the control framework, including its Financial Regulations, Contract Standing Orders and Risk Management arrangements. The main purpose of the assurance framework document is to bring these elements together to enable them to be evidenced in providing assurance that effective controls are in place.

10. The Business Assurance Framework is attached at Appendix 1 and flowcharted at Appendix 2, and provides the mechanism for continuous review of the effectiveness of the Council's governance arrangements. It is supported by more detailed guidance produced by CIPFA, which sets out the main sources of evidence to support the Governance Statement. This guidance emphasises reliance on existing processes and documents.



11. As part of the process the Authority needs to re-assure itself that any significant partnerships have sound governance arrangements in place. As well as being covered by the Directorate evidence gathering process (see paragraph 12 below), an independent review of this aspect of governance is being conducted by Internal Audit during 2008/09.

12. An important part of the evidence gathering process is the self-assessment introduced for Directorates for the first AGS for 2007/08. This is designed to evaluate how well the governance framework is working in practice across the Council. It is proposed to continue the self-assessment by asking Directors to certify, and provide evidence if necessary, of how they comply with the framework in the following broad areas:

- Service planning and management;
- Compliance with legislation and policies;
- Decision making;
- Consultation with stakeholders;
- Performance management;
- Risk management;
- Finance including budget monitoring;
- Data quality and security; and
- Working in partnership.

Service Directors certify that they have reviewed the adequacy and effectiveness of the management controls within their area of responsibility, and identify any areas where actions are required to improve compliance with the framework.

#### **Policies and Procedures:**

13. The key policies and procedures listed below comprise the core of this process. They are subject to ongoing or periodic review, and updated as appropriate. Each item contains a brief commentary on its current status and any proposed action.

#### The Council Constitution

- *the constitution is under constant review and further reviews will be triggered by the enactment of the Local Government and Public Involvement in Health Bill.*

#### The Community Strategy

- *drawn up by the local strategic partnership and reviewed regularly, current update in progress.*

#### The Council Plan

- *monitored on a half yearly basis and reported to Finance and Performance Management Scrutiny Panel.*

#### Medium Term Financial Strategy

- *updated annually at the start of the budget process.*

#### Standing Orders and Financial Regulations

- *reviewed annually and reported to Council.*

#### Scheme of Officer Delegation

- *reviewed annually and reported to Council.*

#### Local Code of Corporate Governance

- *revised in 2007/08 in line with CIPFA guidance.*

#### Risk Management Strategy

- *the strategy and policy statement are updated annually.*

#### Service Business Planning and Business Continuity Planning

- *annual review of process; includes BCP.*

#### Performance Management Framework

- *performance framework embedded in business planning process.*

#### Treasury Management Policy

- *updated annually as part of the Council Tax setting report. Minor changes are made mid-year as part of the Treasury outturn report.*

#### Human Resources Policies

- *reviewed in accordance with changes to legislation and case law.*

#### Members' Code of Conduct

- *the revised Code of Conduct for Councillors has been adopted and training has been given, following a review by the Epping Forest District Standards Committee.*

#### Member/Officer Protocol

- *this protocol was superseded by the adoption of an officer Code of Conduct. A protocol giving advice on the proper relationships between officers and political groups remains in place.*

#### Internal and External Audit planning and reporting

- *established reporting systems are in place as set out in the Terms of Reference for Internal Audit.*

#### Anti-Fraud Policy and Confidential Reporting Policy

- *policies updated in June 2008 and notified to all staff.*

#### Planning Protocol

- *the Standards Committee has opened a review of the Protocol. Further training will be given once the Council has agreed any changes.*

#### Health and Safety Policy

- *the policy is currently being reviewed and will be reported to Members via the Safety Forum and JCC.*

#### External Funding Strategy

- *strategy agreed by Cabinet in March 2008, to ensure a more co-ordinated approach to the sourcing of external funding in assisting the achievement of the Council's objectives.*

#### Procurement Strategy

- *Cabinet agreed the strategy in 2006 and a Procurement Strategy Group of senior officers is working on the implementation of the strategy.*

#### Staff Code of Conduct

- *issued to all staff, includes declaration of interests.*

#### Value for Money Strategy

- review report submitted to Finance and Performance Management Scrutiny Panel in August 2008.

#### Data Quality Strategy

- agreed in 2006 and provides clear data quality standards and accountabilities.

#### Guidance to Councillors on Gifts and Hospitality

- updated to take account of the new Code.

#### Internet and E-Mail Acceptable Usage Policies

- provided to all staff, clarifies the guidelines on acceptable usage in personal time.

#### Telephone Usage Policy

- provided to all staff, clarifies the guidelines on acceptable usage.

#### Data Protection Policy

- the policy is due for review.

#### Freedom of Information Act Scheme

- the policy and the publication scheme are being reviewed and any proposed revisions will be reported to Council later this financial year.

#### Re-use of Public Sector Information Policy

- to be reviewed in 2009.

#### Partnership Policies

- revisions to the protocol on partnerships and other external organisations were agreed during 2007/08.

#### Guidance to Members and Officers when representing the Council on Outside Organisations

- this protocol is under review by Constitution and Members Services Scrutiny Standing Panel.

#### Guidance to Councillors on the use of Member services (including IT facilities)

- The Epping Forest District Standards Committee has reviewed this protocol and made changes to bring the advice in line with the new Code of Conduct.

#### Code on Local Authority Publicity

- no review has been undertaken as this is awaiting the publication of further guidance from Central Government, which is known to be consulting on changes.

#### Complaints Procedure

- the procedure is reviewed each year; some minor changes were made in 2008.

#### Corporate Communications and Consultation Strategy

- Strategy agreed in November 2007, promoting effective engagement with the community and other stakeholders.

14. These policies and procedures provide the evidence to demonstrate the robustness of the Council's governance arrangements. By regularly reviewing the controls and their consistent application across the Council on a day to day basis, it will be possible for the Council to demonstrate the effectiveness of its control environment and identify where further improvement is required.

**Conclusion:**

15. The Council is seeking continuous improvement in its governance arrangements, and to achieve as high a rating as possible under the external inspection arrangements. The Audit and Governance Committee has a responsibility to review the adequacy of the Council's control environment and as part of the review process is requested to comment on the Council's Business and Internal Control Assurance Framework.

**Resource Implications:**

These issues are normally dealt with from existing resources.

**Legal and Governance Implications:**

Governance comprises the systems, processes, culture and values, by which the Authority directs and controls its functions, and through which it accounts to, engages with and, where appropriate, leads the community. When combined with clear direction and ambition and effective performance management, good governance, as supported by the Authority's business assurance framework, is a key factor in the drive for sustained improvement in the quality of services.

**Safer, Cleaner and Greener Implications:**

No specific implications.

**Consultation Undertaken:**

Corporate Governance Group.

**Background Papers:**

EFDC Code of Governance.

Audit Commission's Use of Resources Audit Score Feedback.

**Impact Assessments:**

Good Governance requires that risk management is embedded within the culture of the Authority, with members and managers at all levels recognising that risk management is part of their job. At the highest level, risk management must be closely aligned to strategic objectives, ensuring that there is a clear focus at a senior level on those significant risks that would prevent the Council achieving its key business objectives. The review of the Council's governance framework provides a means of assessing the Council's risk management arrangements.

## EPPING FOREST DISTRICT COUNCIL

**BUSINESS AND GOVERNANCE ASSURANCE FRAMEWORK****1.1 Introduction**

The Accounts and Audit Regulations require audited bodies to conduct a review at least once a year of the effectiveness of its system of internal control, and publish an Annual Governance Statement (AGS) each year with the authority's statutory financial statements.

The purpose of the Governance review process is to provide a continuous review of the effectiveness of an organisation's governance arrangements, so as to give assurance on their effectiveness and/or to produce a management action plan to address identified weaknesses in either process. It is intended that the process of preparing the Governance Statement adds value to the Council's corporate governance and internal control framework.

**1.2 Context**

The Audit Commissions has updated its Use of Resources assessment model for the 2008/09 scored judgements, to assist in their evaluation of how well authorities manage their financial resources. The 4-point scale has been retained so that 'adequate performance' (at minimum requirements) will score 2, and 'performing well' will score 3. The Council was assessed at level 3 for the Internal Control category in the last review. One of the level 3 requirements in the sub-category, is for the Council to have...“ put in place an assurance framework that maps the Council's strategic objectives to risks, controls and assurances”, to support the statutory Annual Governance Statement (AGS). This has been achieved and the Framework was adopted in September 2006 and reviewed for the first time by the Audit and Governance Committee in November 2007.

The Council already has effective processes dealing with the elements of the control framework, including its Financial Regulations, Contract Standing Orders and Risk Management processes. The main purpose of this assurance framework document is to bring these elements together to enable them to be evidenced in providing assurance that effective controls are in place.

**1.3 Corporate ownership**

In accordance with CIPFA's proper practice, the Chief Executive, as the most senior officer, and the Leader of the Council, as the most senior member will sign the Governance Statement each year. They will satisfy themselves that the document is supported by reliable evidence and accurately reflects the internal control environment. This emphasises that the document is about all corporate controls and is not confined to financial issues.

**1.4 Proper practice**

The Accounts and Audit [Amendment] [England] Regulations 2006 refer to the preparation of a statement of internal control in accordance with “proper practice”. CIPFA has revised its guidance so that the preparation and publication of an Annual Governance Statement is necessary to meet the statutory requirement.

In order to review their current arrangements, authorities will need to:

- consider the extent to which the authority complies with the principles and requirements of good governance set out in the Framework.
- identify systems, processes and documentation that provide evidence of compliance.
- identify the individuals and committees responsible for monitoring and reviewing the systems, processes and documentation identified.
- identify the issues that have not been addressed adequately in the authority and consider how they should be addressed.
- identify the individuals who would be responsible for undertaking the actions required and plan accordingly.

## 1.5 **Scope of Internal Control**

The scope of internal control spans the whole range of the Council's activities and includes those controls designed to ensure:

- the authority's policies are put into practice
- the Council's values are met
- laws and regulations are complied with
- required processes are adhered to
- financial statements and other published information are accurate and reliable
- human, financial and other resources are managed efficiently and effectively, and high quality services are delivered efficiently and effectively.

Having established the system of internal control, the Council has put in place processes to maintain it and keep it up to date. In practice, this process is closely aligned with the arrangements to review and keep up to date the Council's risk management arrangements, which featured strongly in the SIC process and will feed into the process annually for compiling the Annual Governance Statement.

## 1.6 **Assurance gathering process**

The Council already has effective processes dealing with aspects of the Governance Statement. The feature of process is to bring the elements together and evidence them.

This framework is supported by more detailed guidance produced by CIPFA, which sets out the main sources of evidence to support the Governance Statement. This emphasises reliance on existing processes and documents.

The task of producing the Statement involves the need to research and formally recognise things currently done across the authority and to record them. The co-

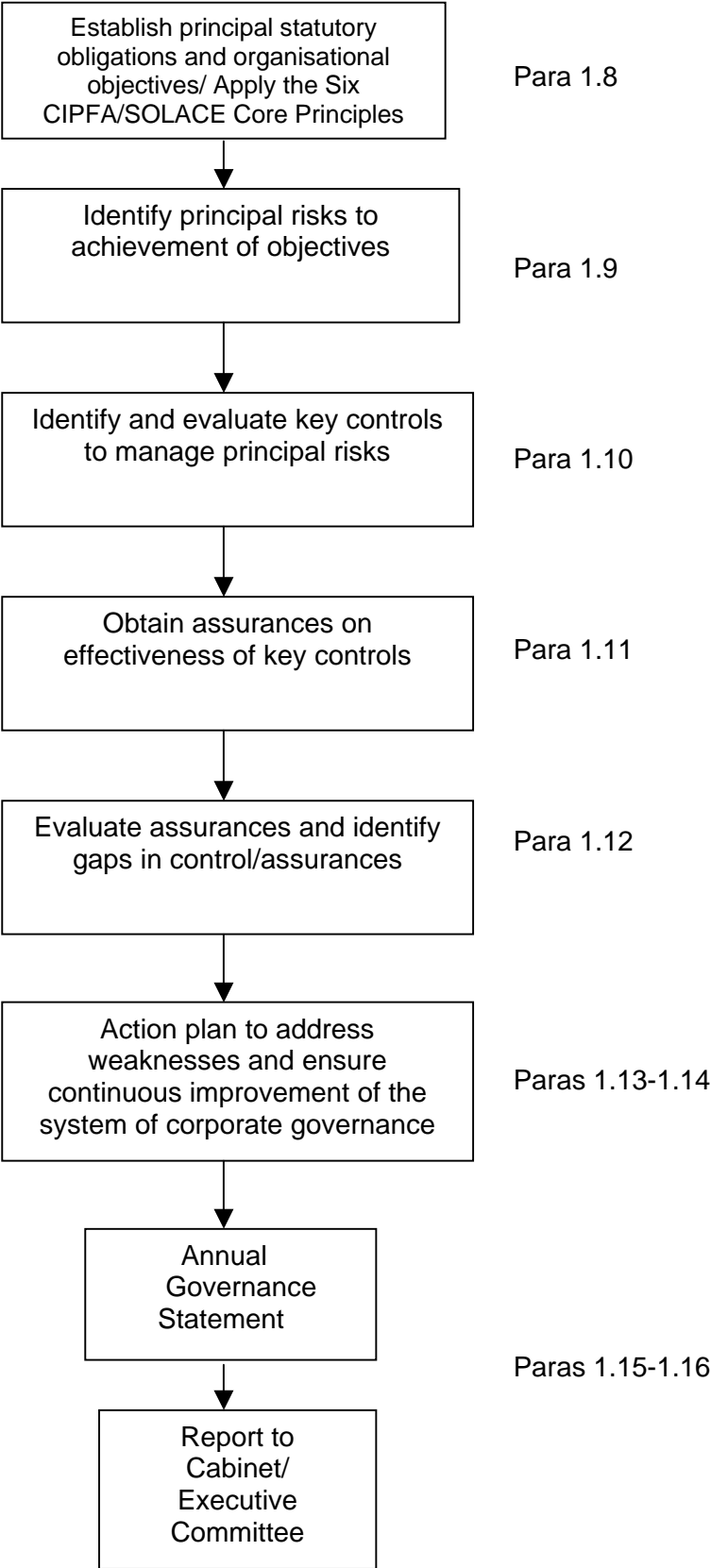
ordination of existing evidence should ensure consistency of approach across the Council, and promote corporate awareness of good practice.

#### 1.7 **Compiling the Governance Statement - Flowchart**

The Council uses the flowchart at the heart of CIPFA's guidance (See Table 1) to relate the Governance review process back to the Council's statutory obligations and organisational objectives.

Each step on the flowchart is underpinned by "examples of assurance" - in turn supported by suggested sources of evidence that the Council can use to demonstrate delivery. There are many potential sources of evidence, some of which are set out in the Appendix. They are not definitive, but they give a flavour of what the Council will look for in compiling and evidencing the Governance Statement.

**Table1: Review of Annual Governance Statement and Assurance Gathering Process**





## **Establish Obligations and Objectives**

- 1.8 The multifunctional nature of local authorities means that there are a vast number of mandatory and discretionary requirements and powers. The Council will ensure that processes are in place to properly reflect these obligations in its aims and objectives and also to identify changes in these requirements. The Council will therefore ensure that all the main statutory requirements and the Council's key objectives are fully reflected in the Council Plan and Best Value Performance Plan.

## **Identify Principal Risks to Achievement of Objectives**

- 1.9 In order to ensure complete identification of risks, the Council considers risk from both a strategic and an operational perspective. Strategic risk includes those to service provision, reputation and political standing, whilst operational risk includes financial, physical and contractual risks. Risks are prioritised according to their likelihood and potential impact. Those risks that are both highly likely and of high impact are considered to be the principal risks to achievement of the objectives of the authority.

## **Identify and Evaluate Key Controls to Manage Principal Risks**

- 1.10 Having identified the principal risks, through this Framework, the Council will ensure that it has adequate controls to mitigate them. The nature and importance of these controls is formally recorded and communicated to those responsible for operating the control through the Action Plan attached to EFDC's Strategic Risk Register.

## **Obtain Assurance on Effectiveness of Key Controls**

- 1.11 The Accounts and Audit Regulations 2003 state that the "relevant body" is responsible for ensuring that the body (authority) has "*a sound system of internal control*". The Council's Corporate Governance Group is responsible for ensuring that procedures have been established to provide sufficient assurance to the Council's Finance and Performance Management Cabinet Committee and the Audit and Governance Committee that effective controls are in place.

## **Sources of Assurance**

### **(a) Management**

Service Directors and managers assigned with the ownership of risks are responsible for routinely monitoring and reviewing the related internal controls as an integral part of the risk management process, and for regularly reporting to the Corporate Risk Management Group. Any other general concerns about the operation of internal controls are reported to the Director of Finance and ICT, Chief Internal Auditor, or to the Council's Corporate Executive Forum.

The Council recognises the importance of training on finance and internal controls, and a number of sessions of finance awareness training have been provided to groups of managers and other staff with financial responsibilities across the Council. Following the success of these courses the Council has embedded training on finance and internal control issues within its Corporate Training Programme.

(b) **The Role of the Chief Financial Officer and the Monitoring Officer**

The statutory functions undertaken by these two officers provide a key source of assurance that the systems and procedures of internal control that are in operation are effective, efficient and are being complied with on a routine basis. As the Governance Statement will be read alongside financial statements, the Chief Financial Officer will ensure that he reviews it at an early stage.

(c) **Internal Audit**

The statutory responsibility for maintaining and reviewing the system of internal control rests with the "relevant body" (the Council). In practice, however, the Council takes assurance from the work of Internal Audit. *The Code of Practice for Internal Audit in Local Government in the United Kingdom* (the Code) defines Internal Audit as:

"...an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment, comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources."

The Chief Internal Auditor is required to include in the annual Internal Audit report to the Council an opinion on the overall adequacy and effectiveness of the authority's internal control environment, providing details of any weaknesses that qualify this opinion and bringing to the attention of the authority any issues particularly relevant to the preparation of the Annual Governance Statement.

(d) **External Audit**

Whilst External Audit is another potential source of assurance on the operation of internal controls, the Council takes into account that External Audit reports/management letters will not cover the full range of activities and risks and that external auditors are not required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

(e) **Corporate Governance Group**

The Corporate Governance Group comprises the Chief Executive, Deputy Chief Executive, Assistant to the Chief Executive, Monitoring Officer, Chief Financial Officer and the Chief Internal Auditor. The Group reviews the arrangements to provide assurance on the adequacy and effectiveness of the Council's governance framework, including compliance with the Local Code of Governance.

(f) **Other Review Agencies and Inspectorates**

The system of internal control covers the whole of the Authority's operations. Aspects of these operations, such as housing benefits and health and safety, are subject to independent external review and these reports also provide the Council with relevant assurance. Internal review agencies include the fraud investigation unit. Reports of the Local Government Ombudsman may also contribute to this assurance. However, the Council recognises that it, and not the external body, is responsible for satisfying itself as to the efficiency and effectiveness of internal control.

## **Evaluate Assurance**

- 1.12 The Council reviews evidence of assurance from the various sources, and reviews this against risk documentation and the list of principal risks to objectives. Any gaps in the assurance over principal risks are recorded for inclusion in the Annual Governance Statement. The Council also reaches a conclusion as to the independence and objectivity of the various sources of assurance before coming to a conclusion.

## **Action Plan for Addressing Internal Control Issues**

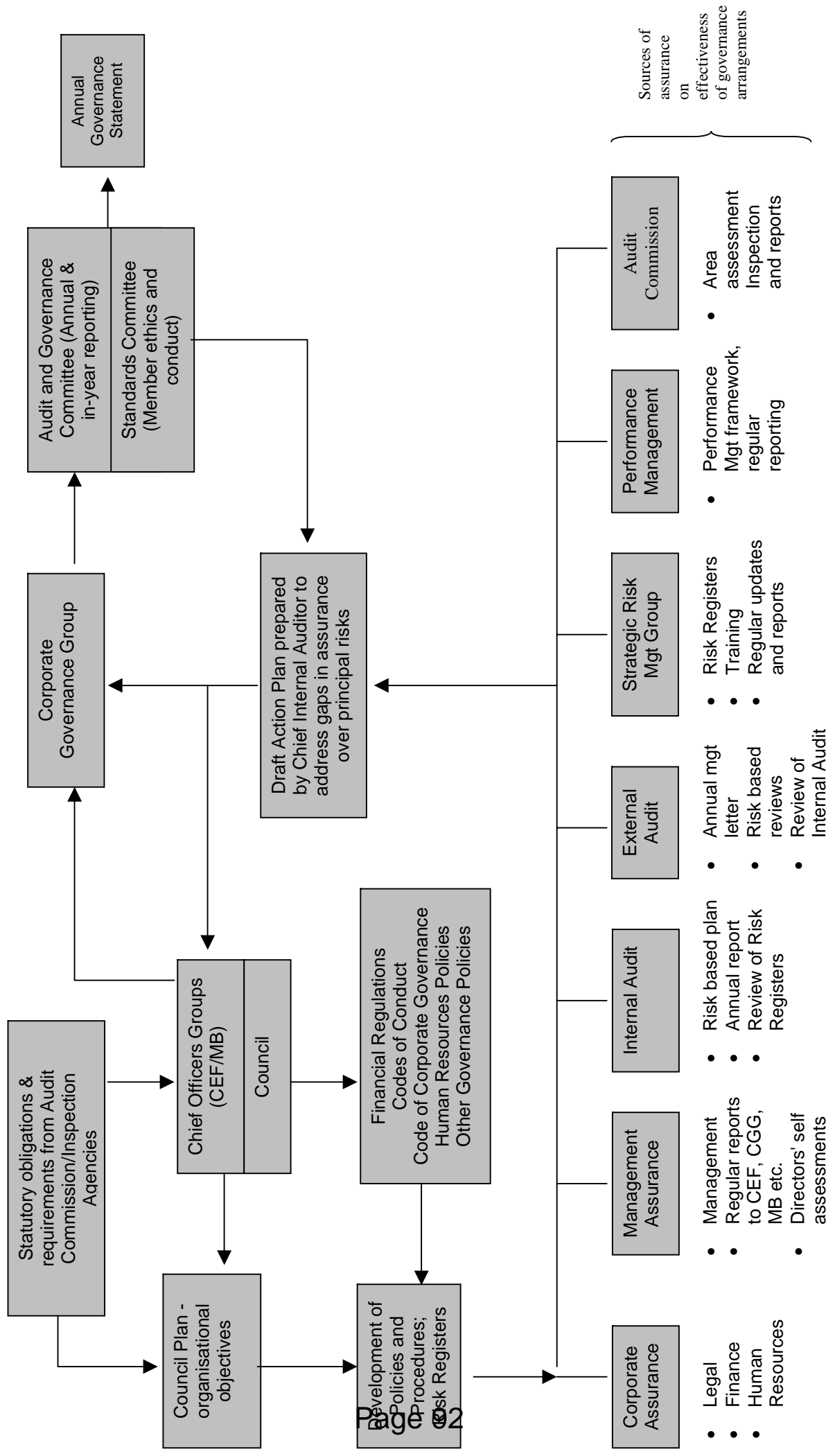
- 1.13 The Council will prepare an action plan (in the context of areas for improvement) to address significant governance issues, which it will disclose in the Annual Governance Statement, in order to deliver public assurance that these issues have been, or are being, addressed and that the Statement is a balanced reflection of the actual control position. In order to help the disclosure in relation to a significant governance issue a description of the weakness and its impact will be given to provide context for the actions taken.
- 1.14 A single definition of a 'significant governance issue' is not possible. The Council will exercise judgement in deciding whether or not a particular issue should be regarded as falling into this category. Factors to be considered when exercising this judgement will include:
- the issue has affected or prevented the achievement of a principal objective
  - the issue has led to a material impact on the accounts
  - the Audit and Governance Committee has expressed significant concerns
  - the Chief Internal Auditor has reported on it as significant, for this purpose, in the annual opinion on the internal control environment
  - the issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation
  - the issue has resulted in formal action being taken by the Chief Financial Officer and/or the Monitoring Officer

## **Governance Statement**

- 1.15 The Council's Annual Governance Statement represents the end result of the review of processes of governance including internal control and risk management, which has been embedded across Council services. As such, production of the Statement is not conducted as an 'add-on' end-of-year activity, but explains the nature of control, and any material changes in control, exercised through the whole of the accounting period. Although published with the financial statements, the Governance Statement is a broad reflection of the whole governance of the Authority.
- 1.16 The Annual Governance Statement is approved at a meeting of the Audit and Governance Committee. The Statement must be published with the Statutory Financial Statements and so the publication timetable for the financial statements drives the approval timetable. In considering whether to approve the Governance Statement, the Council will satisfy itself that it has obtained relevant and reliable evidence to support the disclosures made, and will also consider the reviews of the Chief Financial Officer and the Monitoring Officer on issues covered by their statutory responsibilities.

# EPHING FOREST DISTRICT COUNCIL GOVERNANCE FRAMEWORK

## Appendix 2





## ***Report to the Audit and Governance Committee***

***Date of meeting: 24 November 2008***

**Subject: Limited Assurance Audit Reports.**

**Responsible Officer: Joe Akerman (01992 564446).**

**Democratic Services: Gary Woodhall (01992 56 4470).**

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### **Recommendations/Decisions Required:**

**To consider the proposed method of monitoring limited assurance audits.**

#### **Summary**

1. The purpose of the report is to provide a suggested method of monitoring the action plans for those audits receiving a limited assurance, as requested at the last meeting.

#### **Background**

2. At the last meeting the Committee noted and commented upon the increased number of limited assurance audit reports, as well as the repeat nature of some of them. The Committee felt that the action plans for these audits should be monitored more closely.
3. The Committee has an established process, via the quarterly Internal Audit monitoring report, for monitoring the progress of priority 1 recommendations for all audit reports. By their nature most of these recommendations are made in relation to limited assurance audits. The Committee will be aware that all priority 1 issues are now being reviewed nearer to the implementation date, rather than awaiting a later follow up audit, to ensure that appropriate and timely action is being taken. This process has led to an improvement in the Authority's governance processes, by encouraging the timely implementation of agreed Audit recommendations.
4. The Committee also receives a schedule each quarter via the Audit monitoring report, which reports the number of actions remaining outstanding from the previous year's audit at the follow up stage, with any comments added. This schedule includes the limited assurance audits from the previous year.
5. All high risk areas that are given a limited assurance audit rating are normally followed up in the subsequent financial year, in addition to the interim check on priority 1 recommendations referred to in paragraph 3 above. Any audit concerns arising from the follow up review are referred to in the monitoring report.
6. By way of context, from the 13 limited assurance audit reports issued in the first half year 2008/09, there were 30 priority 1 recommendations and 42 priority 2 or 3 recommendations.

#### **Options for Monitoring Limited Assurance Audits**

7. The options available to the Committee for monitoring the limited assurance audits in greater detail range from adjusting the existing monitoring arrangements (by making clear where they relate to such audits), through to attaching the full action plan for each audit and asking the relevant Director to attend the meeting to explain their

implementation plan. The latter approach would entail the Committee considering all of the priority 2 and 3 issues for these audits, which would greatly extend the amount of monitoring information on the Committee agenda.

8. An alternative to this approach would be to require Internal Audit to report by exception on the progress of all of the recommendations from limited assurance audits, not just the priority 1 issues as at present. Whilst this is clearly achievable, the evidence gathering process would divert audit resources away from current audits and other high priority tasks, and might not represent the best use of resources at a given time.
9. For this reason, it is proposed that, in the first instance, the existing monitoring report is adapted so that the monitoring schedules at Appendices 2 (Priority 1 Actions Status Report) and 3 (Audit follow up Status Report) highlight the limited assurance audits from the other audits. The commentary in the main body of the report will draw the Committee's attention to any failure to implement agreed recommendations in the required timescale. The schedules attached to the monitoring report for quarter 2 2008/09, elsewhere on this agenda, have been amended so that the Committee can assess whether the process meets the requirements.
10. It is also proposed that all limited assurance audits are followed up in the subsequent year's audit plan, and attention drawn in the relevant monitoring report to any failure to follow up any priority 1, 2 or 3 recommendations within the required timescale.
11. The proposals will provide the necessary level of assurance that timely attention is being given by Directors to matters of concern to the Committee. There will remain the option, as at present, to require senior managers to attend the Committee to provide any explanations.
12. Members' views are sought on the proposed method of monitoring limited assurance audits.

**Resource implications**

From existing resources

**Legal and Governance Implications**

No specific implications

**Safer, Cleaner and Greer Implications**

No specific implications

**Consultation Undertaken**

Corporate Executive Forum

**Background Papers**

None

**Impact Assessments**

The proposals in this report will support one of the objectives of the Committee's work, to provide an independent and objective opinion on the adequacy of the Council's control environment, including its governance and risk management arrangements. There are no equalities impacts.



## **Report to the Audit and Governance Committee**

**Date of meeting: 24 November 2008**

**Subject: Internal Audit Monitoring Report - July to September 2008**

**Responsible Officer: Joe Akerman (01992 564446).**

**Democratic Services: Gary Woodhall (01992 564470).**

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1. **The Committee is requested to note the following issues arising from the Internal Audit Team's second quarter monitoring report for 2008/09:**
  - (a) **The reports issued between July and September 2008 and significant findings (Appendix 1);**
  - (b) **The Priority 1 Actions Status Report (Appendix 2)**
  - (c) **The Audit follow up status report (Appendix 3);**
  - (d) **The Work Plan October - December 2008 (Appendix 4);**
  - (e) **The 2008/09 Audit Plan status report (Appendix 5); and**
  - (f) **The Governance Statement 2007/08 Action Plan (Appendix 6)**
2. **The Committee is also requested to confirm that it is satisfied with the effectiveness of the work of Internal Audit in the second quarter 2008/09.**

### **Summary**

1. This report provides a summary of the work undertaken by the Internal Audit Unit between July and September 2008, and details the overall performance to date against the Audit Plan for 2008/09. The report also contains the Internal Audit work plan for the third quarter 2008/09 and a status report on previous audit recommendations.

2. Resources Available:	<b>6 months Apr-Sept 08</b>	<b>12 months Est. Apr 08- Mar 09</b>
<b>Number of days required to meet the audit plan</b>	<b><u>450</u><sup>1</sup></b>	<b><u>900</u><sup>1</sup></b>
Number of days available based on staff in post	607	1225
Less statutory and annual leave	(84)	(142)
Sick leave / hospital appointments	(15)	(40)
Training	(4)	(32)
Planning, supervision, management and non-chargeable	<u>(79)</u>	<u>(156)</u>
Available audit days	425	855
Add Bought in Days	22	45
<b>Total Audit Days</b>	<b><u>447</u></b>	<b><u>900</u></b>

Note<sup>1</sup> audit days available if full establishment achieved

### **Current Staffing Position**

3. The Unit had an establishment of 4.8 full time equivalent (fte) posts in the first two quarters of 2008/09 compared to 5 fte in the equivalent period last year. This follows changes in working hours for two members of staff reported previously. There is provision for an agency budget of £16,830 in 2008/09 to provide some flexibility to meet the cost of agency or consultant auditors for specific pieces of work. Part of this resource was used in the second quarter to engage an agency IT auditor to undertake audits of network and data security that will be published and reported in the third quarter.
4. Sickness during the second quarter 2008/09 amounted to 4 days, compared to 10, 8, and 23 respectively in the preceding three quarters. The average level of sickness per member of staff over the last 12 months has been approximately 9 days and continues to move in the right direction, with the average being 3 days per person over the last six months. Sickness continues to be monitored and managed in accordance with the Council's management of absence policy with ongoing advice and support from Human Resources.

### **Work carried out in the period**

5. The audit reports issued in the second quarter are listed in paragraph 10 below. The audit opinions and main conclusions flowing from these reports are attached at Appendix 1. A control assurance rating on a four point scale *substantial, satisfactory, limited, none* is assigned to each audit in support of the audit opinion on the Service area covered. The agreed priority one actions from these reports are detailed at Appendix 2 and are being reviewed nearer to the implementation date, rather than awaiting a later follow up audit, to ensure that appropriate and timely action is being taken. Those items marked as "completed", are removed from the schedule in order to focus attention at subsequent meetings on those issues remaining to be dealt with by service management. The schedule draws attention to earlier 'limited assurance' audits.
6. A number of systems audits and follow up reviews were carried out across a range of Services in the second quarter, including the further review of service hospitality registers reported to the last meeting of this Committee. The measures now in place should significantly reduce the risk of inappropriate hospitality being approved in the future.
7. The Audit Team has also provided support to management on a number of corporate issues and has performed a range of tasks including standing membership of project teams. Topic areas included the External Funding Group and Review of Financial Regulations Group. In relation to the latter, the Executive Summary Guide to the Council's Financial Regulations was revised during the period, and is available on the intranet for reference by all staff.
8. Supervision and management time has included the normal management and review functions undertaken by the Chief Internal Auditor, who has also been involved in the corporate activities referred to in the previous paragraphs.
9. The time taken on investigation work during this quarter amounted to 3 days and related primarily to the further review of gifts and hospitality referred to above. A small amount of investigative work is also carried out occasionally in the course of systems audits and where this occurs is included in the reported time spent on that particular audit.



## Reports Issued and Significant Observations

10. The following audit reports were issued in the second quarter:

### Investigation

Gifts and Hospitality 2<sup>nd</sup> follow up (reported to last meeting)

### Substantial Assurance

Housing Benefits data processing

### Satisfactory Assurance

Key/Local Performance Indicators  
External funding (Community and Culture)  
National Non-domestic Rates (NNDR)  
North Weald Airfield follow up  
District Museum follow up

### Limited Assurance

Bank Reconciliation  
Waltham Abbey Sports Centre  
External Funding (Planning and Economic Development) and Planning Delivery Grant  
Car Parking  
Verification of IT system audit logs

### No Assurance

None

Audits of IT data and network security, partnership governance, and cash receipting were substantially complete at 30 September 2008, but had not reached final draft stage and are not included in the performance figures in paragraph 18.

11. The reports submitted to Directorate management identified a number of recommendations for improvement across Services, including a need to address weaknesses in supervisory checking and income reconciliation, and the need to apply fully the Authority's governance arrangements for the administration of externally funded projects. It was also reported that equal priority should be given to the reconciliation of all of the Council's bank accounts.

The key findings from the 'limited assurance' audits in quarter 2 are outlined below:

### **Bank Reconciliation**

There are generally satisfactory procedures, but a risk that errors may go undetected exists, as two minor bank accounts are not being reconciled. Furthermore, one minor reconciliation was incorrect as the opening balance on the reconciliation statement did not agree to the brought forward balance on the general ledger.

### Outcome

All accounts will be given the same level of priority in terms of supervisory checking and the regularity of reconciliations

### **Waltham Abbey Sports Centre**

*There were several examples where petty cash was not administered in accordance with financial guidelines. There were also a number of errors in completing invoicing documentation. Some overtime claims were not properly authorised.*

### Outcome

A senior officer who is not involved in the cash up and reconciliation of income is now countersigning weekly cash summaries. In addition the current practice for petty cash

expenditure has been reviewed to ensure compliance with the guideline limit for individual transactions, currently £25.

### **External Funding and Planning Delivery Grant**

*The spending of the grant received was not always adequately controlled, monitoring was not effective and records maintained have not represented a full audit trail.*

#### Outcome

The Planning and Economic Development Directorate will review its approach to the identification and pursuit of external funding opportunities. Arrangements for the administration and financial monitoring of externally funded projects will be strengthened where necessary.

### **Car Parking**

*The separation of duties between cash collection and income reconciliation in relation to the Penalty Charge Notices and permits cannot be adequately demonstrated. Furthermore there are no supervisory or independent checks of income collected.*

#### Outcome

The EFDC Parking Manager will ensure that the contractor is carrying out regular supervisory checks of the cash collection procedures, and in addition will carry out his own random independent spot checks.

### **IT System Logs**

*Adequate audit / management trails or history logs exist of all transactions within the Council's systems. However, controls should be put in place to enable attempted accesses to be identified and logged for investigation.*

#### Outcome

The Authority's corporate security standards will be reviewed and formally re-issued to the systems administrators. Access violation logs will be created through either existing network and firewall controls or specialist software.

### **External Audit Action Plan status reports**

12. The Committee, being "charged with governance", has monitored the action plan arising from the work undertaken by the Audit Commission (the former External Auditor) in reviewing the Council's financial statements and supporting systems for 2006/07. The one item outstanding relates to the implementation of a more robust fixed asset register that will enable the Council to implement changes in capital accounting. A new asset register is being implemented and initial training has taken place. The system should go live early in 2009.
13. At the last meeting the Committee considered the current External Auditor's report on the results of the systems reviews completed to date in respect of the 2007/08 financial year. The report included an action plan summarising those areas where a need for improvement had been identified in accounting and internal control systems. The officer Corporate Governance Group is monitoring the action plan and none of the agreed actions are currently behind schedule. Any slippage in the completion of the action plan will be reported to future meetings of this Committee.

### **Follow Up of Previous Audits (Appendix 3)**

14. Attached at Appendix 3 is a schedule that monitors the follow up of previous audits as an aid to ensuring timely and adequate follow up both by Internal Audit and Directorate Management. The table is being populated during the year as follow up audits are completed, with specific reference to any failure to comply with priority one recommendations. The schedule draws attention to earlier 'limited assurance' audits.

### Three-month work plan (Appendix 4)

15. The work plan for the period October to December 2008 reflects the agreed Audit Plan for 2008/09 agreed at the March meeting. The work plan includes a number of finance systems, where some 'top up' testing will also be required later in the year to verify the existence of robust controls throughout the financial year. The Treasury Management audit has been brought forward slightly at the request of the Director of Finance and ICT in order to assist with the identification of any additional controls in the current financial environment.

### Audit Plan 2008/09 (Appendix 5)

16. The current status of the planned audits in the 2008/09 Audit Plan is set out at Appendix 5. The Council's main financial systems will all be audited during 2008/09, and the Council's External Auditors, PKF (UK) LLP will review the Internal Audit work and report in due course on the reliance that can be placed on it for the purposes of their statutory audit of the Authority's accounts for 2008/09. The Corporate Executive Forum has expressed concern at an increase in sickness levels across the Council in the second quarter of the current year, and has indicated that it may request Internal Audit to review the position, including an analysis of trends in specific service areas.

### Issues arising from Governance Statement 2007/08 (Appendix 6)

17. One of the improvement opportunities identified by the Audit Commission in its report on the 2007 Use of Resources Assessment, is that formal action plans for weaknesses identified in the Annual Governance Statement (AGS) should be approved and all key financial systems should have up to date procedures in place. This Committee noted the Council's AGS for 2007/08 at the meeting in June 2008. The action plan arising from the Statement is attached at Appendix 6 and progress against the targets is being monitored throughout the year.

### Performance Management

18. The Internal Audit Team has local performance indicator targets to meet in 2008/09, as set out below:

	Actual 2006/07	Actual 2007/08	Target 2008/09	Actual Apr-June 2008/09	Actual July-Sept 2008/09	Cumulative Apr-Sept 2008/09
% Planned audits completed	82%	89%	90%	23%	20%	43%
% chargeable "fee" staff time	67%	68%	70%	70%	72%	71%
Average cost per audit day (inc. contractors)	£314	£307	£320	£310	£329	£320
% User satisfaction	83%	81%	83%	86%	78%	82%

The indicators are calculated as follows:

% Planned audits completed...a cumulative calculation is made each quarter based on the approved plan as amended for additional work (eg investigations) during the year.

% Chargeable time...a calculation of 'fee earning' time against attendance time is made each quarter based on reports produced from Internal Audit's time recording system.

Average cost per audit day...the calculation is based on the costs for each quarter divided by the number of fee earning days extracted from the time recording system.

% User satisfaction...a calculation is made each quarter based on returned client surveys for each audit giving a score on a five point scale 0 (poor) – 5 (excellent). The score is backed up by the client's comments on a range of issues related to the audit, including consultation, value added, quality of report and working relationships. The target for 2008/09 is broadly in line with previous years' actual returns.

19. The percentage of planned audits completed is calculated on a cumulative basis so the target for the first half year is around 45%. The actual figure of 42% therefore falls slightly short of the target. The lower percentage achieved in the second quarter is due to seasonal factors, and the figures do not include work in progress on three substantially completed audits referred to in paragraph 10 of this report. The position is expected to recover and the target met by the end of the financial year.
20. The cumulative cost per productive audit day for the first half year was £320 and is in line with the target.

### **Training**

21. During the second quarter the Chief Internal Auditor attended a half day internal course on the implications of the Corporate Manslaughter and Homicide Act 2007. The Senior Auditor attended a one day training course on good practice in integrating governance assurance throughout the organisation, organised by the Maldon District Council. The latter course will be of relevance in developing the Authority's assurance framework to support the Annual Governance Statement.

### **Resource Implications:**

Within the report

### **Legal and Governance Implications:**

Within the report

### **Safer, Cleaner and Greener Implications:**

No specific implications

### **Consultation Undertaken:**

Corporate Executive Forum

### **Background Papers:**

Audit files and working papers

### **Impact Assessments:**

Internal Audit has a primary objective to provide an independent and objective opinion on the adequacy of the Council's control environment, including its governance and risk management arrangements. The audit reports referred to in this monitoring report will assist managers to determine the adequacy and effectiveness of the arrangements in place in their services.

There are no specific equalities impacts.

**Summary of Audits completed during Quarter 2**  
**July – Sept 2008**

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Waltham Abbey Sports Centre	Environment and Street Scene	<p><i>Limited Assurance</i>            Whilst there are generally sound procedures in place, improvement in their application is required in relation to overtime claim authorisations and use of petty cash.</p>	<p>There were several examples where petty cash was not administered in accordance with financial guidelines. There were also a number of errors in completing invoicing documentation. Some overtime claims were not properly authorised.</p>
External Funding and Planning Delivery Grant	Planning and Economic Development	<p><i>Limited Assurance</i>            The systems for external funding within the Planning and Economic Development Directorate need to be reviewed to ensure their compliance with EFDC's policies, financial regulations and contract standing orders. The Directorate should review its approach to the identification and pursuit of external funding opportunities, and increase the awareness of the external funding strategy amongst relevant staff.</p>	<p>The review of systems adopted over the five years that Planning Delivery Grant has been received highlighted some weaknesses. For example, the spending of the grant received was not always adequately controlled, monitoring was not effective and records maintained have not always represented a full audit trail.</p>
IT System Logs	All	<p><i>Limited Assurance</i>            Adequate audit / management trails or history logs exist of all transactions within the Council's systems. However, controls should be put in place to enable attempted accesses to be identified and logged for investigation.</p>	<p>The Corporate ICT Security Standards need to be reviewed and updated where the controls are either unavailable or alternative controls may be implemented. Once brought up to date, the standards should be reissued to system administrators.</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Car Parking	Environment and Street Scene	<p><i>Limited Assurance</i>            Whilst no material errors were identified from the audit sample, there are weaknesses in the systems reviewed for car parking income collection. The separation of duties between cash collection and income reconciliation in relation to the PCNs and permits cannot be adequately demonstrated. Furthermore there are no supervisory or independent checks of income collected.</p>	<p>The control weaknesses within the system, which could result in loss of income if not addressed with additional monitoring controls.</p> <p>There are no independent checks of the bulk cash collection of pay and display income, which amounts to approximately £25,000 per week. Additional monitoring controls need to be implemented to deter fraud or theft.</p>
Bank Reconciliation	Finance	<p><i>Limited Assurance</i>            Whilst there are generally satisfactory procedures in place for the completion of bank reconciliations, two minor bank accounts were not being reconciled. Furthermore, one minor reconciliation was incorrect as the opening balance on the reconciliation statement did not agree to the brought forward balance on the general ledger for 2008/09.</p>	<p>Procedures are being applied to the main bank accounts, however some 'minor' accounts should be given the same level of priority in terms of the regularity of reconciliations. There is adequate separation of duties for raising cheques, processing cheques, authorising cheques, and dealing with returned and unrepresented cheques.</p>
Housing Benefits Data Processing	Finance and ICT	<p><i>Substantial Assurance</i>            The contract is performing as expected and the system in place contains adequate controls to ensure the prompt allocation and processing of documents scanned both by the contractor and in-house.</p>	<p>The system monitors the progress of documents based on performance times that are reviewed by management. Adequate controls are applied over access to the scanned documents and retrieval of documents relating to individual cases. The inclusion of two additional checks recommended will add further assurance to the process.</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
North Weald Airfield	Environment and Street Scene	<p><i>Satisfactory Assurance</i></p> <p>There are generally sound systems in place and no breaches of Financial Regulations were identified in relation to ordering and invoicing. However closer scrutiny of staffs' time records is required in order to identify errors and eliminate the risk of unauthorised absences.</p>	<p>Improvements have been made and the majority of the recommendations in the previous report have been actioned. Leave and sickness records were verified for one rota period. Two members of staff had taken unauthorised toil in 2007/08 [this was passed to management for further review and leave records were subsequently adjusted]. Levels of overtime should be monitored and reviewed separately from the main salaries budget.</p>
Non-domestic Rates	Finance and ICT	<p><i>Satisfactory Assurance</i></p> <p>A number of controls were identified which, although operating effectively, need to be evidenced to provide confirmation that they are taking place.</p> <p>Controls in relation to reliefs need to be improved to ensure that ratepayers continue to be entitled to any empty property and charitable/discretionary reliefs claimed.</p>	<p>The NDR liability is correctly calculated with reference to the system parameters. Additional checks need to be carried out to ensure that ratepayer's entitlement to reliefs is valid.</p> <p>Monitoring of credit balances and transfers of payments between accounts needs to be improved.</p>
External Funding (Community and Culture)	Community and Culture	<p><i>Satisfactory Assurance</i></p> <p>There has been demonstrable success in obtaining external funding to support the provision of Community and Cultural services within the Authority. The projects reviewed were relevant to the Council's key service objectives.</p>	<p>The procedures for administering externally funded projects within Community and Culture need to be reviewed to ensure that EFDC's financial regulations and contract standing orders are applied in the same way as for mainstream funded activities.</p> <p>A departure from Contract Standing Orders was identified where a framework contract let via the Essex Procurement Hub was not formally authorised by the Portfolio Holder.</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
District Museum Follow up	Community and Culture	<p><i>Satisfactory Assurance</i></p> <p>Improvements to systems of internal control have been made since the previous audit. However staff are still occasionally using their own money to advance fund petty cash and other expenses, in breach of guidelines.</p>	<p>The previous audit provided limited assurance, due to shortcomings in some elements of internal control. For example some valuable items were uninsured at that time and there were other departures from financial regulations. These issues have now been resolved.</p>
Key/Local Performance Indicators	All	<p><i>Satisfactory Assurance</i></p> <p>The majority of indicators have been produced accurately and in line with Council policy and guidelines. However data quality should be addressed in isolated areas (Corporate Support Services, Community &amp; Culture), in order to produce full assurance in this area of the Authority's performance framework.</p>	<p>The control system for the reporting of BVPs/LPIs is generally sound and sufficient background data is supplied to support the calculations. There are still isolated areas where improved documentation would support the reported figures and enable more efficient verification of the calculations.</p>



## PRIORITY 1 ACTIONS – STATUS AT QUARTER 2 2008/09

(Updates from last meeting in bold type in final column)  
**Reports marked \* denote limited assurance audits**

Report Title	Agreed Action	Responsible Officer	Target Date	Completion Date / Comments
<b>Estate Management</b>	<b>System and Database</b> Consideration should be given to using a single database to capture all property management data. In this event GVA as the main system used in Estate Management, should be updated to include all relevant information to allow the system to be used to its full capacity for property, lease and rent management.	Principal Valuer and Estate Surveyor	Nov 2008	To be reported at a future date
<b>Land Disposals*</b>	<b>Consultants</b> Procedures for the engagement of property consultants should have regard to the requirement to achieve value for money and should take account of the possible effect of variations in land values where this is a factor in determining the fee.	Principal Valuer and Estate Surveyor	Dec 2007	<b>Capping of fees will be considered for future land sales.</b>
<b>Fleet Operations Follow up *</b>	<b>Other Servicing</b> Private work will be reviewed annually to ensure that it falls within the legal criteria.	Workshop Manager	Ongoing	To be reported to a future meeting

Report Title	Agreed Action	Responsible Officer	Target Date	Completion Date / Comments
<b>Fleet Operations Follow up *</b>	<b>Continued Operation</b> The current status of the earlier decision by Members should be clarified in the light of future options for the use or disposal of the site occupied by Fleet Operations.	Director of Corporate Support Services	June 2008 (revised to Sept 2008)	<b>Reported to Cabinet September 08. Resolved that the outcome of a strategic review of the Council's depot facilities be awaited before implementing the previous in principle decision to close Fleet Operations.</b>
<b>Fleet Operations Follow up *</b>	<b>Value for Money</b> The costing and budgetary information supplied by Accountancy should be used as part of a market testing exercise to identify whether value for money is being achieved.	Director of Corporate Support Services	Sept 2008	<b>Cabinet resolved in September 2008 that a detailed report on the current financial situation of Fleet Operations be submitted to Cabinet in advance of the report dealing with the strategic review of the depots.</b>
<b>Fleet Operations Follow up *</b>	<b>Purchasing</b> The implementation of the Marketplace should be considered by the Director of Corporate Support Services if the Service is to continue for the foreseeable future.	Director of Corporate Support Services	Sept 2008	<i>To be reported to a future meeting (see above)</i>
<b>E-mail and internet usage *</b>	<b>Communications Policies declarations</b> The remaining outstanding communications policies declarations will be followed up to ensure that all employees have returned them.	Assistant Director (Human Resources)	July 2008	<b>Approximately 30 returns were outstanding at the time of drafting this report, and are being followed up by HR.</b>

Report Title	Agreed Action	Responsible Officer	Target Date	Completion Date / Comments
<b>Non-Housing Repairs and Maintenance *</b>	<b>Marketplace orders</b> A more detailed description of the work should be included on the Marketplace system. Contractors' details will be updated on the marketplace to improve the ordering procedure.	Senior Building Surveyor	July 2008	A sample of orders has been reviewed and confirms that the improvements have been made.  <u>Implemented</u>
<b>Facilities Management (Mech. &amp; Elec.) *</b>	<b>Official Orders</b> Procedures should be put in place to identify the total value of orders to individual suppliers. Relevant staff should be reminded of the requirements of Contract Standing Orders.	Assistant Director (Facilities Management and Emergency Planning)	July 2008	Staff have been reminded of the requirements and an analysis of orders placed is carried out to assist in ensuring compliance. To be reviewed at follow up audit.  <u>Implemented</u>
<b>Building Maintenance Stock take *</b>	<b>Stock Control</b> Staff involved in the physical stores processes to be reminded of the need to maintain accurate stock records and take all steps necessary to secure the Council's stock.	Assistant Director of Housing (Property)	Oct 2008	The Assistant Director (Property) has commenced random stock checks at the Depot as part of the improvement process. The initial checks suggest that error rates remain at a relatively high level. There is now an ongoing drive to reduce stock levels for less frequently used materials.
<b>Business Plans *</b>	<b>Timeliness</b> Service Directors will be reminded to submit their business plan on time for the start of the financial year.	Performance Improvement Manager	March 2009	To be reported to a future meeting

Report Title	Agreed Action	Responsible Officer	Target Date	Completion Date / Comments
<b>Inventory Control *</b>	<b>Desirable items</b> ICT will ensure that desirable equipment is recorded on the IT equipment inventory, including the location/user details.	Assistant Director of ICT	Sept 2008	All new items are being recorded onto a new IT system....in progress
<b>Travel and Subsistence *</b>	<b>Committee allowance and subsistence claims</b> Officers who are certifying claims should be reminded to ensure they are authorised to perform the role, and of their responsibility to check all claims thoroughly as part of the certification process.	Assistant Director (Human Resources)	Sept 2008	Requirement notified to all staff in June 2008 HR Update. <u>Implemented</u>
<b>Grants to Voluntary Organisations *</b>	<b>Grant Awards</b> Grants should only be awarded to those organisations fulfilling the criteria. All relevant issues with regard to a grant application should be included on the Portfolio Holder Decision Sheet.	Policy and Research Officer	July 2008	The Portfolio Holder decision sheet fully explains the reasons behind the decision to approve, defer or refuse an application when assessed against the Grant Aid Scheme criteria. <u>Implemented</u>
<b>HR/Payroll Integration *</b>	<b>Data Quality</b> A one off data cleansing exercise will be carried out to ensure that standing data is accurate and up to date. Procedures will be put in place for data input to be checked on a sample basis by a member of staff other than the person who has input the data.	Assistant Director (Human Resources)	Jan 2009 Aug 2008	As the system develops HR are adapting their working processes to take account of the separation of duties and other issues. As part of this process a member of staff will have responsibility for data quality.

Report Title	Agreed Action	Responsible Officer	Target Date	Completion Date / Comments
<p><b>Use of Consultants Follow up *</b></p>	<p><b>Compliance</b> Orders placed to engage consultants should comply with Contract Standing Orders pending the formal adoption of new procedures.  Management should review these arrangements with a view to recruitment to the vacant posts upon the expiry of the current agency/consultancy agreements.</p>	<p>Service Directors  Director of Planning and Economic Development</p>	<p>July 2008  Sept 2008</p>	<p>Proposals have been submitted to the Constitution and Member Services Standing Scrutiny Panel clarifying the arrangements for engaging consultants, agency staff and temporary staff, and the discretions available to Directors in making these appointments. <b><u>Implemented</u></b></p>
<p><b>Community and Leisure bookings</b></p>	<p><b>Independent check of Bookings to Cash received</b> The till reference will be added to the booking register when payment is made, to assist supervisors when reviewing budgeted income variations.</p>	<p>Arts Assistant Sports Development Officer</p>	<p>July 2008</p>	<p>Improved controls are now in place. <b><u>Implemented</u></b></p>
<p><b>Verification of Audit Logs *</b></p>	<p><b>Access Violation Logs</b> The Assistant Director (ICT) will research the creation of access violation logs through either existing network and firewall controls or specialist software.</p>	<p>Assistant Director of ICT</p>	<p>Dec 2008</p>	<p><i>To be reported to a future meeting</i></p>
<p><b>Car Parking *</b></p>	<p><b>Income Reconciliation of Penalty Charge Notices</b> The EFDC Parking Manager should ensure that the income reconciliation sheets are independently checked by Vinci to ensure that the cash collected agrees to the payment report and is correctly recorded on the paying in slip.</p>	<p>Parking Manager</p>	<p>Oct 2008</p>	<p>The contractors' staff will reconcile the income sheets. A manager or deputy will check and sign. EFDC Client side will monitor and countersign. <b><u>Implemented</u></b></p>

Report Title	Agreed Action	Responsible Officer	Target Date	Completion Date / Comments
<b>Car Parking *</b>	<b>Pay and Display Cash Collection Procedures</b> The EFDC Parking Manager should ensure that the contractor is carrying out regular supervisory checks of the cash collection procedures and in addition should carry out his own random independent spot checks.	Parking Manager	Oct 2008	<b>EFDC parking office representative will carry out weekly and ad-hoc checks of supervisor administration procedures and counter sign collected cash sheets and confirm that they agree with monies banked.</b> <u>Implemented</u>
<b>Waltham Abbey Sports Centre *</b>	<b>Income collection and reconciliation</b> To ensure separation of duties, the weekly cash summary should be countersigned by a Senior Officer who is not involved in the cash up and reconciliation of income.	WASC General Manager	Sept 2008	<b>Improved controls evidenced.</b> <u>Implemented</u>
<b>District Museum</b>	<b>Petty Cash Claims</b> Management should ensure that individual claims are countersigned by another officer to ensure separation of duties where the recipient also signs off the main claim.	Museum Officer	Oct 2008	<b>Improved separation of duties now in place.</b> <u>Implemented</u>
<b>External Funding (Community and Culture)</b>	<b>Document retention</b> Supporting documentation for all successful and unsuccessful applications should be retained for two years plus the current year, in accordance with the document retention policy.	Assistant Director (Community Services and customer relations)	Ongoing	<i>To be reported to a future meeting</i>

Report Title	Agreed Action	Responsible Officer	Target Date	Completion Date / Comments
<b>External Funding (Planning and Economic Development) *</b>	<b>Identification of External Funding</b> The Planning and Economic Development Directorate should review its approach to the identification and pursuit of external funding opportunities, and increase the awareness of the external funding strategy amongst relevant staff.	Director of Planning and Economic Development	Dec 2008	<i>To be reported to a future meeting</i>
<b>External Funding (Planning and Economic Development) *</b>	<b>Documentation and Accounting</b> All new staff on externally funded projects should be issued with a contract of employment within 8 weeks of the start date.	Assistant Director (Human Resources)	Ongoing	<i>To be reported to a future meeting</i>
<b>Bank Reconciliation *</b>	<b>Frequency and timeliness of reconciliations</b> The Business Current a/c (Seedbed Centre) and Legal Court Fee accounts will be reconciled on a regular basis. The balance sheet will reflect all bank accounts balances.	Assistant Director (Accountancy)	Nov 2008	<i>To be reported to a future meeting</i>
<b>Bank Reconciliation *</b>	<b>Updating the general ledger</b> Journals will be raised and the general ledger updated as soon as the bank reconciliations have been completed and reviewed.	Assistant Director (Accountancy)	Oct 2008	<b><u>Implemented</u></b>

**Internal Audit Report Control Sheet – Follow Up Audits**  
 (\* denotes limited assurance audit)

Report Title	Client	Date Issued	Agreed Actions	Agreed Actions In Place	Time of Follow Up	Outstanding Issues / Comments
<b>Main Audits 07/08</b>						
Sundry Debtors	Finance	2/08	7		Qtr 4	
Stores Stocktake *	Works Unit	5/07	3	1	Qtr 1	Weakness in stock control, outdated system
Accounting & General Ledger	Finance	1/08	7		Qtr 3	
Best Value and Local Performance Indicators	Deputy C.Ex	9/07	3	2	Qtr 2	Isolated data quality issues
Cash Receipting & Income Control	Finance	10/07	7		Qtr 2/3	
Grants to Vol. Orgs.	Asst to C.Ex	7/07	20	15	Qtr 1	Aspects of awards process, monitoring, grant limits.
Non-HRA Repairs *	Corporate Support	3/08	6	-	09/10	
Contracts Compliance *	All	2/08	7		Qtr 4	
Establishment List	HR	3/08	5		Qtr 4	
Commercial Properties	Estates	3/08	10		Qtr 3	
Use of Consultants *	All	3/08	4	2	Qtr 1	Compliance with Standing Orders, use of standard agreement
Gifts and Hospitality *	All	12/07	4	4	Qtr 1	Letters sent to 2 members of staff who failed to acknowledge receipt of the Code following reminders
District Museum *	Deputy C.Ex	8/07	9	8	Qtr 2	Use of personal monies to advance fund petty cash
Facilities Management *	Corporate Support	3/08	4	-	09/10	
Concessionary Fares	Finance	7/07	5		Qtr 4	Revisions to system



Report Title	Client	Date Issued	Agreed Actions	Agreed Actions In Place	Time of Follow Up	Outstanding Issues / Comments
Housing Rents	Housing	12/07	5		Qtr 3	
Housing & Council Tax Benefits	Finance	11/07	8		Qtr 3	
Treasury Management	Finance	2/08	7		Qtr 3	
Creditors *	Finance	12/07	10		Qtr 3	
Creditors IT	Finance	9/07	3		Qtr 3	
Budgetary Control	Finance	3/08	4		Qtr 4	
Payroll	Corporate Support	7/07	12		Qtr 3	
Building Maintenance (Works Unit) *	Housing	1/08	9		Qtr 4	
Non Domestic Rates	Finance	12/07	3	2	Qtr 2	Supervisory checks on NDR reliefs are outstanding
Risk Management & Insurance	Finance	12/07	6		Qtr 3	
Bank Reconciliation	Finance	9/07	6	4	Qtr 2	Income/bank reconciliation for one account, mandate control
Council Tax	Finance	11/07	2		Qtr 3	
Building Control *	Planning and Econ. Dev	3/08	6	-	09/10	
Communication policies * (email/internet/telephones)	All	3/08	9	-	09/10	

INTERNAL AUDIT WORKPLAN OCT – DEC 08

Appendix 4

Week	Chief Auditor		Senior Auditor		Auditor		Part Time Auditor		Term time auditors (2 posts, 1xfte)		Agency Auditor	
	audit	days	audit	days	audit	days		days	audit	days	audit	days
w/c												
29.9.08	Monitoring report/ Reports/ files	5	Council Tax	5	Cash receipting / NFI	5	Payroll/Creditors	4	Bank Reconciliation/ Creditors IT	6	-	0
6.10.08	Monitoring report/ Reports/files	5	Council Tax	4	Comm. Properties/ NFI	5	Creditors	5	Housing Benefits / Risk Management	6	-	0
13.10.08	Finance/Audit training courses	4	Council Tax/ Training	4	Comm. Properties / Training	5	Creditors/ Training	4	Housing Benefits / Risk M'ment/Training	5	-	0
20.10.08	Governance Framework	5	Council Tax	4	Commercial Properties	5	Creditors	5	Housing Benefits / Risk Management	6	-	0
27.10.08	Reports/files	5	Council Tax	5	Commercial Properties	5	Holiday	0	Holiday	0	-	0
3.11.08	IT Audit reports / Audit Manual	5	Council Tax	5	Commercial Properties	4	Payroll / Treasury Management	5	Housing Benefits / Risk Management	6	-	0
10.11.08	Contract Standing Orders/Fin. Regs.	4	Revenues and Benefits IT	4	Housing Rents	5	Treasury Management	5	Housing Benefits / Risk Management	5	-	0
17.11.08	Reports/files	4	Revenues and Benefits IT	5	Housing Rents	5	Treasury Management	5	Housing Benefits / Concess. fares	6	-	0
24.11.08	Business Plan 09/10	5	Waste Management (inc. bulk collections)	5	Housing Rents	5	Treasury Management	5	Housing Benefits / Concess. fares	6	-	0
1.12.08	Main Accounting Audit	4	Waste Management (inc. bulk collections)	5	Housing Rents	5	Creditors (to complete)	5	Housing Benefits / Establishment list	6	Main Accounting	5
8.12.08	Business Plan 09/10	5	Waste Management (inc. bulk collections)	5	Housing Rents	5	Creditors	5	Housing Benefits / Establishment list	6	Main Accounting	5
15.12.08	Reports / files	5	Waste Management (inc. bulk collections)	5	Top up testing	5	Creditors	5	Housing Benefits/ Holiday	2	Main Accounting	5
22.12.08	Monitoring report/ Review files	2	Waste Management (inc. bulk collections)	2	Leave	0	Holiday	0	Holiday	0	-	0

Notes:

- Annual leave has been allocated where booked
- Team meetings and other non-chargeable work have not been included in the schedule

**Audit Plan 2008/09  
Status Report at 30 September 2008**

**Appendix 5**

Audit area	Audit type	Days allocated	Days spent 1 April – 30 Sept	Completed/ Provisional Timescale	Auditor
<b>FINANCE AND ICT</b>					
<b>Finance</b>					
Bank Reconciliation	system/follow up	15	15	completed	LC
Sundry Debtors	system/follow up	20	-	Qtr 4	NH
Creditors	system/follow up	25	7	Qtr 3	SL
Creditors IT	follow up	5	2	in progress	DP
Treasury Management	system/follow up	15	-	Qtr 3	SL
Payroll	system/follow up	25	19	in progress	SL
Budgetary Control (capital and revenue)	system/follow up	10	-	Qtr 4	SL
Risk Management and Insurance	system/follow up	15	-	Qtr 3	DP
Main Accounting and Financial Ledger	system/follow up	15	-	Qtr 3	contractor
Concessionary Fares follow up	system/follow up	5	-	Qtr 3	DP
Housing Benefits	system/follow up	25	1	Qtr 3	LC
Council Tax	system/follow up	25	4	in progress	BB
National Non Domestic Rates	system/follow up	15	16	completed	SL
Travel and Subsistence claims	system/follow up	15	14	completed	NH
Cash Office spot checks	verification	5	4	completed	LC
Cash receipting system and Income control	system/follow up	20	20	draft report	NH
Provision for 'top up' testing on Qtr 1-3 audits	systems	15	4	Qtr 4	LC/DP
<b>ICT</b>					
Data Security	IT security	20	16	in progress	contractor
Core Business Support (network controls)	management review	10	6	in progress	contractor
Housing Benefits – Electronic Data Processing	IT	10	10	completed	BB
Revenues and Benefits IT system	IT	10	-	Qtr 3	BB
<b>TOTAL</b>		<b>320</b>	<b>138</b>		
<b>PLANNING AND ECONOMIC DEVELOPMENT</b>					
Development Control	system	20	-	Qtr 4	BB
IT System (MVM)	IT	15	18	completed	BB
External Funding	system	15	17	completed	LC
<b>TOTAL</b>		<b>50</b>	<b>35</b>		
<b>ENVIRONMENT AND STREET SCENE</b>					
Car Parking	system	20	23	completed	SL
Waste Management (including bulk collections)	system	20	-	Qtr 3	BB
Waltham Abbey Sports Centre	establishment	15	16	completed	NH
Pest Control	reserve	-	-	-	-
North Weald Airfield	system/follow up	10	10	completed	DP
Leisure Contract Monitoring	follow up	8	-	Qtr 4	DP
<b>TOTAL</b>		<b>73</b>	<b>49</b>		
<b>HOUSING</b>					
Housing Rent Collection	system/follow up	20	-	Qtr 3	NH
Contract Management	system	15	-	Qtr 4	LC
Depot	system/follow up	15	-	Qtr 4	DP
Stores (Depot stocktake)	stocktake	2	3	completed	LC
Structural Works Contract	reserve	-	-	-	-
Housing Stores controls (commenced 07/08)	system	2*	1	completed	DP
Contract Partnerships (b/fwd from 07/08)	system	2*	3	completed	JA
* days allocated from contingency					
<b>TOTAL</b>		<b>56</b>	<b>7</b>		

Audit area	Audit type	Days allocated	Days spent 1 April – 30 Sept	Completed/ Provisional timescale	Auditor
<b>PARTNERSHIPS AND VOLUNTARY SECTOR</b>					
Grants to Voluntary Organisations	system/follow up	20	20	completed	LC
Partnership Governance Arrangements	verification	20	23	draft report	BB
<b>TOTAL</b>		<b>40</b>	<b>43</b>		
<b>COMMUNITY AND CULTURAL SERVICES</b>					
Bookings and Cash collection	system	15	16	completed	SL
External Funding	system	15	17	completed	NH
District Museum	follow up	5	6	completed	NH
<b>TOTAL</b>		<b>35</b>	<b>39</b>		
<b>CORPORATE SUPPORT SERVICES</b>					
<b>Human Resources</b>					
Temporary/Agency agreements	system/ vfm	15	-	Qtr 4	SL
HR/Payroll integration	system/ IT	15	16	completed	BB
Gifts and Hospitality	system/follow up	5	5	completed	NH
Gifts and Hospitality second follow up	follow up	3	3	completed	JA/NH
Establishment list	follow up	5	-	Qtr 3	DP
<b>Facilities Management</b>					
Commercial Property Portfolio	system/follow up	20	-	Qtr 3	NH
Reprographics	system / vfm	20	-	Qtr 4	BB
<b>Legal</b>					
Land Charges Data Quality	verification	10	-	Qtr 4	LC
<b>TOTAL</b>		<b>93</b>	<b>24</b>		
<b>MISCELLANEOUS</b>					
<b>CPA and BEST VALUE</b>					
Business Plans	verification	5	7	completed	DP
Key/Local Performance Indicators	verification	20	11	completed	DP
<b>CONTRACTS</b>					
Contract Compliance	system	20	1	Qtr 4	SL
<b>CORPORATE</b>					
Corporate Procurement	system	10	-	Qtr 4	contractor
Governance Framework (Use of Consultants)	management review	10*	10	completed	DP
Governance Statement/Action Plan	management review	5	3	completed	JA
Use of Resources work plan	management review	5	3	ongoing	JA
Review of financial regulations and internal controls	management review	5	2	Qtr 3	JA
Inventory Control	system	10	13	completed	NH
Follow up of Priority 1 Audit recommendations	follow up	5	2	ongoing	JA
* 5 days transferred back to contingency					
<b>FRAUD AND CORRUPTION</b>					
National Fraud Initiative (NFI) - 2008	biennial review	30*	7	Qtrs 2/4	NH
Verification of Audit Logs	IT security	15	13	completed	BB
* includes 5 days from contingency					
<b>TOTAL DAYS ALLOCATED</b>		<b>807</b>	<b>407</b>		
Contingency/Spot checks/Minor investigations		<b>38</b>	<b>7</b>	ongoing	All
Corporate/Service Advice		<b>55</b>	<b>33</b>	ongoing	JA/BB
<b>TOTAL</b>		<b>900</b>	<b>447</b>		

### Governance Statement Action Plan 2007/08

Item	Recommendation	Priority 1 = High 2 = Med 3 = Low	Responsibility	Comments/Source	Actioned by Date/Comments
Governance	To promote a culture of good governance amongst all employees of the Authority, particularly in relation to ethical conduct (gifts and hospitality), and support to the Authority's anti-fraud and corruption policy.	1	Service Directors	Use of Resources KLOE 4.3	31 March 2009
Social Inclusion Strategy	To review the Strategy to ensure that services are targeted at areas of greatest need.	1	Deputy Chief Executive	Governance Statement 2007/08	31 Dec 2008
Corporate Procurement	To deliver the action plan in the internal audit report relating to the implementation of the procurement strategy, including the realisation of savings via improved procurement practices.	1	Director of Finance and ICT	Internal Audit Report March 2008	31 Dec 2008
User Guide to Financial Regulations	To update the guide to take account of recent changes, and re-issue to managers.	2	Chief Internal Auditor	Review of Contract Standing Orders and Financial Regulations	30 Sept 2008 <b><u>Implemented</u></b>

## Governance Statement Action Plan 2007/08

Item	Recommendation	Priority 1 = High 2 = Med 3 = Low	Responsibility	Comments/Source	Actioned by Date/Comments
Use of Consultants	To deliver the action plan in the internal audit report relating to the engagement of consultants, including the application of contract procedure rules and the demonstration of value for money.	1	Service Directors	Internal Audit Report March 2008	30 Sept 2008  A report was submitted to the Constitutional Affairs Scrutiny Standing Panel on 3 November with proposed changes to the Constitution.  <u>Implemented</u>
Fleet Operations	To provide an interim report to members on the short term future of Fleet Operations	2	Director of Corporate Support Services	Internal Audit Report Corporate Governance Group	30 Sept 2008  Report to Cabinet September 2008.  <u>Implemented</u>
Health and Safety Policy	To identify more effective ways of communicating the policy to staff.	2	Director of Corporate Support Services	Governance Statement	30 Sept 2008  The latest update of the policy will be submitted to JCC later this year and will then be posted on the intranet and notified to all staff.

## **Report to the Audit and Governance Committee**

**Date of meeting: 24 November 2008**



**Epping Forest  
District Council**

**Subject: Internal Audit Benchmarking.**

**Responsible Officer: Joe Akerman (01992 564446).**

**Democratic Services: Gary Woodhall (01992 564470).**

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### **Recommendations/Decisions Required:**

**To note that the additional information provided in this report confirms the earlier conclusion that EFDC's Internal Audit costs and other performance indicators are close to the average for the comparator group.**

#### **Summary**

1. The purpose of the report is to provide the Committee with further benchmarking data following a request at the last meeting, when the Committee considered a report on CIPFA's annual benchmarking exercise for 2008.

#### **Background**

2. At the last meeting, the Committee noted and commented upon on the results of the CIPFA Internal Audit benchmarking exercise for 2008. The report compared the performance of EFDC Internal Audit with the other shire districts that chose to participate in the Club. The comparisons were presented in numbers, charts and time series, with comparisons of actual figures for 2007/08 and estimates/plans for 2008/09.
3. The output from the exercise comprised two reports. The first report compared EFDC with all shire districts. The second report was in the same format but was based on a comparison with ten other districts across southern England chosen because they display similar characteristics to EFDC, including a fully in-house audit service.
4. During the discussion of the item, comment was made regarding the summary data presented in respect of the second report, which had been provided by CIPFA in respect of 2008/09 estimated expenditure. It was agreed that similar summary data, based on 2007/08 actual expenditure, would also be sought in case this provided a different overall picture of unit costs between authorities. Further information is provided in paragraphs 5 to 7. A question was also asked regarding the nature of 'Strategic Risks' included in the returns, and EFDC's position at below average for this category in the benchmarking reports. This issue is covered in paragraph 8.

#### **Supplementary Benchmarking Information**

5. Following the last meeting, further summary data for the sample comparator group has been obtained from CIPFA for 2007/08 actual expenditure and is presented in the appendix. The figures for EFDC are highlighted, the other authorities have been anonymised at CIPFA's request. This does not dilute the use of the data, as the purpose of the report is to compare EFDC's costs in general terms with the comparator group, rather than focus on a specific comparator authority.
6. The following comments are made in the context of the benchmarking data for both years, including the new summary data for 2007/08 included in the attached table:

- The cost per auditor including overheads was around the group averages in both years despite the specific cost factors applying to EFDC, related to its proximity to London. The increase between the two years for EFDC is accounted for by inflation, however there are wide variations for several of the comparator authorities. This was mainly due to the level of overheads not appearing to vary in line with staffing changes between the two years.
  - The average number of chargeable days and estimated cost per audit day for both years are also close to the average. There are wide variations between the two years for three of the comparator authorities, which could be explained by factors such as sickness absence.
  - The overall cost per audit day is a reflection of the other two columns in the table commented on above, and shows a consistent position for EFDC because the staffing numbers, costs and time analysis remained stable over the two years covered by the current benchmarking report.
7. The earlier report concluded that the cost, coverage and performance of the Internal Audit service at EFDC remains at or around the average for the majority of the key indicators covered by the survey. This conclusion is also borne out by the comparisons with other districts using the additional summary data for 2007/08, notwithstanding the variations included in those authorities' returns between the two years.

#### **Strategic Risks**

8. The EFDC benchmarking return for 2007/08 categorised two audits as addressing strategic risks, namely corporate procurement and data security. The returns for the comparator group have been compared with EFDC's submission. The variations reflect the differences in authorities' risk profiles based on their local circumstances and key priorities. For example, some authorities have included audits of performance and partnerships in the 'strategic risk' category, whereas EFDC categorised these topics as 'corporate governance' and 'operational' respectively. Had the items been categorised as strategic by EFDC the position would have been closer to the average in all three categories. In addition, some authorities had included certain service audits as strategic, which no doubt reflects their relative priority in those authorities, but raises issues of interpretation and consistency that can arise in statistical comparisons. These issues will be reviewed when compiling and interpreting the returns next year.

#### **Resource implications**

From existing resources

#### **Legal and Governance Implications**

The use of benchmarking data to assist in assessing service quality and value for money is an established part of the Authority's governance arrangements.

#### **Safer, Cleaner and Greer Implications**

No specific implications

#### **Consultation Undertaken**

Corporate Executive Forum

#### **Background Papers**

CIPFA Benchmarking reports

#### **Impact Assessments**

The benchmarking reports draw attention to any areas where the Internal Audit costs and coverage are markedly different to other districts. There are no equalities impacts.



	FTE Auditors		Cost per Auditor (£)		Chargeable days per Auditor (in-house)		Overall cost per day (in-house) (£)		Days bought in				
	2007/08 Actual	2008/09 Est.	2007/08 Actual	2008/09 Est.	% inc / dec	2007/08 Actual	2008/09 Est.	%inc/dec	2007/08 Actual	2008/09 Est.			
<b>Epping Forest</b>	5	4.9	52,727	55,510	5.28	173	176	1.73	305	315	3.28	40	45
a	3.6	3.6	53,361	57,639	8.02	181	189	4.42	294	305	3.74	25	30
b	5.7	7.2	51,327	49,030	-4.48	176	178	1.14	288	275	-4.51	35	-
c	3.8	3	45,733	52,000	13.70	191	181	-5.24	239	288	20.50	-	-
d	7.1	6.6	55,507	61,212	10.28	153	175	14.38	351	337	-3.99	-	-
e	3	2	52,000	57,000	9.62	187	186	-0.53	279	306	9.68	48	186
f	5.4	5.5	62,407	62,909	0.80	176	171	-2.84	355	367	3.38	-	-
g	3.6	4.5	52,222	40,000	-23.40	141	192	36.17	333	204	-38.74	-	-
h	4	4	40,125	41,275	2.87	182	193	6.04	221	214	-3.17	-	-
i	3	2.2	54,633	70,455	28.96	105	197	87.62	520	357	-31.35	-	-
j	3	2.1	55,333	67,143	21.34	186	189	1.61	298	355	19.13	22	23
<b>Average</b>			<b>52,307</b>	<b>55,834</b>		<b>168</b>	<b>184</b>		<b>317</b>	<b>302</b>		<b>317</b>	<b>302</b>

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