

EPPING FOREST DISTRICT COUNCIL COMMITTEE MINUTES

Committee: Audit and Governance Committee **Date:** 28 November 2013

Place: Council Chamber, Civic Offices, High Street, Epping **Time:** 7.00 - 8.10 pm

Members Present: A Watts, Ms H Kane, L Leonard, R Thompson and A Jarvis

Other Councillors: D Stallan

Apologies: -

Officers Present: R Palmer (Director of Finance and ICT), B Bassington (Chief Internal Auditor), I Willett (Assistant to the Chief Executive), S Alford (Principal Accountant), R Perrin (Democratic Services Assistant) 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. NEW CO-OPTED MEMBER - MR A. JARVIS

The Chairman introduced a report on the appointment of a new Co-Opted Member for the Committee.

The Chairman reported that an interview panel of three councillors was appointed at the Council meeting on 30 July 2013 to undertake interviews following the public advertisement for the vacant Co-Opted Member position on the Audit and Governance Committee. The Council granted delegated authority to the panel to appoint a preferred candidate following interviews. A number of applications were received and interviews took place in September 2013. The successful candidate was Mr A Jarvis who had considerable experience in Local Government finance. His appointment took effect from 26 September 2013 and will be reported to the Council at its meeting on 17 December 2013.

Resolved:

(1) That the decision of the Appointments Panel to select Mr A Jarvis to fill the vacancy for a Co-Opted Member on the Audit & Governance Committee with effect from 26 September 2013 be noted; and

(2) That the Council be notified of this appointment made under delegated authority at its meeting scheduled for 17 December 2013.

33. DECLARATIONS OF INTEREST

(a) Pursuant to the Council's Code of Member Conduct, Councillor H Kane declared a personal interest in agenda item 9, Review of Overview & Scrutiny, by virtue of having been a substitute member for a meeting of the Overview and Scrutiny Review Task & Finish Panel. The Councillor had determined that her interest was not pecuniary and would remain in the meeting for the consideration of the issue.

(b) Pursuant to the Council's Officer Code of Conduct, B Bassington, R Palmer and I Willett declared a personal interest in agenda item 8, Directorate Restructuring Review, by virtue of being referred to in the Head of Paid Service's report to the Council. The Officers had determined that their interest was not pecuniary and would remain in the meeting for the consideration of the issue.

34. MINUTES

Resolved:

(1) That the minutes of the meeting held on 23 September 2013 be taken as read and signed by the Chairman as a correct record.

35. MATTERS ARISING

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

36. AUDIT AND GOVERNANCE WORK PROGRAMME - 2013/14

The Committee noted their Work Programme for 2013/14.

37. DIRECTORATE RESTRUCTURING REVIEW

The Chairman reported on the recent discussions with the Chief Executive regarding assurance as to the independence of the Council's Internal Audit function under the proposed restructuring of the Council's Directorates.

In these discussions, the Chief Executive had assured the Chairman of the following points:

(i) Internal Audit was (and in the new structure would remain) a critical part of the Council's system of governance and internal control;

(ii) the Chief Internal Auditor would continue to have direct access to the Head of Paid Service, monthly meetings between the Chief Executive and the Chief Internal Auditor would continue and the Chief Executive would still be available for ad hoc meetings called by the Chief Internal Auditor;

(iii) the independence of Internal Audit would not be compromised by the restructure as the Chief Internal Auditor would retain all of the mechanisms currently available to him to address any governance or control issues that were identified; and

(iv) the Internal Audit Plan would still be reviewed by the Head of Paid Service and subject to the existing approval procedures.

The Chief Executive had emphasised that the value of Internal Audit to the Council was appreciated and maintaining the independence of internal Audit was critical to its effective operation. The change simply reflected the Chief Executive's view that the Chief Internal Auditor did not need to report directly to him to maintain the direct access and independence necessary for Internal Audit to perform its function.

The Committee acknowledged that it was important for the independence of the Chief Internal Auditor to be maintained, whilst the Chief Internal Auditor stated that he was satisfied with the proposed restructure and the assurances provided by the Chief Executive.

Resolved:

(1) That the assurances given by the Chief Executive to the Chairman of the Audit & Governance Committee regarding the independence of the Internal Audit Unit under the proposed changes to the Council's Directorate structure be noted.

38. REVIEW OF OVERVIEW AND SCRUTINY

The Assistant to the Chief Executive presented a report from the Overview and Scrutiny Task & Finish Panel on its review of the Council's Overview and Scrutiny arrangements, with particular emphasis on the working relationship with the Cabinet.

The Assistant to the Chief Executive advised the Committee that, overall, the report had concluded Overview & Scrutiny within the Council was constitutionally well established, but the full opportunities it offered to Councillors and the local community to influence the way in which the Council and other organisations worked had not yet been fully understood. The report, which had 28 recommendations in total, was approved by the Overview & Scrutiny Committee at its last meeting for submission to the Council with some minor adjustments.

The Assistant to the Chief Executive highlighted some of the key points from the report. The Review Panel felt that there was a lot of duplication between the work of the Finance & Performance Management Scrutiny Panel and the Finance & Performance Management Cabinet Committee. It was thought that the Scrutiny Panel should concentrate on a broader overview of the budget in future, not the detailed analysis of budget figures as at present. Similarly, the Scrutiny Panel should concentrate its efforts on Key Performance Indicators that were rated as either 'Red' (below target) or 'Amber' (within target tolerance), rather than 'Green' (on target); and the review of individual Indicators should be referred to another Scrutiny Panel if it was considered to be more appropriate.

The Assistant to the Chief Executive stated that there would be better planning of the Overview & Scrutiny Work Programme and monitoring of the Cabinet's Key Decision List. Proposals had also been made to reform the Council's Call-in process, to include a new process of discussion between the Lead Councillor for a Call-In and the relevant Portfolio Holder. The object of this would be to attempt to reach a compromise and avoid the need for a formal meeting of the Overview & Scrutiny Committee to consider the Call-In. Other proposals included the procedure for choosing the Chairman of the Overview & Scrutiny Committee, better liaison between Overview & Scrutiny and the Cabinet, the scrutiny of external organisations, raising the public profile of Overview & Scrutiny, and the training of Councillors in Overview & Scrutiny techniques.

The Vice-Chairman commented that the review had been thorough and welcomed both the problem-solving approach being adopted for Overview & Scrutiny as well as

the emphasis on Member training. Overall, this review would lead to an improvement in Governance procedures. The Chairman agreed that the review would give Overview & Scrutiny a more pro-active role within the Council, and provide better scrutiny of Cabinet decisions. It was felt that the Key Performance Indicators required a thorough review to ensure that the outcomes agreed by the Cabinet were being implemented.

The Assistant to the Chief Executive reassured the Committee that the review had recognised the importance of Member training, and a review of Key Performance Indicators would be undertaken.

The Chairman commented that there appeared to be a potential problem with Member Training, and that this was a Governance issue. To this end, Officers were requested to produce a report detailing the Committees where training was required, the courses available for those Committees and the attendance statistics for those courses. This would allow the Committee to ascertain whether there was a widespread problem or just in certain areas. The Vice-Chairman added that it was appropriate for the Committee to examine whether the effectiveness of Committees was being undermined by a lack of training. The cancellation of the Risk Management training for this Committee was highlighted as a case in point.

The Assistant to the Chief Executive reported that the recent Member Training Day had been very well attended, however other important courses had not been so successful. Some thought had been given recently to 'kick-starting' a Member Training initiative to encourage Members to attend training sessions. One proposal being considered was for the Council to agree that certain courses were to be mandatory for Councillors, whilst another idea was to undertake a skills audit of all Councillors. It was highlighted by the Committee that any mandatory courses would have to be repeated throughout the year to secure the attendance of as many Councillors as possible.

The Housing Portfolio Holder informed the Committee that training on the Council's Planning Protocol had been organised for the week following the next round of Local Elections for any new Members elected to the Council. It was also suggested that the Committee could review previous reports on this subject as background information; the Assistant to the Chief Executive undertook to provide this information to the Committee. It was highlighted that the Council's website listed the training courses attended by each Councillor.

Resolved:

- (1) That the report of the Overview & Scrutiny Review Task & Finish Panel be noted; and
- (2) That a report be submitted to the next scheduled meeting of the Audit & Governance Committee regarding Member Training, and detailing:
 - (a) the Committees where training for Members was required;
 - (b) the courses available for Members to undertake training for their role; and
 - (c) the attendance statistics for the Member training courses organised by the Council.

39. DUE DILIGENCE

The Chief Internal Auditor presented a report on the Due Diligence checks undertaken by the Council before it entered into a contract with a third party.

The Chief Internal Auditor stated that the report had been requested by the Committee, with particular emphasis on the Leisure Management contract and the former Bailiffs contract. The Council's Contract Standing Orders provided for the checks which should be carried out before the Council entered into any contract with a third party, and varied depending upon the value of the proposed contract; i.e. the greater the value of the contract, the more due diligence should be performed. Two separate audits had been carried out on this area during 2013/14, one reviewing Contracts and Procurement Fraud, the other specifically on Housing Service Contracts.

The Chief Internal Auditor reported that a sample of contracts from across different Directorates were reviewed and no evidence of any fraudulent activity was found, although some issues were identified to reduce the risk to the Council. This audit was given a 'Substantial Assurance' rating. A random sample of five Housing Contracts were also examined. The tender processes were found to be accurate and complete, and Due Diligence had been demonstrated for each contract. This audit was given a 'Full Assurance' rating.

In relation to the contract for Leisure Services, the Chief Internal Auditor affirmed that a considerable amount of time and effort had been expended to ensure that the successful bidder was both suitable and met the Council's requirements as close as possible. A review of the process had indicated that Contract Standing Orders were fully complied with and additional work was also carried out. Since the letting of the contract, two Equifax full company reports had demonstrated that the company was financially sound and its financial position was improving.

In respect of the former Bailiffs contract, the Chief Internal Auditor stated that a company had provided bailiff services to the Council since the early 1990's but had undergone at least two name changes with the same Directors in charge. While regular payments were being received nothing appeared to be wrong, however it was discovered that payments made by customers had not been passed over to the Council. No records were found regarding the appointment of this company so it was not possible to ascertain the level of due diligence applied, but all outstanding monies were recovered and the Council had used other Bailiff companies throughout this period. The three companies currently contracted to provide the Council with Bailiff services had all been appointed following a full tender process in accordance with Contract Standing Orders.

The Chief Internal Auditor considered that the Council had a robust set of Contract Standing Orders in place which ensured appropriate due diligence was undertaken in the selection of contractors. Controls were in place to identify errors or omissions, and this provided reasonable assurance concerning the efficient and effective processing of contracts. Training was also provided to ensure that staff were aware of their responsibilities when spending public money.

The Committee enquired about the cost involved in applying due diligence and whether a balance was maintained. The Chief Internal Auditor assured the Committee that the Contract Standing Orders were written such that the higher the value of the contract then the more due diligence was applied during the tender process. The Committee welcomed the report.

Resolved:

(1) That the findings of the report by the Chief Internal Auditor regarding the arrangements for due diligence within the Council be noted.

40. MID-YEAR REPORT ON TREASURY MANAGEMENT AND THE PRUDENTIAL INDICATORS 2013/14

The Principal Accountant (Treasury Management) presented the mid-year progress report on Treasury Management and Prudential Indicators, which covered the treasury activity for the first half of 2013/14, and was a requirement of the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Treasury Management.

The Principal Accountant reported that, during the first half of the year, the Council had continued to finance all capital expenditure from within internal resources. The revised estimate for the Capital Programme during 2013/14 indicated expenditure of £17.62million, which would be financed by capital grants, capital receipts and revenue. The Capital Programme for the five-year period ending 31 March 2018 forecast expenditure of £87.97million, with £6.69million available in usable capital receipts and £3.6million in the Major Repairs Reserve. Therefore, it was considered that adequate resources existed for the Council's Capital Programme in the medium term.

The Principal Accountant advised the Committee that the Council had £51.572million under investment at 30 September 2013, and the average net investment position of the Council had been approximately £57.5million throughout the first half of 2013/14. The Council's investments as at 30 September 2013 had consisted of £30.059million in fixed investments, £11.439million in variable investments and £10.074 in long-term investments. The Council had also received a further dividend from the administrators of the Heritable Bank; the Council had now received 94% of the value of its deposits. It was anticipated that further dividends would not be received until the administration process had been completed.

Finally, the Principal Accountant stated that there had been no breaches of any of the prudential indicators relating to capital activity, and the Council's overall Treasury position. However, the Committee was cautioned that the interest rates for loans, both fixed maturity and equal instalment of principal, were slowly rising.

The Committee noted that the Council was still in a reasonable financial position and that none of the prudential indicators had been breached. However, it was felt that the Council should not get complacent and the situation should continue to be monitored closely, especially with the Council's indebtedness totalling £185million from the self-financing of the Housing Revenue Account.

Resolved:

(1) That the mid-year progress report on Treasury Management and the Prudential Indicators for 2013/14, and the management of the risks therein, be noted.

41. REPORTS FROM THE EXTERNAL AUDITOR

The External Auditor presented two reports to the Committee, the first being the Annual Audit Letter for 2012/13, which summarised the key issues arising from the

audit work during the year, and the second was the Fee Outturn Summary for 2012/13, which set out the final costs of the audit.

In respect of the Annual Audit Letter for 2012/13, the External Auditor reported that the key findings were:

- an unqualified true and fair opinion on the financial statements was issued on 27 September 2013;
- no material misstatements were identified during the audit;
- the net effect of the unadjusted audit differences identified increased the surplus for the year by £116,000;
- an unqualified value for money conclusion was issued on 27 September 2013;
- the Council had implemented proper arrangements to secure economy, efficiency and effectiveness in its use of resources;
- the Annual Governance Statement was not misleading or inconsistent and complied with the relevant guidance from CIPFA/SOLACE;
- the Council's Whole of Government Accounts was below the threshold for a full assurance review;
- the short-form assurance review of the Council's Whole of Government Accounts confirmed that the information for property, plant, equipment and the net pension liability was consistent with the audited financial statements;
- there were improvements noted in the control environment for the 2011/12 Housing and Council Tax Benefit Subsidy claim; and
- although there were fewer errors in comparison to previous years, the claim was qualified in accordance with the mandated approach.

In respect of the Final Fee Outturn for 2012/13, the External Auditor reported that the total fees for audit services was £117,579 – an increase of £400 on the proposed fee. The Scale Fee of £85,329 was greater than the proposed fee previously reported, but this was due to an error in the original calculation made by the Audit Commission. The final fee for the Certification work – expected to be £32,250 – would be reported separately as this work was still in progress.

The External Auditor confirmed that, for the Housing and Council Tax Benefit Subsidy Claim, the overall effect of the identified errors was a net reduction of £200, which was small when set against a total claim value of £45million. The Chairman acknowledged that Grant Certification was always a difficult process, but the implementation of a new system had improved the situation.

The External Auditor also took the opportunity to inform the Committee that BDO also provided services to a partner organisation of the Council, but that this did not generate a conflict with BDO's role with the Council. It was a completely different and separate team advising the partner organisation and full confidentiality would be maintained. The Committee was also advised that the Audit Commission would cease to exist on 31 March 2015, with other – as yet undecided – arrangements beginning on 1 April 2015.

Resolved:

- (1) That the Annual Audit Letter for 2012/13 and the Fee Outturn Summary for 2012/13 issued by the External Auditor be noted.

42. INTERNAL AUDIT MONITORING REPORT - JULY TO SEPTEMBER 2013

The Chief Internal Auditor presented the Internal Audit Monitoring report for the second quarter of 2013/14, which provided a summary of the work undertaken by the

Internal Audit Unit between July and September 2013. The report detailed the overall performance to date against the Audit Plan for 2013/14 and also allowed the Committee to monitor the progress of Priority 1 actions issued in previous reports.

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

- (a) Full Assurance:
 - Bank Reconciliation; and
 - Council Tax Discounts – Fraud Prevention and Detection;
- (b) Substantial Assurance:
 - ICT Access Controls;
 - Business Continuity;
 - Key Performance Indicators;
 - Gifts and Hospitalitys (Members & Officers);
 - Corporate Asset Register; and
 - Private Housing Assistance;
- (c) Limited Assurance:
 - ICT Procurement; and
- (d) No Assurance:
 - None.

The Chief Internal Auditor stated that the Limited Assurance audit report for ICT Procurement concerned the monitoring of expenditure with individual suppliers, inventory control and the incorrect authorisation of an invoice. The Assistant Director of Finance & ICT (ICT) had agreed that the value of orders with each supplier should be monitored over a period of four years to ensure that the thresholds within Contract Standing Orders were not exceeded, and that a greater level of control would be applied to the future purchase of tablet computers, including being listed on the ICT inventory.

The Committee’s attention was drawn to the Outstanding Priority 1 Actions Status report, all of which would be reviewed in follow-up audits, and the Limited Assurance Audit Follow Up Status report. It was also noted that the Audit Plan for 2013/14 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 2013/14:

- % Planned Audits Completed Target 90% Actual 36%;
- % Chargeable Staff Time Target 72% Actual 77%;
- Average Cost per Audit Day Target £245 Actual £217; and
- % User Satisfaction Target 90% Actual 93%.

Aside from ICT Procurement, the only other Outstanding Priority 1 Actions was in connection with debt recovery within Legal Services. The Chief Internal Auditor enunciated that a report had been considered by the Management Board on the terms of reference and membership of the Council’s Debt Recovery Working Party, which would review corporate debt processing.

Resolved:

- (1) That the following issues arising from the Internal Audit Monitoring Report for the second quarter of 2013/14 be noted:

- (a) the Audit reports issued between July and September 2013 and significant findings therein;
- (b) the Priority 1 Actions Status Report;
- (c) the Limited Assurance Audit Follow-Up Status Report; and
- (d) the 2013/14 Audit Plan Status Report.

43. ANY OTHER BUSINESS

The Committee noted that there was no other business for consideration.

CHAIRMAN