

EPPING FOREST DISTRICT COUNCIL

**SECOND ANNUAL REPORT
OF THE
AUDIT AND GOVERNANCE COMMITTEE
2008/09**

1. INTRODUCTION

- 1.1 This is the second Annual Report of Epping Forest District Council's Audit and Governance Committee covering the municipal year 2008/09. The aim of this report is to describe some of the issues that have arisen during the year, in the context of the terms of reference for the Committee and its primary objective to provide independent assurance on the adequacy of the Council's control environment and risk management arrangements.
- 1.2 The purpose of the Committee is to provide:
- independent assurance on the adequacy of the risk management framework and the associated control environment;
 - independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment: and to
 - oversee the financial reporting process.
- 1.3 Membership of the Committee comprises:
- Three District Councillors; during 2008/09 these were Councillors John Knapman (Chairman), Ann Haigh and Antony Watts,
 - Two independent members – Melanie Rickman (Vice Chairman) and Robert Thompson (with effect from 8 February 2009). Mr Thompson replaced Nick Purkis who was an independent member of the Committee up to the date of his resignation on 31 December 2008.
- 1.4 The Audit and Governance Committee is supported by Bob Palmer (Director of Finance and ICT) and Joe Akerman (Chief Internal Auditor), together with administrative support from Research and Democratic Services officers.

2. Establishment of the Committee

- 2.1 Epping Forest District Council established an Audit and Governance Committee in February 2007. Five meetings of the Committee are held each municipal year to enable the business of the Committee to be transacted.

3. Terms of Reference

- 3.1 The Terms of Reference of the Audit and Governance Committee incorporate the following roles and functions for the Committee:
- (a) To consider the effectiveness of the Council's risk management arrangements, control environment and associated anti-fraud and anti-corruption measures.
 - (b) To seek assurances that action is being taken on risk related issues, identified by Auditors and Inspectors.
 - (c) To be satisfied that the Council's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.

- (d) To approve the Council's Internal Audit Strategy Plan, Annual Audit Plan and monitor performance against all associated plans.
- (e) To review summary Internal Audit reports and the main issues arising and seek assurance that action has been taken where necessary.
- (f) To receive an Annual Report from the Chief Internal Auditor.
- (g) To ensure that there are effective relationships between External and Internal Audit, Inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
- (h) To review financial statements, including the Council's Statement of Accounts, External Auditor's opinion and reports to Members, and monitor management action in response to the issues raised by External Audit.
- (i) Review, and challenge where necessary, the actions and judgements of Management, in relation to the Council's Statement of Accounts, paying particular attention to:
 - (i) critical accounting policies and practices, and any changes to them;
 - (ii) decisions requiring a major element of judgement;
 - (iii) the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
 - (iv) significant adjustments resulting from the audit; and
 - (v) any material weakness in internal control reported by the Internal or External Auditor.
- (j) Consider other reports of External Audit and inspection agencies which are relevant to the functions of the Committee.
- (k) For the Committee to meet privately and separately at least once a year with the External Auditor and Chief Internal Auditor.
- (l) To have the right to call any Members or officers of the Council as required.
- (m) To consider performance and best value issues to the extent that they relate to the audit and control environment and risk management issues of the Council.

4. Training of Committee Members

- 4.1 Members of the Council with portfolio or finance responsibilities (and one of the independent members of the Audit and Governance Committee who was appointed after the initial induction training) received a full day of training in June 2008, in order to provide an overview of the role and function of the

Committee. The training covered technical aspects of the work of the Committee so that members were aware of the robust challenge that could be made in respect of the issues to be reviewed.

- 4.2 An experienced trainer from the Chartered Institute of Public Finance and Accountancy (CIPFA) delivered the training, supported by the Director of Finance and ICT and the Chief Internal Auditor.
- 4.3 Mr Thompson (Independent Member of the Committee) attended a half day officer training course on finance and governance at EFDC, to receive background information about the financing of local authorities and the local rules of financial management at the Authority.

5. The Year in Review

- 5.1 This Section of the report outlines the main activities of the Committee over the last Council year (2008/09), each section reflecting the main terms of reference.

Review of Control Environment and Risk Management Arrangements

- 5.2 The Committee reviewed the Council's Annual Governance Statement for 2007/08 and noted that Chief Internal Auditor had stated that satisfactory assurance could be given in respect of the adequacy of the Council's control systems during the year. In addition, all Service Directors had provided assurance statements that appropriate controls were in place during 2007/08.
- 5.3 The Committee received a report on the annual review of the Council's Business and Governance Assurance Framework. The framework reflects the dimensions of the local government role, namely:
 - (i) to provide leadership for and with the community, and engage in effective partnerships;
 - (ii) to ensure the delivery of high quality local services whether directly, in partnership, or by commissioning;
 - (iii) to perform a stewardship role that protected the interests of local people and made the best use of resources; and
 - (iv) to develop local democracy and citizenship.
- 5.4 The Committee noted that the Council has effective processes to deal with many elements of the governance framework, including Financial Regulations, Staff and Member Codes of Conduct, Human Resources policies, financial strategies and the performance management framework. Each element is subject to continuous or periodic review and updated as appropriate. The 'Business and Governance Assurance Framework links these elements and provides evidence that the Council has effective controls in place, as well as providing a mechanism for the continuous review of the Council's governance arrangements.

- 5.5 To assist the Committee's understanding of the issues under review, and to resolve any delays in implementing Audit recommendations, the Committee invites Senior Officers to attend meetings of the Committee, particularly if high priority recommendations from Internal Audit Reports are not implemented in a timely manner.
- 5.6 The Committee expressed disappointment at the increasing number of audit reports issued during the early part of 2008/09 with a limited assurance, and invited the Chief Executive to attend the meeting in November 2008 to discuss these concerns. The Chief Executive stated whilst the number of audit reports issued with a limited assurance was disappointing, it was not entirely surprising, as some of the audit reports issued during the period related to topics that had not previously been subjected to such detailed scrutiny; however, the reports were giving clear recommendations to solve deficiencies in the various systems. The Committee noted that most of these limited assurance audits were at the lower end of the risk scale and did not relate to fundamental finance systems.
- 5.7 The Chief Executive also stated that the Council was undergoing a change of culture to incorporate governance at all levels. All Managers had been encouraged to see themselves as part of the system of internal audit, although it was recognised that this had involved a change of attitude for those areas that had not been audited previously.
- 5.8 The Committee receives regular reports from Internal Audit on matters relating to the Council's internal control and risk management framework. A specific report was received on a lapse in the application of the Council's systems regarding past receipt of gifts and hospitality by a very small minority of Council staff. There was no evidence that this had led to any undue favours being given, however the officers concerned had put themselves in a position whereby they could be perceived to be obligated. The Committee were disappointed at the nature of some of the gifts and hospitality that had been accepted in the past, but welcomed the assurances provided, that such offers were now routinely refused and would be in the future. Assurance was also provided that, following the strengthening of staff and management guidelines across all directorates, the risk of inappropriate decisions on hospitality, and the consequences that could arise from it, had been considerably reduced.
- 5.9 Following concerns about the gifts and hospitality registers for the Planning and Economic Development and Environment and Street Scene Directorates, the Committee directed that full copies of the relevant Registers for 2008 should be made available for inspection by the Committee, and this took place at the meeting in February 2009.
- 5.10 At the meeting in November 2008 the Committee considered a report on the Council's investments following the collapse of a number of Icelandic banks. Loans totalling £2.5m were made to Heritable Bank during September 2008, with repayment dates of May and June 2009. On 7 October 2008, Heritable Bank was placed in administration due to difficulties experienced by its Icelandic parent company. The Committee was reassured that the Council had spread its investments widely to minimise the risk and had not suffered any further defaults, and was currently investing short-term and only with counter-parties listed on investment schemes supported by the Government.

- 5.11 The Committee subsequently received a summary of a report prepared by the Chief Internal Auditor reviewing the circumstances around the Council's investments with Heritable Bank. The review identified that the transactions were effected in accordance with the Council's approved Treasury Management Strategy, and were completed by authorised officers in line with procedures. A number of audit recommendations had been implemented to strengthen controls and improve the internal reporting and supervisory arrangements for Treasury Management.
- 5.12 In March 2009 the Committee considered a report on the effectiveness of the Authority's arrangements for risk management. It was noted that all services are required to include a section on risk in their business plans, with action plans for dealing with risks that are above a tolerance line. A corporate Risk Management Group meets quarterly to discuss risk management issues and to recommend alterations to the corporate risk register to the officer Corporate Governance Group. At Member level, the Finance and Performance Management Cabinet Committee advises on risk management issues and approves updates to the corporate risk register. Having considered these issues the Audit and Governance Committee considered that the Authority's arrangements for risk management were effective.

Monitoring of Internal Audit Performance and Work Plans

- 5.13 At the meeting in June 2008 the Committee scrutinised the review of the effectiveness of the System of Internal Audit undertaken by the Corporate Governance Group for 2007/08, in the context of the Council's Annual Governance Statement. The Committee concluded that the system of Internal Audit had been effective in 2007/08.
- 5.14 During the year the Committee noted the Internal Audit Unit Annual Report for 2007/08 and received regular quarterly monitoring reports dealing with the management of the Internal Audit Unit, and key control issues arising from the audit work undertaken. In considering these reports the Committee was mindful of the need to consider these reports in the context of the adequacy or otherwise of the Council's governance arrangements and the effectiveness of the work of Internal Audit. At the meeting in March 2009, the Committee approved the Internal Audit work plan for 2009/10 following initial consideration at the February meeting. It was noted that the Plan had been consulted upon with the External Auditors, to ensure that the respective work plans were complementary and avoided any unnecessary duplication of work.
- 5.15 The Committee was made aware of management issues arising during 2008/09, and noted an improvement in the previous high level of certificated sickness absence within the Audit Unit. The Committee noted the way in which the work plan was monitored during the year to meet the requirement to complete the audits of the Council's main financial systems to the satisfaction of the External Auditors. The Committee noted an improvement in the achievement of the Team's performance indicators during the year, which had been assisted by the improved sickness levels.
- 5.16 The Committee noted at the meeting in February 2009, that the majority of planned audits, including all of the key audits of financial systems, were due to be completed by 31 March 2009. The percentage of audits completed in 2008/09 was predicted to be 90%, in line with the target for the year, compared to 89%, 82%, and 86% in the preceding three years respectively.

Review of Financial Statements

- 5.17 At the meeting in June 2008, the Committee received a report on the Statutory Statement of Accounts for 2007/08. The Accounts and Audit Regulations require the Council to adopt the Statutory Statement of Accounts before 30 June each year. This task is reserved for the Council, however it is important that the Accounts are subjected to robust member scrutiny, which is performed by the Audit and Governance Committee.
- 5.18 The Committee submitted a number of questions on the detailed accounts and also queried the need for the Council to maintain considerable revenue and capital reserves. In response the Portfolio Holder for Finance and Performance Management accepted that the reserves were relatively high but felt that this was a prudent measure given the current economic uncertainty.

Relationships between Internal and External Audit

- 5.19 At the meeting in June 2008 the Committee received a presentation by the Authority's External Auditors (PKF (UK) LLP) on the combined Annual Audit and Inspection Plan for the Council for 2008/09. The Plan had set out the work that the External Auditor intended to undertake during 2008/09, based on a risk-based approach to planning and the requirements of the Comprehensive Area Assessment. The External Auditors advised the Committee that the key audit risk areas that had been identified were the implementation of the Council Tax and Benefits modules of the new Revenues and Benefits computer system, and the partnership working arrangements for tackling Health Inequalities within the District. The External Audit coverage for 2008/09 would also include a review of the core financial systems used to prepare the Council's accounts to 31 March 2009. In the latter context the 2008/09 audit had also been planned on the basis that PKF would be able to place full reliance upon the work of the Internal Audit Unit.
- 5.20 The Committee noted that the total audit and inspection fee was expected to be £139,569, which would be a reduction from the previous year due to the removal of the Best Value Performance Plan audit, and that no detailed inspection would be undertaken in 2008/09. At the meeting in February 2009, however, the Committee was requested to approve an additional audit fee of £26,120 for the 2007/08 audit of the Council's accounts following difficulties that had been encountered during the audit. The Committee noted that in calculating the additional fee the External Auditor had borne part of the additional costs. The Committee, in agreeing to the request, expressed concern that this situation had arisen, and noted an assurance from officers that improved processes had been put in place for the future to produce the working papers required by the External Auditor. An additional £11,120 was requested for grants work due to changes in the audit approach required by the Department of Work and Pensions and the Audit Commission.

Review of External Audit Reports

- 5.21 At its meeting in September 2008 the Committee received a report from the External Auditors on the Annual Governance Report for the Authority for 2007/08. The report had been prepared for presentation to the Committee in accordance with the requirements of International Standards on Auditing 260

– Communication of Audit Matters to those Charged with Governance – and related to the audit of the financial statements. The Committee were informed that it was intended to issue an unqualified audit opinion in respect of the financial statements by the statutory deadline of 30 September 2008. It was concluded by the External Auditors that the Annual Governance Statement had been prepared in accordance with the guidelines issued by CIPFA and was consistent with the findings of the audit.

- 5.22 The Committee also received the Audit Commission's Systems and Accounts Audit Memorandum, the objective of which was to provide an opinion as to whether the Council's financial statements present fairly the Council's financial position and have been prepared in accordance with CIPFA's Statement of Recommended Practice (SORP). It was noted that the majority of the key financial systems were adequate as a basis for preparing the financial statements. However, there were significant control weaknesses discovered in both the income and debtors system, and the creditors and payments system, which resulted in additional substantive testing to mitigate the risk of material misstatement having occurred in the accounts. Recommendations to improve the control environment in both systems had been made and agreed. For the Statement of Accounts, no material errors had been identified but a number of non-material errors had been identified and corrected.
- 5.23 For the Value for Money conclusion, the External Auditor reported that the management arrangements in place for data quality were considered adequate, and that an unqualified opinion on the Best Value Performance Plan 2007/08 had already been issued. It was expected that an unqualified Value for Money conclusion would be issued. The cooperation and assistance provided by the Council during the course of the audit was acknowledged, and reliance had been placed on the work of the Internal Audit Unit.
- 5.24 At the meeting in November 2008 the Committee received a report on the Audit Commission Inspection of the Waste Management Service, undertaken in May 2008. The Inspectors had interviewed a wide range of Officers, Members and colleagues from partner organisations and agencies. The final report had been published in late August 2008 and its key findings were:
- recycling performance had been high; and
 - a wide range of recyclable materials had been collected; but
 - the service was "Fair" with "Uncertain Prospects" for improvement;
 - the service costs were comparatively high;
 - the overall weight of waste collected was not reducing;
 - accessibility should be improved; and
 - the Council's overall environmental performance was poor.
- 5.25 The Committee noted the view of the Director of Environment and Street Scene, that the judgement was harsh and did not properly reflect the true position. Officers had felt that the Council had demonstrated a clear commitment to improve, had made resources available, and shown an improving service and performance. The Committee noted the action plan agreed as a result of the Inspection, and subsequently agreed the monitoring arrangements at the meeting in March 2009.

- 5.26 At the meeting in March 2009 the Committee noted the Council's results in respect of the External Auditor's annual Use of Resources Assessment for 2008, including the key findings and conclusions, and the improvement opportunities identified in the Auditor's report. It was noted that the Authority's overall score had been maintained at 3 out of 4 (performing well). The Committee was advised that the Council takes account of the Auditor's feedback in relation to its use of resources, to inform service development and improvement, and future plans and priorities. The Committee also considered the External Auditor's annual review of the Council's data quality, and noted that overall, the Council's management arrangements for securing data quality were also scored at 3 out of 4 and assessed as performing well.
- 5.27 At the meeting in March 2009 the Committee also considered the Annual Audit and Inspection Letter for 2007/08. The key messages were that the Council was making progress in achieving its priority objectives. Performance improved in some priority areas, such as community safety and decent homes. However the Committee expressed concern that the overall rate of performance improvement was below average. The Committee noted that the Council has a clear and effective commitment to partnership working, is taking action to deliver on its priority of economic prosperity, and has acted to support local business through the recession. The External Auditor's report drew attention to improvements in the waste collection and recycling service, but this was against a background of a lack of clear strategy and uncertain prospects for future improvement at the time of the inspection in April 2008. There was also concern regarding the time taken to process new housing benefit claims.

Review of Performance

- 5.28 As part of the Audit monitoring process the Committee became aware previously that not all Service business plans are available by 1st April each year. The possible reasons for this were explained, and included delays caused by the finalisation of the budget. The Committee felt that it was good business practice to have a finished business plan in place for all Services by the start of each financial year, and that the relevant Portfolio Holder should sign them off. The Committee therefore requested an Audit report on any plans that had not been completed within the required timescale in the future, and invited a Service Director to attend the Committee to explain why the timescale had not been met.

6. Concluding Comments

The Council's Local Code of Governance defines good governance in the context of a set of principles, which focus on the systems and processes for the direction and control of the Council, and the way in which it accounts to, engages with and leads the community. The work of the Audit and Governance Committee in 2008/09 made an important contribution to raising the profile of internal control issues across the Council and providing assurance through a process of independent review.

Any Member or officer of the Council who has concerns about audit and governance issues, can approach the Director of Finance and ICT, Chief Internal Auditor, or any member of the Audit and Governance Committee, who can offer advice related to any aspect of the Committee's work.