

EPPING FOREST DISTRICT COUNCIL COMMITTEE MINUTES

Committee: Audit and Governance Committee **Date:** Thursday, 22 September 2011

Place: Council Chamber, Civic Offices, High Street, Epping **Time:** 7.00 - 10.00 pm

Members Present: Councillors A Watts (Chairman), Mrs M Peddle (Vice-Chairman), C Finn, R Thompson and Ms S Watson

Other Councillors: Councillors K Avey, Mrs D Collins, Mrs M McEwen, J Philip, D Stallan and C Whitbread

Apologies: None.

Officers Present: R Palmer (Director of Finance and ICT), B Bassington (Chief Internal Auditor), I Willett (Assistant to the Chief Executive), P Maddock (Assistant Director (Accountancy)), B Moldon (Principal Accountant), A Hendry (Democratic Services Officer) and G J Woodhall (Democratic Services Officer)

Also in attendance: R Bint, L Clampin and N Jenner (External Auditors)

19. 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.

20. DECLARATIONS OF INTEREST

(a) Pursuant to the Council's Code of Member Conduct, Councillor Ms S Watson declared a personal interest in agenda item 6, Audit & Governance Committee – Membership of Deputy Portfolio Holders, by virtue of being the Deputy Portfolio Holder for Housing. The Councillor had determined that her interest was not prejudicial and would remain in the meeting for the consideration of the issue.

21. MINUTES

Resolved:

(1) That the minutes of the meeting held on 23 June 2011 be taken as read and signed by the Chairman as a correct record.

22. MATTERS ARISING

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

23. AUDIT & GOVERNANCE COMMITTEE - MEMBERSHIP OF DEPUTY PORTFOLIO HOLDERS

The Chairman of the Constitution & Member Services Scrutiny Panel presented a report regarding the membership of Deputy Portfolio Holders on the Audit & Governance Committee.

The Chairman of the Scrutiny Panel reported that the Council's Corporate Governance Group had requested a review of the Constitution of the Audit and Governance Committee to consider the appropriateness of Deputy Portfolio Holders being members. This review had been conducted by the Constitution and Member Services Scrutiny Panel, and the Committee's views were being sought on the Panel's provisional proposals. In reaching its conclusion, the Scrutiny Panel had considered the views of the Council's External Auditor and taken a number of factors into account, including the current lack of clear legislation regarding membership of Audit Committees. The provisional proposals from the Scrutiny Panel were that the terms of reference for the Audit & Governance Committee should be amended as follows:

- (i) Deputy Portfolio Holders should not be debarred from membership of the Audit & Governance Committee, unless they were involved in the Finance portfolio;
- (ii) any conflicts of interest that arose for Deputy Portfolio Holders on the Committee should be dealt with by reference to the Code of Conduct and the declaration of personal or prejudicial interests;
- (iii) the title for Deputy Portfolio Holders should be changed to Portfolio Holder Assistant to more accurately reflect their role; and
- (iv) the new arrangements should be reviewed annually or at any other time if the role of Portfolio Holder Assistant or the terms of reference of the Audit & Governance Committee changed.

The Committee was in general agreement with the view of the External Auditor that it would be preferable for no Deputy Portfolio Holders to be a member of the Committee. However, it was right that no Deputy Portfolio Holder connected with the Finance Portfolio should serve on the Committee and that any other Deputy Portfolio Holder who was also a member of the Audit & Governance Committee should rigorously apply the Code of Conduct in determining any personal or prejudicial interest to be declared. The operation of the Committee should not be compromised by a Deputy Portfolio Holder being a member.

The Chairman of the Committee had a concern about the public perception of the Committee's independence if Deputy Portfolio Holders could serve as members, as some Deputy Portfolio Holders would be more involved in executive decision-making than others. It would be undesirable for a Deputy Portfolio Holder to be a member of the Committee, but the rigorous application of the Code of Conduct would be a safeguard in this respect. To this end, the Chairman supported the idea of implementing the proposed amendments to the Committee's Terms of reference and reviewing the situation after twelve months.

The Deputy Portfolio Holder for Housing, who had been appointed to the Committee for 2011/12, advised the Committee that she had not attended any private meetings of the Cabinet, only those meetings that she would have been entitled to attend as a District Councillor. The Assistant to the Chief Executive reminded the Committee that all Councillors were under a duty to consult with the Monitoring Officer if they felt that

they had an interest which could interfere with their role as a Councillor or Committee member. In addition, the Standards Committee could offer advice to any Deputy Portfolio Holders who were also a member of the Audit and Governance Committee, whilst Senior Officers would quickly become aware if any Deputy Portfolio Holder was taking a more active role in decision-making.

In relation to the report considered by the Committee from the Constitution & Member Services Scrutiny Panel, the Chairman suggested that the Committee should undertake a broader review of its structure and operations. The questions to be considered could include:

- Should the Committee have a majority of Independent Members?
- Was five the right number of Committee members?
- Should the Councillors be chosen by the Council, rather than nominated by the political groups as at present?
- Should the Councillors be excluded from the current pro-rata arrangements?
- Should the Committee appoint its own Chairman?
- Should the Audit and Governance roles of the Committee be divided into two separate bodies?
- Should the Independent Members serve a fixed term?

It was felt that, as the Government was currently undertaking a consultation on the future of local public audit, the question of the balance between the number of Councillors and Independent Members on the Committee could wait until that had finished. It was highlighted that the majority of the Committee's work involved complex financial reports, and therefore there was only a relatively small pool of Councillors to choose from for membership of the Committee. Consequently, the appointment of the Councillors should be on the basis of ability, not political considerations. The idea of fixed terms for the Independent Members was also considered worthy of further consideration. The Assistant to the Chief Executive stated there had already been a precedent set with the set-up of the Standards Committee; Independent Members were appointed on fixed terms of three years, and the Committee appointed its own Chairman, which had to be an Independent Member. The Committee agreed to consider a discussion paper at a future meeting.

Resolved:

- (1) That the Committee's general agreement with the proposed changes to the Audit & Governance Committee's terms of reference be noted by the Constitution & Member Services Scrutiny Panel; and
- (2) That a discussion paper regarding the terms of reference, structure and modus operandi of the Audit & Governance Committee be considered at a future meeting of the Audit & Governance Committee.

24. ANNUAL OUTTURN REPORT ON THE TREASURY MANAGEMENT & PRUDENTIAL INDICATORS FOR 2010/11

The Principal Accountant presented the annual outturn report on Treasury Management and the Prudential Indicators for 2010/11.

The Principal Accountant reported that the annual Treasury Management outturn report was a requirement of the Council's reporting procedures and covered the treasury activity for 2010/11. The Council's Treasury Position was originally budgeted to be £50million at the end of the municipal year, but the actual outturn was

£51.6million in balances and reserves. It was confirmed that there were no breaches of Treasury Management policy throughout the year.

The Principal Accountant advised the Committee of the three key risks associated with the Council's Treasury Management function, and how these had been managed throughout the year. There was the risk of a counterparty going into liquidation, but the Council's counterparty list was both prudent and regularly updated by the Council's treasury advisors. There was the risk that cash would not be available to the Council when it was needed, however a number of instant access accounts were maintained and the Director of Finance & ICT had monthly meetings with treasury staff to review the amount of money under investment. Finally, there was the risk of fluctuations in interest rates, but the Council maintained no more than 50% of its investments in variable rate financial instruments, with a minimum of 50% of its investments in fixed rate deposits.

The Principal Accountant added that the Council's Prudential Indicators reduced the risk of counterparties going into liquidation by ensuring money was only invested in highly rated institutions, ensured that the Council kept sufficient funds in instant access accounts to meet its immediate needs, and avoided the Council from losing out on potential investment income when interest rates increased by ensuring that the majority of deposits were for a maximum term of one year only. There was a financial risk to the Council from its capital activity, if the balance of usable capital receipts reduced over the next three years, but the balances on capital receipts and the Major Repairs Reserve were currently higher than expected so the Council had adequate resources in the medium term. The Council was also debt-free and had no underlying need to borrow to finance its capital programme.

The Principal Accountant informed the Cabinet Committee that the self-financing of the Housing Revenue Account was still in progress through Parliament, with a final determination expected in January 2012. At the current time, the Public Works Loan Board was likely to be the cheapest option for the Council to borrow its expected allocation of £181million.

It was suggested that some caveats should have been reported for the Council's Capital activity for the year, as the vast majority of the unspent capital expenditure would have been carried forward to the next municipal year. It was also highlighted that no mention in the report had been made of the Council's likely loss of £250,000 from its investment with the Heritable Bank, and that the report should have included a section on the probable impact of the proposals to make the Housing Revenue Account self financing.

In response to questions from the Members present, the Principal Accountant stated that the Council's Treasury Consultants, Arlingclose, did not merely rely on credit ratings but monitored the markets closely and advised the Council accordingly. The Director of Finance & ICT added that if a counterparty had its credit rating downgraded then the Council would discuss with Arlingclose whether to withdraw its investment or let the loan mature. The Committee felt that there were no further comments to make for consideration by the Finance & Performance Management Cabinet Committee at its next meeting.

Resolved:

(1) That the annual outturn report on Treasury Management and the Prudential Indicators for 2010/11, and the management of the risks therein, be noted.

25. INTERNAL AUDIT MONITORING REPORT - APRIL TO JUNE 2011

The Chief Internal Auditor presented the Internal Audit Monitoring Report for the first quarter of 2011/12, which provided a summary of the work undertaken by the Internal Audit Unit between April and June 2011. The report detailed the overall performance to date against the Audit Plan for 2011/12 and also allowed the Committee to monitor the progress of priority 1 recommendations from previous audit reports.

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

- (a) Full Assurance:
 - Business Plans; and
 - Housing Rent Collection & Arrears.
- (b) Substantial Assurance:
 - Payroll;
 - Corporate Procurement; and
 - North Weald Airfield.
- (c) Limited Assurance:
 - Building Maintenance Depot Stocktake.
- (d) At draft report stage:
 - Housing Benefits;
 - Waste Management and Recycling; and
 - Bed and Breakfast Contract.

The Committee's attention was drawn to the Outstanding Priority 1 Actions Status report, and the Limited Assurance Audit Follow Up Status report. It was also noted that the Audit Plan for 2011/12 had been appended to allow the Committee to monitor progress against the Plan.

The Chief Internal Auditor reported upon the current status of the Internal Audit Unit's Local Performance Indicators for 2011/12:

- | | | |
|------------------------------|-------------|--------------------------|
| • % Planned Audits Completed | Target 90% | Actual 13%; |
| • % Chargeable Staff Time | Target 72% | Actual 70%; |
| • Average Cost per Audit Day | Target £300 | Actual to be calculated; |
| and | | |
| • % User Satisfaction | Target 85% | Actual 86%. |

The Committee noted that there had been a shortfall in the planned audits completed for the first quarter. This was due, in part, to the unavailability of a member of staff on long-term sickness, as well as additional work for the external auditors and the finalisation of the audits previously contracted out to Deloitte. The Average Cost per Audit Day had not been listed as the Chief Internal Auditor was obtaining further information on how to calculate this figure from other West Essex Councils and the other Councils in the CIPFA Benchmarking Club.

With regards to the limited assurance audit for the Building Maintenance Depot Stocktake, the Chief Internal Auditor stated that this was a recurring problem but the Contractor was now managing the depot and had been in discussions with the Council about tightening controls. The Chief Internal Auditor accepted that the audit opinion for North Weald Airfield was not as encouraging as the other two Substantial Assurance audits listed above; the main concern had been that there was not

enough staff to cover the various different roles and consequently the Working Time Directive was being regularly breached.

In response to further questions from the Committee, the Chief Internal Auditor reported that the Internal Audit Unit had never received a score of '1' for its user satisfaction survey; if it did then the relevant Director would be invited to discuss the issues with the Chief Internal Auditor. It was acknowledged that the Internal Audit Unit did tend to get better satisfaction ratings from audits issued with a substantial assurance. The Council had not suffered a significant financial loss from the Building Maintenance Depot, mainly because there were so many items of stock that were under or over stocked that they almost cancelled each other out. The Chief Internal Auditor undertook to review the structure of Appendix 1 (Summary of Audits completed during Quarter 1) to include the potential financial risks to the Council. The work undertaken for the External Auditor was considered 'productive' and had amounted to 40 days in 2010/11.

Resolved:

(1) That the following issues arising from the Internal Audit Monitoring Report for the first quarter of 2011/12 be noted:

(a) the Audit reports issued between April and June 2011 and significant findings therein;

(b) the Priority 1 Actions Status Report;

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

(d) The 2011/12 Audit Plan Status Report.

26. AUDIT OF ACCOUNTS - ANNUAL GOVERNANCE REPORT 2010/11

The External Auditor presented the Annual Governance Report for 2010/11. The report would also be presented to the Finance & Performance Management Cabinet Committee the following week to ensure that the Cabinet Committee were aware of the key issues that had been raised. The Audit was not yet complete but an updated report would be circulated to all members of the Cabinet Committee.

The Committee was informed of the key findings of the report. The Council's key financial systems were considered generally adequate as a basis for preparing the financial statements, however some control weaknesses had been identified in the Housing and Council Tax Benefits system. No material misstatements had been identified from the audit, although some presentational issues of a material amount had been corrected but had had no impact on the Council's reported outturn. One non-trivial but non-material error had been identified, this being £69,000 for the correction of the netting off of the upward revaluation of guest rooms with the impairment charge recognised in the Comprehensive Income and Expenditure Statement (CIES). In addition, the External Auditor also believed that the bad debt provision for sundry debtors had been overstated but this could not be quantified and was not considered material.

The key change for the audit of accounts in 2010/11 was the introduction of a set of financial statements based upon the International Financial Reporting Standards (IFRS). This had resulted in a number of significant changes in accounting practice but the Council had dealt with the implementation of these changes in an appropriate

manner and an early audit of the changes under IFRS had been completed in February 2011.

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. Five recommendations had been identified by the audit and were included in an action plan for the future.

The Committee expressed its concern about the late availability of both the Annual Governance Report and Statutory Statement of Accounts for 2010/11. The External Auditor confirmed that an unsigned copy of the Accounts had been made available on 8 August, the planned start date for the audit, and this had not delayed the start of the audit. Whilst the report did mention the unavailability at times of a key member of staff, there were usually other members of staff available to answer questions; although there were occasions when four or more members of staff were not available. It was accepted that this year's audit was always going to be difficult, due to the introduction of IFRS, and that a deadline of 30 September would always create issues with summer holidays, but some Councils started their audit on 1 July to finish before the school summer holidays whilst other Councils restricted the summer leave that Accountancy staff could take. The audit timetable for 2012 would be agreed before the end of the municipal year.

The Chairman requested that a report be submitted to the Committee concerning the audit timetable for next year to avoid a repeat of the current situation, and that the Accountancy section should discuss with the External Auditors the implications of bringing forward the audit. The External Auditor agreed to provide a report to the Committee's meeting on 9 February 2012 regarding the audit timetable for 2012, whilst the Director Finance & ICT undertook to work with the External Auditors to bring the audit forward such that the Statutory Statement of Accounts would be available for the main agenda of the meeting next year.

With respect to the Cash Flow note, the External Auditor confirmed that the Council had used the tool provided by CIPFA but the note was still considered inadequate in depth and structure. The Committee was requested to confirm that the misstatement of £69,000 in respect of the netting off of the upward revaluation of guest rooms with the impairment charge would not be corrected, which it duly did. The Committee queried the use of the term 'material' as it was not strictly defined within the report. The External Auditor confirmed that the threshold for an error becoming material was approximately £600,000 for the Council, but it would also depend upon the context as well.

The External Auditor reported that the Action Plan arising from the Audit, containing five recommendations, had been agreed with the Council's management and the draft letter of representation, to be signed by both the Director of Finance & ICT and the Chairman of the Audit & Governance Committee, had been attached to the report for information, along with the draft External Auditor's report. The final version of the report would be issued for the Council meeting scheduled for 27 September 2011, and the External Auditor agreed to distribute any further amendments to the members of the Audit & Governance Committee.

Resolved:

(1) That the Annual Governance Report for 2010/11 presented by the External Auditor be noted;

- (2) That any further amendments to the final version of the Annual Governance Report 2010/11, to be published for the Council meeting scheduled for 27 September 2011, be distributed to all the members of the Audit & Governance Committee;
- (3) That a report be submitted to the meeting of the Committee scheduled for 9 February 2012 regarding the audit timetable in 2012; and
- (4) That the non-trivial but non-material error of £69,000 identified for the correction of the netting off of the upward revaluation of guest rooms with the impairment charge recognised in the Comprehensive Income & Expenditure Statement not be corrected.

27. STATUTORY STATEMENT OF ACCOUNTS - ANNUAL GOVERNANCE REPORT 2010/11

The Director of Finance & ICT presented a report regarding the Statutory Statement of Accounts for 2010/11.

The Director reminded the Committee that it had received a report at its previous meeting regarding the changes to the Annual Statutory Statement of Accounts required to comply with the requirements of the International Financial Reporting Standards (IFRS), and that the Accounting and Audit Regulations 2011 had removed the requirement for the accounts to be scrutinised and approved by 30 June each year. The Income and Expenditure Account had been replaced by the Comprehensive Income & Expenditure Statement (CIES), whilst the Statement of Movement on General Fund Balance now formed part of the Movement in Reserves Statement. The Balance Sheet was largely unchanged and the Cashflow Statement was now presented in a more summarised form.

The Director reported upon further changes to critical accounting policies and practices. The value of the Council's dwellings and garages had been reduced by £100million on the Balance Sheet due to a change in the calculation of the vacant possession value. For fixed asset accounting, componentisation had been applied to the value of plant and equipment within the Council's dwellings and Loughton Leisure Centre to ensure that the depreciation charge accurately reflected the different useful lives of components. The treatment of Capital Grants and Other Contributions had also been changed under IFRS.

The Director reported one decision within the Statement that required a major element of judgement, that being the Council's liability to the Pension Fund. The Balance Sheet had indicated that the Council's liability to the Pension Fund had decreased from £56.5million to £46.3million in the past year. The value of the scheme's assets had increased whilst the projected liabilities had also reduced. The inclusion of the £46.3million liability in the Balance Sheet showed the monies that would be owed by the Council if the Pension Fund was to close on 31 March 2011, but this was highly unlikely.

The Director advised the Committee of the unusual transactions that had affected the Statement. A further Value Added Tax (VAT) refund of £700,000 had been agreed in relation to sports tuition for the periods 1 January 1978 to 31 December 1989 and 1 April to 21 July 1994. The consultation document on self-financing for the Housing Revenue Account (HRA) had indicated that assets not related to the Council's landlord function should not be held in the HRA. To this end, commercial assets valued at £16.5million had been transferred to the General Fund. The Council had investments with Heritable Bank when it went into administration two years ago. The

accounts reflected a return of 85p per £1 but the latest update from the Administrators had indicated a return nearer 90p per £1. Finally, the Council had applied to the Secretary of State for capitalisations of its pension fund contributions. In most years, these directions had been granted in their entirety, however the amounts capitalised in 2010/11 were restricted to 38%, this being £451,000 for the General Fund and £211,000 for the HRA.

The Director concluded by stating that no significant adjustments to the Accounts had yet arisen from the Audit, and that no material weaknesses in the Council's system of internal control had been reported hitherto by the External Auditor.

The Assistant Director (Accountancy) reported some further amendments to the Accounts. The Cashflow Statement – Operating Activities had included some items that were not listed in the CIPFA toolkit, namely 'Carrying amount of short and long term investments sold' and 'Proceeds from the sale of short and long term investments'. These entries had now been removed. The entries in the Collection Fund for the collection of Non Domestic Rates and Payment of Non Domestic rates to the National Pool had also been revised.

The Chairman requested that if Members of the Committee had any questions regarding the Statutory Statement of Accounts then they should send them through to the Director of Finance & ICT before 2.00pm on the day before the Council meeting.

Resolved:

(1) That the Statutory Statement of Accounts for 2010/11 be recommended to the Council for adoption.

28. ANY OTHER BUSINESS

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

CHAIRMAN