

EPPING FOREST DISTRICT COUNCIL COMMITTEE MINUTES

Committee: Audit and Governance Committee **Date:** 15 November 2010

Place: Council Chamber, Civic Offices, High Street, Epping **Time:** 7.00 - 8.50 pm

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

Other Councillors: C Whitbread

Apologies: None

Officers Present: B Bassington (Chief Internal Auditor), R Palmer (Director of Finance and ICT), J Gilbert (Director of Environment and Street Scene), P Maddock (Assistant Director (Accountancy)), B Moldon (Principal Accountant), S G Hill (Senior Democratic Services Officer) and G J Woodhall (Democratic Services Officer)

31. 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.

32. DECLARATIONS OF INTEREST

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

33. MINUTES

RESOLVED:

(1) That the minutes of the meeting held on 20 September 2010 be taken as read and signed by the Chairman as a correct record.

34. MATTERS ARISING

The Director of Finance & ICT reported that the Audit Commission Local Government Report "*against the Odds: Re-engaging Young People in Education, Employment to Training*" had been reconsidered by the Corporate Governance Group, as requested by the Committee at its previous meeting.

The Corporate Governance Group, at its meeting held on 27 October 2010, had decided to refer the proposals within the report to the Local Strategic Partnership and the Epping Forest Children's Partnership for further consideration. The results of their deliberations would be reported back to the Committee at a future meeting.

35. CORPORATE GOVERNANCE GROUP - 8 SEPTEMBER 2010

The Director of Finance & ICT presented the minutes from the meeting of the Corporate Governance Group held on 8 September 2010. The Committee's attention was drawn to the topics of discussion and actions arising from the meeting.

In respect of the item regarding Nazeing Parish Council, the Director reported that there had been some difficulty in getting all the Parish Councillors to engage with the training programme. The matter could be referred back to the Standards Board for England, but its imminent abolition had been recently announced by the Department for Communities & Local Government. The Council's only liability for this matter was that the Training Programme would be paid for out of the £5,000 budget previously agreed. It was agreed to provide the Committee with an update report at its next meeting.

RESOLVED:

- (1) That the minutes of the meeting of the Corporate Governance Group held on 8 September 2010 be noted; and
- (2) That an update report upon the progress of the direction from Standards for England for Nazeing Parish Council be given at the next meeting of the Committee.

36. CORPORATE GOVERNANCE GROUP - 27 OCTOBER 2010

The Director of Finance & ICT presented the minutes from the meeting of the Corporate Governance Group held on 27 October 2010. The Committee's attention was drawn to the topics of discussion and actions arising from the meeting.

The Director stated that the challenge questions contained within the report "*Strategic Financial Management in Councils*" issued by the Audit Commission had proved useful when service reductions were being considered as part of the Financial Issues Paper. The Committee requested a progress report on the drafting of protocols to regulate the relations between the Council and its three statutory Officers, namely the Head of Paid Service, the Monitoring Officer and the Chief Finance Officer.

The Committee also expressed concern about whether the Essex Procurement Hub provided sufficient testing of the market to demonstrate best value had been obtained by the Council through any contracts let by framework agreements. It was suggested that an item should be added to the Corporate Risk Register to reflect this. The Director of Finance & ICT stated that the current Contract Standing Orders stipulated the Council must use a framework agreement from the Hub if available. Officers were aware of Members' concerns, and it was highlighted that the Contract Standing Orders were reviewed each year. Changes could be considered to permit a more flexible approach to procurement in the future.

RESOLVED:

- (1) That the minutes of the meeting of the Corporate Governance Group held on 27 October 2010 be noted; and
- (2) That a progress report be provided to a future meeting of the Committee upon the drafting of protocols to regulate relations between the Council and its three Statutory Officers, namely:

- (a) the Head of Paid Service;
- (b) the Monitoring Officer; and
- (c) the Chief Finance Officer.

37. **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 the only such study published since the Committee's previous meeting was "*Strategic Financial Management in Councils: Delivering Services with a Reduced Income*". The Corporate Governance Group had considered this report and were satisfied that the recommendations within the report had already been implemented by the Council. It was felt that the challenge questions within the self-assessment questionnaire would be useful in future budget rounds if reductions in expenditure were required and would be included in the budget setting process from 2012/13 onwards as required.

The Director added that Spending Control Officers received monthly budget reports which highlighted any variance between the budget and actual figures, whilst Quarterly Financial Monitoring Reports were received by the Finance & Performance Management Scrutiny Panel and Cabinet Committee.

The Committee questioned which body scrutinised Overview & Scrutiny, in particular the Finance & Performance Management Scrutiny Panel, and whether the Audit & Governance Committee had a role to play in this. It was felt that it was not the role of the Committee to oversee the Scrutiny process. The Director assured the Committee that the Council's Scrutiny process was robust, with the option to call-in executive decisions, and that the last external assessment of the Council's Scrutiny function had reported favourably..

RESOLVED:

- (1) That the National Report "*Strategic Financial Management in Councils: Delivering Services with a Reduced Income*" published by the Audit Commission be noted as relevant to an area of the Council's service provision;
- (2) That the majority of the recommendations within the report had already been implemented by the Council; and
- (3) That the Challenge Questions within the self-assessment questionnaire would be implemented in future budget setting cycles, particularly when reductions in expenditure were deemed necessary.

38. **WASTE MANAGEMENT STOCK TAKE & LEVEL OF RISK TO THE COUNCIL**

The Director of Environment & Street Scene presented a report upon the Waste Management stock take and the level of risk to the Council.

The Director reminded the Committee that it had received a report at its last meeting on 20 September 2010 from Internal Audit which had provided a limited assurance in

respect of the Waste Management Service. The reason for this had been a departure from Financial Standing Orders which required a stock take at the end of each financial year. The Committee had requested a report at this meeting confirming that a satisfactory full stock reconciliation had been performed and details of the level of financial risk faced by the Council for not performing the procedures properly.

The Director stated that the report had set out the current position for wheeled bins, rigid containers, blue boxes and the different types of sacks used, it had not yet been possible to undertake a full physical stock take of all items, as required by the Committee. The stock take of remaining items was being arranged and would be performed imminently. The detailed stock take of wheeled bins at the North Weald Airfield was performed in October before the start of winter when all bins were wrapped in plastic to offer protection during the winter months, and it had been recommended that a supplementary stock take should also be undertaken at the end of March each year.

The Director felt that the risks to the Council were best managed under the current arrangements, particularly for the larger items such as wheeled bins whose stock levels were checked prior to being wrapped and stored for the winter. It was recognised that a stock take at the end of the financial year was essential to assist in the process of closing down the Council's accounts for the year and it was proposed that a preliminary count of the stacks should be made in March to check for any gross errors. Should a major discrepancy be discovered then a further full stock take would be undertaken.

The Director added that a stock take of the smaller items was undertaken more frequently throughout the year, and the chief Internal Auditor confirmed his satisfaction with the new arrangements.

RESOLVED:

- (1) That the value of wheeled bins at the last stock take in October 2009 in the sum of £279,176 and the value of blue boxes and sacks at the last stock take in October 2010 in the sum of £70,650 be noted;
- (2) That the annual detailed stock take of wheeled bins and other assets stored at North Weald Airfield was undertaken in October each year prior to the winter period be noted;
- (3) That a supplementary stock take of wheeled bins and other assets stored at North Weald Airfield would be undertaken as at 31 March each year in order to inform the preparation of the Council's final accounts be agreed; and
- (4) That the costs associated with the provision of covered secure storage for wheeled bins and other assets stored at North Weald Airfield be further investigated.

39. MID-YEAR REPORT ON TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS 2010/11

The Principal Account presented the mid-year report on Treasury Management and Prudential Indicators for the 2010/11.

The Principal Accountant reported that the mid-year treasury report was a requirement of the CIPFA Code of Practice on Treasury Management and covered the treasury activity for the first half of year in 2010/11. During this period, the Council had: changed its treasury advisors from Butlers to Arlingclose on 1 May 2010;

rephased its capital programme whereby £3.533million had been moved out of 2010/11 into future years; the Council had remained debt free and no borrowing had occurred; the average net investment position had been approximately £50.9m; and there had been no breaches on any of its prudential indicators.

The Principal Accountant added that the reduction in usable capital receipts was a financial risk for the Council and had been included in the Council's Corporate Risk Register. The risks associated with the Council's Treasury activities were:

- (i) that a counter party would go into liquidation - the Council's counterparty lists and limits were regularly updated by the Council's treasury advisors;
- (ii) that funds would not be available for the Council to finance its on-going activities – a number of instant access accounts were maintained to ensure adequate cash reserves were available; and
- (iii) that interest rates would fluctuate – the view of the Council's treasury advisors was that interest rates were unlikely to change significantly in the short to medium term.

With respect to the Council's investment in the Heritable Bank, a further 6% dividend had been received from the Administrators, who anticipated a final dividend to investors of 85% of the value of their original deposits. As part of the Government's plans to reform housing finance, the Council was expecting an allocation of approximately £180million of debt; the Council would have to borrow to finance this debt, but current models indicated that the Housing Revenue Account had the resources to repay the debt and accumulate substantial balances in the longer-term.

The Chairman stated that the management of liquidity was not an exact science and the report had been very helpful in illustrating how the financial risks for the Council were being managed. The current situation was unusual in that short-term investments were offering a better return than long term investments. The Committee felt that it should only be concerned with the management of risk, and that it was a political decision as to whether the levels of investments were correct for the Council at any given moment.

RESOLVED:

- (1) That the management of the Council's financial risks associated with Treasury Management during the first half of 2010/11 be noted.

40. INTERNAL AUDIT ASSURANCE LEVELS

The Chief Internal Auditor presented a report regarding Internal Audit assurance levels.

The Chief Internal Auditor reported that discussions had taken place at Management Board on 20 October 2010 and the Corporate Governance Group on 27 October 2010 regarding concerns with the current classification structure of internal audit reports, especially those classified as "Limited Assurance". This classification carried with it a number of requirements, including the relevant Director to attend the Audit & Governance Committee to explain and/or defend the classification given. A limited assurance classification would arise whenever there was a breach of Contract Standing Orders or Financial Regulations, irrespective of the nature or severity of that breach and also irrespective of whether in all other respects the audit was

entirely satisfactory. This might give the Audit & Governance Committee the impression that the audit outcome was worse than it actually was.

Whilst it was accepted that matters of serious concern should be raised before the Audit & Governance Committee, the Chief Internal Auditor had reviewed both the priority ratings and assurance levels for audit reports. The reviewed priority ratings and assurance definitions had been attached as an appendix to the report, for the Committee to agree. It was also proposed that the relevant Director would submit a written statement to the Committee on a particular limited assurance audit, which would be presented with the Quarterly Internal Audit Monitoring report. The Director would only then be required to attend a Committee meeting if any recommendations had not implemented as a result of the follow-up review, or if the Committee were dissatisfied with the written submission.

The Committee agreed the revised priority ratings for audit report recommendations, and the revised definitions for each assurance level – full, substantial, limited and no assurance. The Committee recognised that it was an imposition for Directors to attend meetings of the Committee in respect of limited assurance audit reports, however it was felt that Directors should still be required to attend in order to answer any questions that the Committee might have, and that any delay in dealing with a limited assurance audit report could increase the Council's exposure to risk. In addition, the relevant Portfolio Holder should also be requested to attend as well, and a written report submitted by the Director on the scale of the problem and the steps being taken to correct the issue.

RESOLVED:

- (1) That the revised assurance levels for audit reports and revised priority ratings for audit report recommendations be agreed, as attached in the appendix to the report;
- (2) That the following procedures for reporting audit reports with a limited assurance be agreed:
 - (a) the relevant Director to attend the meeting;
 - (b) the relevant Portfolio Holder to also attend if possible; and
 - (c) a separate written report to be provided by the Director outlining the scope of the problem and the steps being taken to resolve any identified issues; and
- (3) That the revised procedures for dealing with limited assurance audit reports be reviewed in due course by the Committee.

41. INTERNAL AUDIT MONITORING REPORT - JULY TO SEPTEMBER 2010

The Chief Internal Auditor presented the Internal Audit Monitoring Report for the second 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 second quarter:

- (a) Substantial Assurance:
 - Household Sales & Leaseholder Services;
 - Decorating Allowances;

- Overtime & Committee Allowances;
 - Car Mileage Claims; and
 - Gifts & Hospitality (Members);
- (b) Limited Assurance:
- Grounds Maintenance; and
- (c) At draft report stage:
- Norway House;
 - Bed & Breakfast;
 - Homelessness Prevention;
 - External Funding; and
 - Key & Local Performance Indicators.

A summary of the recommendations for the limited assurance audit report issued for Grounds Maintenance, along with the comments of the Director of Environment & Street Scene, had been appended to the report. The Audit Plan included six financial and three ICT audits to be carried out the Council's Audit Contractor Deloitte and Touche. These audits would be carried out during the third quarter to ensure that there was no delay in the presentation of reports to the External Auditor by 31 March 2011.

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.

• % Planned Audits Completed	Target 90%	Actual 39%;
• % Chargeable Staff Time	Target 72%	Actual 67%;
• Average Cost per Audit Day	Target £320	Actual £302; and
• % User Satisfaction	Target 85%	Actual 97%.

No User Satisfaction forms had been returned during the first quarter. Officers who had not returned their survey forms were now reminded and forms were being returned.

The Committee requested further comments from the relevant Director on the Outstanding Priority One Actions report if the listed actions were issued with a revised completion date. The Chief Internal Auditor responded that, in normal circumstances, these items were discussed with the relevant Director before the report was issued. The Chief Internal Auditor was also asked to consider the implementation of a 'traffic light system' for all outstanding Priority One Actions.

RESOLVED:

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

- (a) the Audit reports issued between July and September 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 second quarter of 2010/11 be confirmed.

42. BENEFITS SERVICE - IMPROVEMENT PLAN

The Director of Finance & ICT presented a report upon the Improvement Plan for the Benefit Service.

The Director reminded the Committee that the Audit Commission had carried out an inspection of the Council's Benefit Service in January 2010 on behalf of the Department for Work and Pensions. The inspection report was issued in May and presented to the Audit and Governance Committee on 21 June 2010. Following the inspection, a Post Inspection Action Plan was drawn up to address the recommendations in the report, and this report allowed the Audit & Governance Committee to monitor progress against the Action Plan. There had been no significant slippage in the Action Plan and this was reflected in the significant improvement in performance in claim processing. The average time taken to assess new claims had been reduced from 29.45 days in the first quarter of 2010/11 to 19.94 days by the end of the second quarter.

The Director added that, since April 2010, the length of time taken to prepare and submit appeals to the Tribunal Service had averaged at 40 days, which was within the 60 day target set by the Council. However, the Tribunal Service currently had a backlog of appeals and some of the appeals submitted by the Council would not be heard for almost a further twelve months. It was confirmed that the 60-day target set by the Council was both challenging and comparable to the performance of other Councils. The number of benefit fraud cases being investigated should also increase in the future as the team was now fully staffed.

The Committee felt that it was not their role to oversee the improvement process and monitor the progress being made, that was the role of the Finance & Performance Management Scrutiny Panel, but that the Committee should be concerned only with any major risk-related issues that arose. It was felt that the key issue for the Committee was the lack of an Anti-Fraud Strategy, which had not been fully addressed within the report. The Committee requested an update on the Anti-Fraud Strategy for the Benefits Service at their next meeting.

RESOLVED:

- (1) That the progress to date made by the Benefits Service against the Post Inspection Action Plan be noted; and
- (2) That a further report be submitted to the next meeting of the Committee on 14 February 2011 on the Anti-Fraud Strategy for the Benefits Service.

43. ADOPTING INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Assistant Director (Accountancy) presented a report upon the adoption of the International Financial Reporting Standards.

The Committee was informed that, in 2007, the Chancellor of the Exchequer announced that central government would be adopting the International Financial

Reporting Standards (IFRS). The purpose behind this was to increase the degree of consistency across all sectors of the economy when presenting financial information and a reader of financial statements would know that, whatever sector the accounts related to, they would broadly be prepared using consistent accounting standards. The Government and the National Health Service adopted IFRS for financial years beginning on or after 1 April 2009; local authorities were to adopt IFRS for financial years beginning on or after 1 April 2010.

The Assistant Director reported that the impact on shire districts such as this Council was not expected to be significant (i.e. mostly terminology and presentational issues). Some of the more significant changes, such as bringing assets constructed as part of a Private Finance Initiative (PFI) or Public-Private Partnership (PPP) on to the Balance Sheet, tended to be mainly issues for larger authorities such as County Councils and London Boroughs. The Statutory Statement of Accounts (SSA), was currently prepared in line with an annually produced Statement of Recommended Practice (SORP) from the Chartered Institute of Public Finance & Accounts (CIPFA), however from 1 April 2010 the accounts would be prepared in accordance with the recommended practice under IFRS.

In response to queries from the Members present, the Assistant Director added that the Council had been instructed to implement IFRS but there had been no information issued about possible sanctions if the Council declined to comply. In respect of the risks to the Council from the transition, no guidance had yet to be issued on IFRS, but Finance Officers were producing revised statements for the External Auditors to validate early in 2011. If the Council awaited the issue of the guidance then there would be a risk that the Statutory Statement of Accounts would be issued late. There had been no discussion with the External Auditors about a possible increase in their fees for the additional work, but there were no ICT issues as the financial system did not produce the actual statements. The Assistant was confident that the transition would be complete by the new calendar, unless the guidance was issued with significant changes. The Committee requested a further report if there was a significant change in the guidance when it was issued.

RESOLVED:

(1) That, for the presentation of the Council's financial statements, the transition from UK Generally Accepted Accounting Principles (UK-GAAP) to International Financial Reporting Standards (IFRS) be noted; and

(2) That, if the guidance due to be issued by the Government contained significant changes to the International Financial Reporting Standards, a further report be submitted to the Committee on the additional risks to the Council from the implementation of the new standards.

44. ANY OTHER URGENT BUSINESS

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

The Committee requested to be formally advised whenever amendments to the Corporate Risk Register were agreed by the Finance & Performance Management Cabinet Committee.

CHAIRMAN

