

**PERFORMANCE SELECT COMMITTEE held at COUNCIL OFFICES
LONDON ROAD SAFFRON WALDEN at 7.30 pm on 27 JULY 2010**

Present: Councillor H S Rolfe - Chairman
Councillors S Barker, R M Lemon, J Salmon and P A Wilcock.

Officers
in attendance: R Auty (Head of Community Engagement),
S Bronson (Audit Manager), S Joyce (Chief Finance
Officer), J Mitchell (Chief Executive), P Morrison
(Business Improvement and Performance Officer) and R
Procter (Democratic Services Officer).

Also attending: Gary Belcher and Debbie Hanson - Audit Commission.

PS10 **APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST**

Apologies for absence were received from Councillors A J Ketteridge, T P Knight, R D Sherer and A C Yarwood.

Councillors S Barker and P Wilcock declared a personal interest in matters relating to the Local Government Pension Scheme.

PS11 **MINUTES**

The Minutes of the meeting held on 22 June 2010 were received, approved as a correct record and signed by the Chairman.

PS12 **MATTERS ARISING**

(i) **PS4 – Statement of Accounts 2009/10 Landsbanki**

The Chief Finance Officer confirmed no further developments had taken place on the situation regarding the Icelandic banks since the Committee's last meeting.

(ii) **PS4 – Statement of Accounts 2009/10 Pension Fund Deficit**

The Chief Finance Officer referred to the Committee's request that a representative from Essex County Council should be invited to the September meeting to answer questions on this subject. Unfortunately, due to a conflicting commitment on the same date, no County Council representative would be available.

Members were disappointed that no County Council representative would be attending but accepted the suggestion of the Chief Finance Officer that information based on a set of questions for County be brought before the Committee.

(iii) **PS9 – Quarter 4 Outturn and Performance 2009/10**

The Chief Executive reported that a total of 69% of performance reviews had been carried out this financial year, and remaining appraisals would be completed in good time. Members were pleased with this progress. The Chief Executive said the process of staff appraisals was to be revisited and questions on this subject had been included in a recent staff survey.

PS13 **AUDIT COMMISSION PROGRESS REPORT**

Debbie Hanson presented a report summarising progress against the audit plan for 2009/10. She said no instances of significant control weaknesses had been identified.

The Chairman said this was a pleasing interim assessment which reflected well on officers, and the Committee noted the report.

PS14 **AUDIT COMMISSION FEES**

Debbie Hanson presented a report summarising planned fees for audit and inspection work for 2010/11. The report included a comparison of audit fees against other councils in Essex, and indicated how the Council could reduce fees in future.

Debbie Hanson said the general trend was that fees were reducing. Whilst external auditors could not direct the work of internal audit, discussions had taken place with the Internal Audit team regarding controls, which could contribute to improved efficiency. She emphasised it was not within the Audit Commission's remit to determine which controls the internal audit team should select.

The Chairman noted the Audit Commission intended no criticism of internal audit. He asked how the work of internal audit should be re-aligned, and invited the Chief Finance Officer to comment.

The Chief Finance Officer said he did not have management responsibility for internal audit, as this responsibility came within the remit of the Assistant Chief Executive. Members expressed disappointment that the Assistant Chief Executive was not in attendance to comment on the report.

The Chief Finance Officer explained the relationship between internal and external audit, from his perspective. He was consulted by internal audit in terms of the council's financial programme. Since internal audit had a complementary role to external audit, it would have a different focus.

The Chief Finance Officer said whilst he appreciated the detailed analysis provided by the Audit Commission, there was a risk of losing the big picture, as the total amount of the audit fee had gone up over the last three years despite much improvement within the Council. In his view it did not seem right that this should be the case. This comment related to the national framework, and not to its local application, as officers had a good relationship with Debbie Hanson and her team.

The Chairman asked the Internal Audit Manager how internal audit could be re-aligned with external audit, in order for their fees to be reduced.

The Internal Audit Manager explained the audit plan was discussed with external auditors in advance, but the Audit Commission's priorities had changed. Consequently, internal audit had tried to match these areas more closely, but were to some extent constrained by resources. Following meetings with the external auditors, it had been agreed to focus initially on key financial areas. Whilst officers were trying to work as closely as possible with external auditors, there were intrinsic differences in methodology.

Councillor Wilcock asked how much could be saved if the two audit systems were fully aligned. He pointed out the proportion of central government funding taken up by the external audit fee was approximately 3%, which in view of the current requirements on public bodies to reduce their services, seemed high.

Councillor Barker expressed surprise that the internal audit charter did not refer in more detail to the need for alignment with the external audit work.

Action: the Chairman asked the external auditor for a report to be brought to the next meeting identifying which systems of internal control the Audit Commission planned to test in 2010/11 and the respective controls which would be tested as a result, with a view to determining whether internal audit could accommodate the testing in their work programme and identify areas for reducing audit fees. He hoped the Committee would not need to re-visit the issue subsequently.

The Internal Audit Manager referred to distinctions to be made between internal and external audit, and to CIPFA guidelines requiring the independence of internal audit. She said she took issue with some of the descriptions applied to internal audit in the Audit Commission report. The Chairman referred to the earlier qualification of such comments by the external auditor, which would be minuted.

Action: the Chairman asked that the response of internal audit be set out in the report for the next meeting.

The Committee then considered the information provided on Audit Commission scale fees across other Essex authorities. Members queried how the scale fee was applied in view of the fact that some authorities had not retained their housing stock and were much smaller than Uttlesford.

Debbie Hanson said guidance on fees was available on the Audit Commission website. She gave an explanation of how fees were determined. She said there was a trend for fees to decrease, and the increase in Uttlesford's fee related to the inspection element. She circulated an additional table comparing the variable element of the fee for Uttlesford with other Essex councils, which showed that Uttlesford did not have the highest variable fee.

Councillor Barker said what these figures illustrated was that the same fixed element was applied, regardless of the size of a council.

Action: the Chairman noted no response had been received to the letter to Eric Pickles MP, and asked that a further letter be sent, in more robust terms, referring to the fixed fee element as an issue which the Council felt unfair.

Debbie Hanson commented that even for a small council, the fixed fee represented what was required to conduct external audit, and it was the variable element which would reflect the size of the authority. The Chairman said whilst Uttlesford did not have the largest fee, he felt it should be doing better than this. Councillor Wilcock said it should be emphasised that this was not a local but a national issue.

The Chairman said that in the letter already sent to the Secretary of State a comparison had been made with the external audit fee for a hospital. Debbie Hanson explained such bodies were subject to a different accounting regime, and as local government was less prescribed in its functions, there was wider scope for audit. The Chairman thanked her for this explanation but reiterated his concern that the fee seemed disproportionate to the size of the organisation.

The Committee then considered the fee to be charged to the Council. The Chief Finance Officer said as the fee was agreed before the Use of Resources regime was abolished, he would expect it to be re-visited.

Debbie Hanson confirmed the fee would be reviewed as a matter of course in light of the 2009/10 audit. Regarding use of resources, this work had already been completed and was necessary to the value for money conclusion. A report would be brought to the Committee in September as part of the Annual Governance Report.

Councillor Wilcock questioned why it was that risk arising from changed work priorities should be picked up by this council rather than the Audit Commission.

The Chief Finance Officer said the auditors were still required to express an opinion on value for money, and the work was still relevant. It was not this fee, but the fee arising from publication of use of resources scores which in his opinion needed to be re-examined.

The Chairman said he was grateful to the Audit Commission for an honest and open report, and the Committee noted the report.

PS15

CERTIFICATION OF CLAIMS AND RETURNS

Gary Belcher presented a report on the Council's management of income from government grant-paying departments. The Council received more than £19 million in funding from various departments, which attached conditions to those grants. The Council needed to demonstrate that it had met those conditions.

The report found the Council's arrangements for preparing grant claims had improved significantly compared to previous years.

The Chairman noted it was recommended there was still scope to reduce the amount of fees for claims certification work, but that the Council was moving in the right direction.

Councillor Barker asked the Chief Finance Officer to explain the reasons for a discrepancy between the National Non Domestic Rates contribution and the final accounts working papers. The Chief Finance Officer said this outcome was attributable to the fact that different teams had compiled the accounts and the NNDR, and had not liaised effectively. However, this situation had been corrected, and he was pleased to report this year the two figures tallied to within a few pence.

The Committee noted the report.

PS16

AUDIT COMMISSION NATIONAL STUDIES

The Committee considered the report of the external auditor providing a summary of recent national studies by the Audit Commission.

The process by which the Council analysed and disseminated such reports was discussed in some detail. The Chief Finance Officer said he received all such reports, and ensured appropriate action was taken in accordance with the advice they contained. However, most of these studies were relevant only to upper tier councils. The Chief Executive suggested Members could be provided with copies via the Members' Room, or by accessing the Audit Commission website. Debbie Hanson offered to provide Members with examples of executive summaries to give Members a flavour of the type of information available.

Action: the Chairman concluded a link to such reports could be included in the Members' Bulletin.

PS17

QUARTER 1 PERFORMANCE

The Business Improvement and Performance Officer presented a report on performance data for 2010/11 for Quarter 1 for all national and corporate indicators.

The Chairman questioned the need for background information to be included in reports. The Chief Executive explained this was a corporate template, and if such information was not provided as a routine it was likely then to be requested in any event.

The Committee considered indicators which were more than 10% off target.

CI 30 Procurement Strategy Action Plan

Members were pleased that a new procurement manager was to commence on 16 August. The Chief Finance Officer said he expected the procurement

action plan to be back on track by the end of the financial year. The implementation of technology would take place on 4 October.

CI 31 Asset Management

The Chief Finance Officer said unfortunately the partnership arrangement with Basildon had fallen through, and he was now exploring alternatives.

The Chairman said it was no criticism of officers that the partnership arrangement had broken down, but establishing a plan for the short term was a priority.

The Chief Finance Officer outlined options available to the Council, and after discussion, Members agreed their preferred option was to engage a locally based consultant. The Chief Finance Officer assured Members that funds were available as money from Improvement East had been earmarked, and the Council had approved a new budget of £20K in the current financial year.

Action: the Chairman asked for an update to be given at the September meeting.

CI 48 Percentage of vacant commercial premises

Members felt it would be useful to have more detail on this indicator, and asked how many properties were not paying full business rates. A suggestion was made to refer to Scrutiny Committee the question of how many properties remained empty, and the reason for this. The Chief Executive advised deferring action for the next quarter, as this was a new indicator and it could be examined in more detail if the status continued to be red.

CI 36 Anti Social Behaviour strategy action plan

Councillor Wilcock noted this indicator was on target, but questioned what was being measured, since although a strategy had been put in place, no actions had been taken. The Chief Executive replied this was a question of adjusting the profiling of the indicator, which would be addressed for the next report.

The Chairman thanked officers for a clear and concise report. Members were pleased that 75% of indicators were green, and in particular officers should be congratulated for excellent status levels for sickness absence and planning applications indicators.

PS18

QUARTER 1 CORPORATE RISK REGISTER

The Committee considered a report presenting the Council's revised corporate risk register and setting out quarter 1 status details for all identified risks.

The Head of Community Engagement said the register represented the culmination of a great deal of work over the last year, and had benefited from much input both from Councillor Yarwood and a risk management consultant from Zurich. This was the first time the new register had been submitted to the Committee, although it had been seen in advance by Councillor Yarwood, who helped develop the actions and scoring. The Head of Community Engagement invited Members to comment on the document.

Members were content with the presentation of the report, and a suggestion was made by the external auditor to include direction of travel against each risk.

Members made various comments on particular risks, as follows.

10-CR-PAR 05 Limited access to affordable sport, leisure and cultural activities

Erroneous figures had been listed under target impact and likelihood, which would be corrected.

10-CR-ENV-05 Potential increase in environmental crime

Councillor Barker was concerned at the absence of prosecution systems for environmental crime. Councillor Wilcock said changing people's attitudes would be more successful than enforcement.

Action: the Chairman asked that advice be obtained on enforcement of the law in this area.

Officers confirmed operational risk registers for each division had been prepared, to be submitted to the Strategic Management Board for approval. Members enquired whether any 'red' risks should be brought before this Committee. Officers explained the operational risks fed into the corporate risks registers, and were therefore picked up in this way. The Chief Executive assured Members that if operational risks appeared to be serious or systemic, they would be referred to this Committee.

Councillor Lemon asked about imposing fixed penalty notices on travellers in Hatfield Heath. The Chief Executive said this measure required knowledge of the name and address of an offending party.

The Chairman proposed spending more time at the next meeting on the subject of mitigating actions. He thanked officers and asked for the Minutes to record the Committee's gratitude to Councillor Yarwood for his contribution to the report.

PS19

INTERNAL AUDIT STRATEGY, CHARTER AND TERMS OF REFERENCE

The Committee considered a report on the review and updating of the internal audit charter and terms of reference and the internal audit strategy 2010/11. The Internal Audit Manager said the charter included a general explanation of

working with the external auditors but the internal audit strategy included a detailed breakdown of the key financial audits and made specific reference to the fact that this work was given the highest priority in the audit plan.

Councillor Barker asked for clarification of points of contact for reporting suspected fraud. Officers confirmed the four points of contact advertised externally and internally for the reporting of fraud were the Chief Finance Officer, Chief Executive, the Assistant Chief Executive and the Internal Audit Manager, but that in all cases allegations were also forwarded to the Internal Audit Manager.

The Chairman commented that all measures referred to in the charter were process rather than effectiveness measures. The Internal Audit Manager said all indicators had been agreed across local authorities. The Chief Executive said the test of effectiveness was the percentage of recommendations the organisation implemented.

RESOLVED to approve the internal audit charter and terms of reference, and the internal audit strategy 2010/11.

PS20

INTERNAL AUDIT PROGRESS REPORT

The Committee considered a report on internal audit progress, on which the Internal Audit Manager gave a further verbal update. She said there were now 5 recommendations at draft report stage. Further to the review and amendment of the 2010/11 internal audit plan referred to in the report, she said this would be a major review, as residual 2009/10 audit work had taken longer than anticipated, and to reflect potential changes following discussions with the Audit Commission. The Chairman noted circumstances had changed, and said a realistic plan would be needed for next year.

The Committee was directed to the appendix of the report, which showed a higher than usual percentage of level 4 risks. Of these, the only one which gave cause for concern was the risk relating to asset management, which had been discussed earlier.

Councillor Barker was disappointed that there were reiterated items dating from 2008/09. She said if officers agreed a recommendation then a realistic timetable should be set.

The Chairman invited the Committee to consider each of these audit areas in turn. Members expressed disappointment regarding lack of progress in audit areas which did not depend on external factors.

The Internal Audit Manager reported that 3 recommendations from 2008/09 which were in progress had now been implemented.

PS21

ANTI-FRAUD AND CORRUPTION WORK

The Committee considered a report on anti-fraud and corruption work. The Chairman said it was routine for organisations to have a policy on this subject.

The Internal Audit Manager highlighted various areas of the report, and in particular referred to the Housing Benefit matching service. She said data matching exercises were carried out by the Department of Work and Pensions regarding Housing Benefit claims. This information was intended to be processed by the enforcement team, but had unfortunately lapsed for a time. A new enforcement team leader was now in post, and new reporting systems were being put in place.

Action: the Chairman offered to supply officers with a work plan used by the anti-fraud manager at the Hospital Trust of which he was a member. He said anti-fraud training was of interest to the Committee, and it was pleasing to note the organisation would be monitoring this area.

The meeting ended at 9.05pm.