

**PERFORMANCE AND AUDIT COMMITTEE held at COUNCIL OFFICES
LONDON ROAD SAFFRON WALDEN at 7.30 pm on 22 JULY 2014**

Present: Councillor S Howell – Chairman.
Councillors K Eden, M Felton, A Ketteridge, E Oliver and J Parry.

Officers in attendance: J Mitchell (Chief Executive), R Auty (Assistant Director Corporate Services), S Bronson (Internal Audit Manager), C Canbolat R Dobson (Principal Democratic Services Officer), A Knight (Acting Assistant Director – Finance), and A Webb (Director of Corporate Services).

Also present from EY – Isobelle Thomas (External Auditor).

PA13 APOLOGIES FOR ABSENCE AND DECLARATIONS OF INTEREST

Apologies for absence were received from Councillors K Artus, D Jones and A Dean.

PA14 MINUTES

The minutes of the meeting held on 15 May 2014 were signed by the Chairman as a correct record.

PA15 BUSINESS ARISING

i) Minute PA5 – Annual Audit and Certification Fees

The Chairman asked for an update on the qualification letter. The Director of Corporate Services said a response from the DWP was still awaited.

ii) Minute PA8 – Performance and Audit Self Assessment 2013/14

The Assistant Director Corporate Services said he was arranging the training programme for the Committee. It was agreed to schedule training for 7pm on 16 October.

iii) Minute PA12 – Urgent Business

Councillor A Ketteridge referred to the recent Council meeting. He said he wished to distance himself from Councillor D Watson's remarks about the responsibilities of the section 151 officer. He asked that the committee

also distance itself from these comments. Whilst the committee had a duty to the public purse, such comments were wrong.

Councillor Oliver said Mr Webb had been the section 151 officer before Mr Joyce joined the Council, and had played a role in resolving the difficult circumstances the Council faced at that time.

The Chairman agreed that the comments were unwarranted. He had total confidence in Mr Webb as section 151 officer.

Members expressed support for Councillor A Ketteridge's request.

PA16

EY AUDIT COMMITTEE BRIEFING

The Committee considered a briefing report from EY.

Councillor Eden asked what difference a significant change in interest rates would make.

The Specialist Accountant (Collection Fund and Treasury) said that of the Council's £88m borrowing for housing, £10m was on a variable rate, so a rise in interest rates would have a direct bearing on the Council's borrowing.

The Director of Corporate Services said he would circulate to members the initial modelling for this borrowing as this had addressed the implications of interest rate rises.

The Chairman asked a question about the role of fraud investigators for the local authority.

The Director of Corporate Services said that previously the Council had one officer employed in reporting on benefit fraud, who had been based within the enforcement team. Following his retirement in June that post would move to the Revenues and Benefit team.

The Committee noted the report.

PA17

DRAFT ANNUAL GOVERNANCE STATEMENT

The Audit Manager presented a report seeking the Committee's approval of the annual governance statement published to complement the Council's financial accounts for 2013/14.

The Chairman said the Committee played a stringent role in governance. He asked about the level of complaints against councillors.

Councillor Eden, as a member of the Standards Committee, said these figures included complaints against parish or town councillors and that this level was not a matter of concern.

The Committee noted the significant challenge in undertaking the internal auditing of the North Essex Parking Partnership. Significant control and governance issues had been identified, as responsibility for the internal audit had been outsourced to Deloitte by the lead authority for the Partnership, Colchester Borough Council, and access to internal audit work and reports to the other partners in the NEPP was restricted. Officers were working with partner internal audit teams to enter into protocols and access to the NEPP computer systems had now been given to the council's Internal Audit section.

Councillor Eden said there were issues with parking in Saffron Walden regarding parking ticket machines which were out of order, and parking officers issuing penalty tickets whilst people were trying to obtain tickets. He was concerned that sufficient local control be retained and that commercial aspects should be monitored.

The Chairman suggested that local parking issues were submitted to the Chairman of the Scrutiny Committee. He said the Performance and Audit Committee was keen to ensure the financial robustness of the NEPP.

The Director of Corporate Services said he had received an email from Saffron Walden Town Council about one of the matters Councillor Eden had raised, which he would discuss further.

The Committee noted the report.

PA18

2013/14 DRAFT STATEMENT OF ACCOUNTS

The Director of Corporate Services presented the draft statement of accounts for 2013/14. He said he wished first to thank members for their earlier comments.

On behalf of the whole team responsible for the preparation of the Draft Statement of Accounts the Director of Corporate Services said he wished to make a short statement. He said he had in 2007 been appointed section 151 officer with Angela Knight, now the Acting Assistant Director – Finance, as his deputy. They had inherited a qualified audit opinion. Ms Knight had at that time prepared the accounts almost single handed, and the accounts now before the Committee were the work of Ms Knight and her team. He thanked members for their support.

The Director of Corporate Services said the accounts published on 30 June 2014 had been sent to the auditors, and comments were awaited. The audited accounts would come to the Committee at its September meeting. The report summarised the current position.

Regarding the General Fund, there was a net favourable variance of £476,000. There were three adverse variances exceeding £100,000, details of which were set out in the report. There were five favourable variances above £100,000. A reserve of £2.5m would be held in a ringfenced reserve to be used only for business rate appeals.

Regarding the Housing Revenue Account, there was a net favourable variance of £318,000 which had been allocated to the sheltered housing reserve to fund future improvements. There was one significant adverse variance within the operating surplus of £81,000 relating to Supporting People funding, which had been written off. There were two favourable variances about £50,000 relating to rent collection and a reduction in bad debt provision.

Regarding the Capital Programme, the budget was within £2,000 on a programme of £8 million. The section 106 balance was £4.138 million, and an omission from the figures submitted to Cabinet had now been corrected, to include section 106 money regarding Sampford Road.

The Landsbanki issue had finally been resolved and would not recur.

The Director of Corporate Services said the Council had received an email last week from the Pension Fund, post-audit, stating that its figures were wrong. The error was in the Council's favour, although there was an unwelcome impact on officer time in having to change the figures. The Pension Fund would send out the re-issued figure in the week commencing 28 July.

The Chairman said any good news was welcome.

Councillor Eden asked how liabilities could have decreased.

The Acting Assistant Director – Finance said the Pension Fund had changed the way the information was presented, as it did not show separate assets and liabilities, so did not show interest net. Officers would re-present the report to members so that it was easy to compare.

Members commended the way estimated liabilities and assets were set out regarding the Pension scheme, showing the total pension cost recognised in the Movement in Reserves Statement. It was noted that whilst liabilities had decreased slightly, liabilities were significant, and that even the trustees had very limited power.

Councillor Eden asked questions regarding the balance sheet. He questioned how members were to judge the balance sheet considering the Council had net assets and asked what level of net assets was correct for a district council of this size. He asked why the Council did not leverage its assets: if the Council could borrow £88m for housing, why could it not borrow more?

The Director of Corporate Services said the Council could not use General Fund money to build Housing Revenue Account assets.

Councillor Eden asked what borrowing on the General Fund could be used for.

The Acting Assistant Director – Finance said the Council currently borrowed internally across its services, in order to buy short term assets. This was a modest level of internal borrowing. She would be cautious of committing to internal borrowing over a longer period, for example of over five years.

Councillor Eden said this policy therefore reflected caution about the future through the maintenance of substantial reserves on the balance sheet. The Director of Corporate Services said there could be serious pressure on the Medium Term Financial Strategy from government in future years.

The Chairman said it was quite right to have a prudent approach to Council finances, and this was a prudent balance sheet.

The Chairman said he was keen to understand whether the amounts the Council had in its reserves were at an appropriate level. He referred to the waste management and planning development reserves.

The Director of Corporate Services said reserves were maintained for change management and budget equalisation.

Councillor Oliver asked what the change management reserve was intended to be spent on.

The Director of Corporate Services said the change management reserve was used to pay redundancies.

The Chairman said it was sensible to maintain these reserves at this time, and he was satisfied that the right amounts were held in reserve for the right issues.

The Committee considered the reserves in the light of forthcoming large planning appeals, and in particular whether £935,000 was a sufficient sum for the appeals reserve.

Councillor Eden said that this figure was appropriate as the Council's local plan was not yet in place.

The Director of Corporate Services said the reserves figures were similar to those the Council had maintained 10 years ago. He said if any large planning appeals were lost, the cost to the Council could be £100,000 - £150,000. Members referred to the notes on the scale of liabilities on planning appeals set out at paragraph 15.2 of the draft Statement of Accounts.

The Committee noted the waste management reserve had increased quite substantially. Market prices for waste had dropped dramatically. Officers were currently pursuing an issue over the contract, but if the income disappeared it would be necessary to find efficiencies. The reserve of £300,000 would help soften the blow for one year.

Members considered the parking partnership figures and accompanying notes.

The Chairman asked as a general point that members be informed of the number of the Council's employees. He asked for a small alteration to the introduction to refer to the rural, rather than "ruralised" nature of the district. In all other respects he was satisfied that the draft Statement of Accounts should be approved for the final meeting.

The Chairman thanked officers.

RESOLVED to approve the draft Statement of Accounts.

PA19 **COMMITTEE REPORTS TIMETABLE 2014/15**

The committee reports timetable was approved.

PA20 **INTERNAL AUDIT ANNUAL REPORT AND OPINION 2013/14**

The Committee considered a report on the internal audit work carried out in 2013/14. The report gave an overall opinion on the Council's control environment for 2013/14, and showed the state of compliance with the Public Sector Internal Audit Standards which came into effect on 1 April 2013.

The Internal Audit Manager drew members' attention to the conclusion of the report that the internal audit opinion on the control environment for 2013/14 was that risks material to the achievement of the objectives for the audited areas identified by Internal Audit were, on balance, substantially managed and controlled.

The Committee welcomed this conclusion, and members asked questions about the interpretation they should give to the scores of "adequate, limited, substantial and little assurance".

The Internal Audit Manager said there were no scores of little assurance, and that the next item on the agenda gave a breakdown of these scores.

Members considered the audit opinion scores for certain areas which had scored a substantial risk opinion. The Chairman referred to house sales and the housing rent deposit scheme. The Internal Audit Manager said scores had been affected in both these cases by a need to change parameters. Regarding Right To Buy, valuation costs had not been updated so some properties had been undervalued, by approximately £8,000.

Councillor Felton asked how properties were valued.

The Internal Audit Manager said valuation was undertaken by local agents, and also depended on how long the tenants had lived there, as this fact informed the calculation of the discount to be applied. The issue had been picked up by internal audit officers and the change was implemented straightaway.

Regarding the rent deposit scheme, the Council had now withdrawn from the scheme, as had other local authorities, because of the way the scheme was being operated.

Members asked questions about the arrangement for sharing internal audit with Epping Forest District Council. Officers advised this arrangement was continuing, and that the two councils shared an employee who did fraud investigation at Epping and audit work at this council.

The Committee noted the Internal Audit coverage, the Internal Audit opinion and compliance with the Public Sector Internal Audit Standards.

PA21 INTERNAL AUDIT STRATEGY 2014-15

The Committee considered a report on the Internal Audit Strategy for 2014/15.

RESOLVED to approve the revised Internal Audit Strategy 2014/15.

PA22 INTERNAL AUDIT PROGRESS REPORT

The Committee considered a report on details of work undertaken by Internal Audit from 3 May to 11 July 2014.

The Internal Audit Manager drew members' attention to five risk level 4 and 3 recommendations which had been implemented, and to four recommendations which had not been implemented in accordance with agreed due dates. Of the latter, two had been granted an extended date for implementation, and two had been completed since the report was issued.

The Committee noted the report.

The meeting ended at 8.30pm.