

EPPING FOREST DISTRICT COUNCIL COMMITTEE MINUTES

Committee: Audit and Governance Committee **Date:** Monday, 20 September 2010

Place: Council Chamber, Civic Offices, High Street, Epping **Time:** 7.00 - 8.40 pm

Members Present: A Green (Chairman), Mrs M Peddle (Vice-Chairman), R Thompson and A Watts

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

Apologies: J M Whitehouse

Officers Present: D Macnab (Acting Chief Executive), J Gilbert (Director of Environment and Street Scene), R Palmer (Director of Finance and ICT), B Bassington (Chief Internal Auditor), J Nolan (Assistant Director (Environment & Neighbourhoods)), B Moldon (Principal Accountant) and G J Woodhall (Democratic Services Officer)

Also in attendance: R Bint (External Auditor), L Clampin (External Auditor) and C Beesley (External Auditor)

16. WEBCASTING INTRODUCTION

The Chairman reminded everyone present that the meeting would be broadcast live to the Internet, and that the Council had adopted a protocol for the webcasting of its meetings.

17. DECLARATIONS OF INTEREST

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

18. MINUTES

RESOLVED:

(1) That the minutes of the meeting held on 21 June 2010 be taken as read and signed by the Chairman as a correct record.

19. MATTERS ARISING

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

20. CORPORATE GOVERNANCE GROUP - 23 JUNE 2010

The Director of Finance & ICT presented the minutes from the meeting of the Corporate Governance Group held on 23 June 2010. The Committee's attention was drawn to the topics of discussion and actions arising from the meeting.

RESOLVED:

(1) That the minutes of the meeting of the Corporate Governance Group held on 23 June 2010 be noted.

21. CORPORATE GOVERNANCE GROUP - 21 JULY 2010

The Director of Finance & ICT presented the minutes from the meeting of the Corporate Governance Group held on 21 July 2010. The Committee's attention was drawn to the topics of discussion and actions arising from the meeting.

In respect of minute 10(a) – Annual Governance Statement 2009/10 – it was agreed that all members of the Audit & Governance should have been consulted by the Director of Corporate Support Services over the revised version, not just the independent Members and the Chairman. The Acting Chief Executive apologised for the oversight.

RESOLVED:

(1) That the minutes of the meeting of the Corporate Governance Group held on 21 July 2010 be noted.

22. AUDIT COMMISSION NATIONAL LOCAL GOVERNMENT STUDIES

The Director of Finance & ICT presented a report upon the national local government studies that had been recently published by the Audit Commission, and which were relevant to the Council's areas of service provision. These arrangements for the reporting of local government studies issued by the Commission had been agreed by the Committee at its meeting on 24 September 2009.

The Director reported that three such studies had been published since the Committee's previous meeting. The first report was "*A Review of Collaborative Procurement Across the Public Sector*"; the main recommendation of the report had focused upon collaborative procurement amongst local authorities and public sector organisations, which the Council was already pursuing through its involvement with and membership of the Essex Procurement Hub. The second report was entitled "*Against the Odds: Re-engaging Young People in Education, Employment or Training*". The Corporate Governance Group had been of the opinion that as this report had studied the issue of young people who were not in education, employment or training, and this was the responsibility of the County Council, there were no specific recommendations for the Council to consider for implementation. The third report, "*Local Government Pensions in England: An Information Paper*" had no recommendations contained therein.

The Committee felt that the Council did have some involvement with youth services through the Local Strategic Partnership, and requested the Corporate Governance Group to reconsider the implications of the "*Against All Odds...*" report. The Director of Finance & ICT reiterated that the report was concerned with strategic procurement

and commissioning for education, which was the responsibility of the County Council. The Leader of the Council advised the Committee that the Council was considering the implementation of further measures over procurement, whilst the County Council was now considering joining the Essex Procurement Hub.

RESOLVED:

- (1) That the National Report "*A Review of Collaborative Procurement Across the Public Sector*" published by the Audit Commission be noted as relevant to an area of the Council's service provision;
- (2) That the National Report "*Against the Odds: Re-engaging Young People in Education, Employment or Training*" published by the Audit Commission be re-examined by the Corporate Governance Group for relevance through the Council's role with young people via the Local Strategic Partnership; and
- (3) That the National Report "*Local government Pensions in England: An Information Paper*" published by the Audit Commission be noted for information.

23. FOOD STANDARDS AGENCY AUDIT - FOOD LAW ENFORCEMENT SERVICE

The Director of Environment & Street Scene presented a report upon the Foods Standards Agency audit of the Food Law Enforcement Service.

The Director stated that the Food Standards Agency (FSA) had the responsibility, amongst other things, for carrying out audits of local authority food enforcement services as part of its remit to improve consumer protection and confidence in relation to food. The audit was intended to ensure that local authorities were providing effective food law enforcement services. The FSA had undertaken an inspection of the Council's service on 2 and 3 March 2010, and their final report had been published on 27 July 2010 with a detailed action plan to deal with the identified shortcomings.

The Director advised the Committee that the findings of the report had been disappointing in relation to procedural shortcomings but there were no major criticisms of the effectiveness of the actual inspections and investigations carried out by the Council's Food Team. Since the inspection, significant progress had been made in addressing the requirements of the action plan, with many actions already completed or substantially completed. All actions were scheduled for completion by 31 March 2011. The FSA had also indicated that they would review progress approximately six months after publication of the report, in early 2011, with a further report to the Committee on the FSA's revised findings scheduled for February 2011.

The Committee thanked the Director for his report but felt that the Safer Cleaner Greener Scrutiny Panel would be the more appropriate Committee for the on-going monitoring of the Action Plan. This Committee was only primarily concerned with the Action Plan items being implemented in a timely fashion to reduce the Council's risk, although it was highlighted that some of the items on the Action Plan had been marked as complete despite their description as an on-going process. The Director assured the Committee that the Action Plan would be constantly monitored until all the items had been implemented.

RESOLVED:

- (1) That the Food Standards Agency audit of the Council's Food Law

Enforcement Service be noted;

(2) That the progress made against the agreed Action Plan arising from the Audit be noted; and

(3) That the Safer Cleaner Greener Scrutiny Panel be requested to undertake the periodic monitoring of the Action Plan, as the most appropriate Committee.

24. Q1 INTERNAL AUDIT MONITORING REPORT 2010/11

The Chief Internal Auditor presented the Internal Audit Monitoring Report for the first quarter of 2010/11, along with the current Audit Plan Status Report for 2010/11.

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

- (a) Substantial Assurance:
- Commercial Property Management;
 - Housing Rent Collection and Arrears;
 - Countrycare;
 - Business Plans 2010/11;
 - Fleet Operations Income;
 - Network Security;
 - Budgetary Control;
 - Main Accounting System;
 - ICT Procurement; and
 - Procurement.
- (b) Limited Assurance:
- Waste Management.

No reports had been issued with either full assurance or no assurance. There were five reports outstanding from the Contractor Deloitte and Touche at 30 June 2010. The audits had actually been completed but the reports were being finalised, therefore these audits had not been included in the performance figures. These reports had now been received and finalised.

The Committee's attention was drawn to the Priority 1 Actions Status report, and the Limited Assurance Audit Follow Up Status report. It was also noted that the Action Plan arising from the Annual Governance Statement had been appended to allow the Committee to monitor progress against the targets.

The Chief Internal Auditor reported upon the current status of the Internal Audit Unit's Local Performance Indicators for 2010/11.

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|------------------------------|-------------|------------------|
| • % Planned Audits Completed | Target 90% | Actual 14%; |
| • % Chargeable Staff Time | Target 72% | Actual 56%; |
| • Average Cost per Audit Day | Target £320 | Actual £351; and |
| • % User Satisfaction | Target 85% | Actual N/A. |

The target for planned audits completed had fallen short of the 22.5% target for the first quarter due in part to the vacancy within the unit. However, a new member of staff had been recruited and had started with the Council in May. No User Satisfaction forms had been returned during the first quarter; the Chief Internal

Auditor intended to review this process and would report back to the Committee at its next scheduled meeting.

The Chief Internal Auditor stated that, for the Waste Management audit issued with a limited assurance, there had been a departure from Contract Standing Orders and an example of poor stock records. The requested documents had not been made available at the time of the audit, hence the assurance rating given. Internal Audit was willing to give the Officers concerned training on Contract Standing Orders and Financial Regulations. The Director of Environment & Street Scene explained that the documents had been available for inspection, but in the Assistant Director's Office not the depot. The Director acknowledged that the stock take had not been performed properly; improved procedures had been implemented at the depot and all contract payments to Sita were monitored by the Principal Team Leader for Waste Management.

The Committee requested that a further report be submitted to the next meeting confirming that a satisfactory full stock reconciliation had been performed at the depot, and also outlining the level of financial risk involved for the Council from this procedure not being performed properly.

RESOLVED:

(1) That the following issues arising from the Internal Audit Monitoring Report for the first quarter of 2010/11 be noted:

(a) the Audit reports issued between April and June 2010 and significant findings therein;

(b) the Priority 1 Actions Status Report;

(c) the Limited Assurance Audit Follow-Up Status Report; and

(d) the Audit Plan Status Report 2010/11.

(2) That the Committee's satisfaction with the effectiveness of the work of Internal Audit during the first quarter of 2010/11 be confirmed; and

(3) That a report be submitted to the Committee's next scheduled meeting on 15 November 2010 confirming that a satisfactory full stock reconciliation had been performed for Waste Management and detailing the level of financial risk faced by the Council from not performing this procedure properly.

25. TREASURY MANAGEMENT & PRUDENTIAL INDICATORS - ANNUAL OUTTURN REPORT 2009/10

The Principal Accountant introduced the annual outturn report on the Treasury Management and Prudential Indicators for 2009/10. This report was a requirement of the Council's reporting procedures and covered the treasury activity for 2009/10 as well as the actual Prudential Indicators for 2009/10.

The Principal Accountant reported that during the year the Council had financed all of its capital activity through capital receipts, capital grants, and revenue contributions which had resulted in the Council remaining debt-free. The Council had achieved its targets for its prudential indicators and exceeded the performance indicator target with its return on investment being higher than the benchmark.

The Committee felt that its responsibility was to ensure that adequate governance arrangements and control procedures were in place for the Treasury Management Strategy, and to monitor the potential financial risks to the Council from its application. The Committee should not interfere with the routine operational management of the Treasury function. However, the Prudential Indicators were useful although the Committee requested more analysis of the results that had been presented within the report.

RESOLVED:

(1) That the annual outturn report for Treasury Management and the Council's Prudential Indicators for 2009/10 be noted; and

(2) That further consideration of the annual outturn report for Treasury Management and the Council's Prudential Indicators for 2009/10 by the Finance & Performance Management Cabinet Committee be noted.

26. TREASURY MANAGEMENT & INVESTMENT STRATEGIES 2010/11 TO 2012/13

The Principal Accountant presented a report about the Council's revised Treasury Management Strategy and Investment Strategy for the period 2010/11 to 2012/13.

The Principal Accountant informed the Committee that the Council was required to approve the Treasury Management Strategy and Prudential Indicators each year. The last such approval was in February 2010, however the Council had subsequently changed its treasury advisors in May and the Strategies had been aligned with advice from the Council's new treasury advisors, Arlingclose. The amended Strategies had been considered by the Cabinet on 13 September 2010, who had requested the deletion of the local performance indicator on investment returns and had recommended the revised strategies for approval by the Council.

The Committee felt that as Treasury Management was referred to in the Corporate Risk Register, there had to be a number of risks that should have been listed under the Risk Management section of the report and that the implementation of the new Strategies would reduce the Council's risk. The Committee give examples of a number of potential risks: the risk of investing in Spanish Banks following the downgrading of Spain's sovereign credit rating; the percentage chance of default within each investment category; the dynamic nature of the credit ratings for each counter-party; the risks associated with the maximum permitted investment for each listed counter-party; and the risk of investing too much money over the longer term without sufficient funds invested in short term access funds to meet the operational requirements of the Council.

The Director of Finance & ICT acknowledged that the Risk Management section of the report should have referred to the reduction in risk to the Council through implementing the new Treasury Management and Investment Strategies. The Council's new advisors had a more prudent view of counter-parties, hence the revised strategies would reduce the Council's risk. The current low rates of return being offered by the market had led to more of the Council's money being invested in variable rate instruments over shorter time periods rather than fixed rate instruments.

The Committee believed that it was for the Council to determine its appetite for risk and to set the Prudential Indicators accordingly, with the Committee's role being to consider if the risks were being adequately monitored and minimised. It was not the

Committee's role to scrutinise the operational management of Treasury Management activity and practices. The Committee requested that a further report should be submitted to the next meeting answering the points raised during the discussion and illustrating how the Council's Prudential Indicators controlled risk.

RESOLVED:

- (1) That a further report be submitted to the next meeting of the Committee on Treasury Management:
 - (a) listing the potential risks from the Council's Treasury management function;
 - (b) detailing the reduction in the Council's risk from the implementation of the new Treasury Management and Investment Strategies; and
 - (c) illustrating how the Prudential Indicators assisted in the control of the Council's risk from its Treasury Management function.

27. ANNUAL GOVERNANCE STATEMENT 2009/10

The Chief Internal Auditor presented the Annual Governance Statement for 2009/10 to the Committee for consideration and approval.

The Chief Internal Auditor reported that the Council's Statutory Statement of Accounts had been prepared in accordance with the Accounts and Audit Regulations 2003 (as amended by the Accounts and Audit Regulations (Amendment) (England) 2006). Within the Regulations, and in accordance with defined 'proper practice', there was a mandatory requirement to publish an Annual Governance Statement (AGS). The arrangements were designed to provide the Authority with assurance regarding the adequacy of its governance arrangements, and identify where those arrangements need to be improved. The Governance Statement had been presented to the Audit and Governance Committee on 21 June 2010, at which Members had requested amendments. The Statement had been revised as requested and had been submitted to the Committee for final approval.

RESOLVED:

- (1) That the Annual Governance Statement for 2009/10 be approved for inclusion in the Council's Statutory Statement of Accounts.

28. AUDIT OF ACCOUNTS - ANNUAL GOVERNANCE REPORT 2009/10

The External Auditor presented the Annual Governance Report from the External Auditors. The report would also be presented to the Finance & Performance Management Cabinet Committee next week to ensure that the Cabinet Committee were aware of the key issues that had been raised. The Audit was not yet 100% complete but an updated report would be circulated to all members of the Committee next week.

The Committee was informed of the key findings of the report. The Council's key financial systems were considered adequate as a basis for preparing the financial statements, however some control weaknesses had been identified. A material misstatement in the sum of £25.5million had been discovered in the reversal of the impairment of the Council's housing stock, which had changed the reported outturn

on the Income & Expenditure Account from a £4million deficit to a £21million surplus but had had no impact upon the General Fund balance. This misstatement had now been corrected. Reconciliations of benefit expenditure to the financial ledger to validate rent allowance expenditure of £17.1million had now also been completed. Nine recommendations had been identified by the audit and were included in an action plan for the future. In addition, the Committee were advised that the External Auditor anticipated issuing an unqualified "true and fair" opinion upon the Council's accounts. The External Auditors also intended to conclude that the Council had adequate arrangements in place to secure value for money, based upon the results of risk-based audit work and consideration of the Council's use of resources.

The Director of Finance & ICT reported that the accumulated creditor balance of £126,855 referred to in the Action Plan had probably been outstanding since before the 2002/03 financial year and was related to the implementation of the Council's previous computer system, Orbis. The Committee was reassured that the unidentified amount was a very small proportion of the monies that had been collected since then. A further investigation to identify the creditor(s) would be undertaken, however it had been felt that this amount should now be written off and allocated to the District Development Fund.

The Committee noted the comments from the Auditor regarding staff availability during the audit period and requested that all management responses to audit requests should be timely in the future.

RESOLVED:

- (1) That the Annual Governance Report for 2009/10 presented by the External Auditor be noted;
- (2) That the issuing of a revised version of the report next week to all members of the Committee via email be noted; and
- (3) That satisfaction with the revised version of the report when received by all members of the Committee be confirmed to the External Auditor via email.

29. STATUTORY STATEMENT OF ACCOUNTS 2009/10

The Director of Finance & ICT presented a report regarding the revised Statutory Statement of Accounts for 2009/10.

The Director reported that the audit of the annual Statutory Statement of Accounts had revealed some errors in the Accounts that had previously been considered by this Committee. The errors had included one material amendment and four non-trivial amendments. In these circumstances, it was regarded as best practice to amend the Accounts and have them re-approved. All Members of the Council would be able to debate the Accounts at the Council meeting scheduled for 28 September and the Committee was requested to recommend the amended accounts for approval at that meeting.

RECOMMENDED:

- (1) That the amended Statutory Statement of Accounts for 2009/10, including the revised Annual Governance Statement, be recommended to the Council for adoption at its meeting on 28 September 2010.

30. ANY OTHER URGENT BUSINESS

There was no other urgent business for the Committee to consider.

The Director of Finance & ICT confirmed that all the items on the Post Inspection Action Plan, following the Audit Commission's inspection of the Council's Benefits Service, had been completed. A confirmation report would be submitted to the next meeting of the Committee.

CHAIRMAN