

## EPPING FOREST DISTRICT COUNCIL COMMITTEE MINUTES

**Committee:** Audit and Governance Committee      **Date:** Thursday, 29 November 2012

**Place:** Council Chamber, Civic Offices, High Street, Epping      **Time:** 7.00 - 9.05 pm

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

**Other Councillors:** D Stallan, Ms S Stavrou and C Whitbread

**Apologies:** -

**Officers Present:** R Palmer (Director of Finance and ICT), B Bassington (Chief Internal Auditor), J Preston (Director of Planning and Economic Development), A Mitchell (Assistant Director (Legal)), P Pledger (Assistant Director (Property and Resources)), J Twinn (Assistant Director (Benefits)), M Gammack (Housing Repairs Manager), P Seager (Chairman's Secretary) and G J Woodhall (Democratic Services Officer)

**Also in attendance:** L Clampin and C Reed (External Auditors)

---

### 23. 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.

### 24. DECLARATIONS OF INTEREST

There were no declarations of interest pursuant to the Council's Code of Member Conduct.

### 25. MINUTES

**Resolved:**

(1) That the minutes of the meeting held on 24 September 2012 be taken as read and signed by the Chairman as a correct record.

### 26. MATTERS ARISING

The Assistant Director of Finance & ICT (Benefits) provided a progress report on the implementation of the recommendations made in the Housing & Council Tax Benefits audit report, considered at the Committee's last meeting.

The Assistant Director reported that the section had not been performing sufficient checking of new claims as claim payments were being prioritised over claim checking. The section was currently complying with the requirement to check 5% of all claims received for accuracy, and the situation was being actively monitored by

managers to ensure that all checking was completed. All of the outstanding priority 1 actions from the audit report were now complete.

The Director of Planning & Economic Development provided a progress report on the implementation of the recommendations made in the Planning Fees audit report, considered at the Committee's last meeting.

The Director reported that the reconciliation of Planning Fees income between the Planning System and the General Ledger was reliant upon three different systems. Cheques were now individually itemised on the General Ledger, which made it easier to reconcile these items. However, the Directorate had insufficient resources to manually reconcile the fees received, and work to interface the systems more efficiently relied upon resources from ICT. It was proposed to submit a report to the Planning Services Scrutiny Panel to review the number of payment options available for residents to pay their Planning Fees.

The Chairman commented that this problem was part of a wider issue; the Council did not have a Corporate Management Information Systems Plan, hence the proliferation of systems across different departments. The Committee needed to have confidence that all Planning Fees had been received and accounted for correctly, but this was currently not possible due to the proliferation of different systems. It was queried whether a thematic review of the Council's ICT systems could be undertaken by Internal Audit. The Chief Internal Auditor responded that resources would be needed to perform this review and double-check all reconciliations, but that it would be added to the Audit Plan. The Leader of the Council reassured the Committee that the Cabinet would examine the issue and the possible implementation of a Corporate Management Information Systems plan.

The Director added that the income from Planning Fees was in excess of £1million per annum, and the receipt of each fee needed to be confirmed before work commenced on determining the application. The Directorate had been labouring to reconcile all income received against individual applications, due to the complexity of the systems involved in the process. The Directorate would also need further procedures in place to process Community Infrastructure Levy payments when the Local Plan was implemented. Internal Audit was requested to investigate the Council's readiness for processing these payments.

**Resolved:**

- (1) That the update reports received by the Committee be noted;
- (2) That the Cabinet be requested to investigate the possibility of implementing a Corporate Management Information Systems for the Council; and
- (3) That the Chief Internal Auditor be requested to investigate the Council's readiness for processing Community Infrastructure Levy payments.

**27. REPAIRS MANAGEMENT CONTRACT PRESENTATION**

The Assistant Director of Housing Services (Property) presented an update report on the Housing Repairs Management Contract, following a number of limited assurance audit reports regarding the stock-taking at the Depot.

The Assistant Director outlined the procedures previously in place before Mears won the Housing Repairs Management contract. Operatives received all work instructions on a paper based format and chose the order in which they were completed. Many

tenants were out when the operative visited as not all operatives had council-supplied mobile phones and were not required to phone ahead to see if the tenants were in or it was convenient to turn up. The work tickets did not require the operatives to record the time of the completion, but office based staff had to update the Council's Housing Management system with the time of completion - which they would not know. Tenants were not required to sign off work tickets to confirm the works orders had been completed and operatives completed a weekly time sheet listing which jobs had been completed on which days. Manual processes were in operation for ordering stores, although operatives were permitted to place direct orders with local suppliers up to a maximum value of £50.

The Assistant Director stated that an analysis was undertaken, in conjunction with Internal Audit, to identify the key controls to focus on in the new system when Mears was appointed as the Council's Housing Repairs Management contractor. All operatives were issued with mobile phones and hand-held devices, which now enabled much more data to be captured as the devices would time and date stamp every action, and all the unit's vans had been fitted with tracker devices. A Work Planner post had also been created to control the work allocated to the operatives; this was considered essential to improve productivity. Appointments were now made with tenants in advance to perform works, and text messages were sent to tenants to remind them of their appointments, that the operative was now on route to their property and "You were not in" if the tenant did not answer the door. In addition, the Mears Contract Monitoring software was implemented.

The Assistant Director reported that these measures had led to an increase in productivity, with operatives now completing between four and five jobs a day as opposed to the previous daily average of 1.36. The number of appointments had increased from 2,889 in 2010/11 to an estimated 11,000 for 2012/13. Now, only 1 in 14 appointments were being missed, which compared favourably with the national average of 1 in 12 missed appointments. Real time information was being captured about each job for the use of the office based staff, including tenant satisfaction data, and the operatives were able to produce photographic evidence of their attendance on site as well as the completion of the job.

The Assistant Director informed the Committee that the new measures had led to the Council making considerable savings through reduced staffing and increased productivity. The unit was now employing 10 less staff than before the start of the contract with Mears, and there was less reliance upon the use of Sub-Contractors. There had also been a reduction in the amount of paperwork generated by the operatives. The number of paper work tickets had been reduced by 80% and there was no longer a requirement to issue tenants with pre-paid return envelopes. The hand-held devices also captured the timesheet information previously recorded on paper forms.

The Committee noted that the Housing Repairs Unit had achieved the target for every one of their Key Performance Indicators during the second quarter of 2012/13 for the first time, and now improved (i.e. harder) targets were being set for emergency, urgent and routine repairs in the future. New initiatives were now being considered to improve the service to tenants following the achievement of the contract objectives by Mears. The Repairs Focus Group met on a quarterly basis and had developed a new void standard for empty properties, as well as performing joint void inspections to test quality.

The Assistant Director declared that, following the limited assurance audit report for the stores stock check last year, the decision had been taken to procure a new stores supplier. A procurement exercise was undertaken with three tenders received, and a

decision would be taken by the Cabinet in February 2013. The new system would involve stock being held on each operative's van, which would be replenished periodically by the supplier using data supplied by the hand-held devices about the materials used for each job. The Council would receive a consolidated invoice every two weeks from the supplier but only for those items used by the operatives, and the Council would only pay for the materials taken to replenish the vans. Van stock-checks would be undertaken jointly by the supplier and the Council in the presence of the operative. This would negate the need for the Council to hold a store of stock in the future, and resolve the problems previously experienced in respect of stock-takes.

The Committee enquired about the effects of the changes on the morale of the operatives. The Housing Repairs Manager responded that, since Mears had started working with the Council in May 2011, the operatives had initially been very suspicious of the measures introduced; but this attitude had changed when the operatives realised that the hand-held devices would provide evidence of their attendance at properties and that they had actually carried out the work.

The Housing Repairs Manager stated that the operatives were still using the stock held by the Council. The move to the new system would take place in 2013, which would make it easier to reconcile the parts used for each job and the subsequent stock-takes. The Mears Contract Monitoring software would also integrate with the Council's Housing Management system (Ohms). The Assistant Director added that the Mears system would only feed data into the Council's system, there would be no transfer of data back into the Mears system, although the Mears system would be informed when a Council house was sold.

The Assistant Director reassured the Committee that the Council would perform a risk assessment and various financial checks before signing a contract with the Council's preferred supplier. However, if the preferred supplier went into liquidation, then the Council could purchase supplies from either of the other two tenderers or use Mears' own supply network. The Council would also be examining the insurance situation regarding stock held in the vans under the new system, following the recent theft of a Council van. It was highlighted that a tenant would be phoned on a landline if they did not have a mobile phone to receive text messages.

The Committee felt that a very successful culture change had been undertaken within the Housing Repairs unit, which could potentially be extended into other areas of the Council that had received limited assurance reports. The Committee acknowledged that some problems with the stock-taking at the Depot would continue until the new system was implemented, but welcomed the enormous amount of work that had been undertaken to greatly improve the service for tenants and achieve positive results with the operatives. The Housing Portfolio Holder welcomed the Committee's comments and invited the members to join him on a visit to the Depot in early January to see some of the enhancements and new systems that had been implemented.

**Resolved:**

(1) That the report by the Assistant Director of Housing Services (Property) on the Housing Repairs Management Contract, following a number of limited assurance audit reports for the stock-taking at the Depot, be noted.

**28. INTERNAL AUDIT MONITORING REPORT - JULY TO SEPTEMBER 2012**

The Chief Internal Auditor presented the Internal Audit Monitoring Report for the second quarter of 2012/13, which provided a summary of the work undertaken by the Internal Audit Unit between July and September 2012. The report detailed the overall performance to date against the Audit Plan for 2012/13 and also allowed the Committee to monitor the progress of Priority 1 recommendations issued in previous audit reports.

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

- (a) Substantial Assurance:
  - Environmental Controls & Backup Procedures;
  - Fleet Operations Income; and
  - Business Plans.
- (b) Limited Assurance:
  - Legal Services Debt Recovery.
- (c) At draft report stage:
  - Recruitment & Selection;
  - Gifts & Hospitality (Members & Officers);
  - Corporate Procurement; and
  - Car Mileage.

The Chief Internal Auditor informed the Committee of the circumstances surrounding the Limited Assurance audit report issued for Legal Services Debt Recovery during the quarter. Two Litigation Officers were responsible for managing approximately 380 debts. However, it was not possible at the current time to quantify the exact value of outstanding debts referred to Legal Services and the value of the debts recovered as there was not a reporting facility in place. The audit had recommended that invoices should be raised on the Council's debtors system (AIMS) to ensure that court costs were identified and charged to the debtor.

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 2012/13 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 2012/13:

- % Planned Audits Completed            Target 90%    Actual 37%;
- % Chargeable Staff Time                Target 72%    Actual 76%;
- Average Cost per Audit Day            Target £245    Actual £223; and
- % User Satisfaction                      Target 85%    Actual 85%.

The Committee noted that the vacancy within the Internal Audit Unit had now been filled, and that the new member of staff had started on 1 October 2012.

The Assistant Director of Corporate Support Services (Legal Services) reported on the outstanding priority 1 action for Licensing Administration. The problem with reconciliations for Licensing were similar to that being experienced by Development Control reported earlier in the meeting. The reconciliation between the M3 system and the Cash Receipting System was not up to date as the two systems were not compatible and could not be interfaced. It was difficult to check if a payment had

been miscoded and the reconciliation was not being carried out due to insufficient resources within the Department. An apprentice had been employed by the section to carry out the reconciliations last year, but they had now left the Council. The Assistant Director stated that the Licensing Section was aware of whether they had received all outstanding monies due, but that it required an additional employee for approximately two days a month to perform the reconciliation, or IT systems that could be interfaced to perform the reconciliations automatically.

The Committee was concerned with the risk to the Council arising from this problem and that a qualified Legal Officer should not be performing these reconciliations. It was clear that this was a corporate problem, as a number of departments were similarly affected, and it was felt that the Council's Management Board should provide the necessary resources to resolve the problem. The Leader of the Council also undertook to investigate the problem and examine possible solutions. The Committee requested an update report at its next meeting on the solution that would be implemented to resolve the problem within Licensing.

The Committee inquired about the outcome of the National Fraud Initiative run by the Audit Commission. The Chief Internal Auditor commented that the data would be available in January 2013, and that a report would be prepared for the Committee to consider soon after. The Chairman requested a report on the due diligence checks performed on companies that the Council had entered into contracts with. This report should pay particular attention to the Leisure Management contract with Sports & Leisure Management Limited, and the previous arrangements made with the company that had provided the Council with bailiff services before it went into liquidation. The Chief Internal Auditor stated that the Council did perform financial checks on all companies that it entered into contracts with, using Constructionline or Experian where relevant.

**Resolved:**

(1) That the following issues arising from the Internal Audit Monitoring Report for the second quarter of 2012/13 be noted:

- (a) the Audit reports issued between July and September 2012 and significant findings therein;
- (b) the Priority 1 Actions Status Report;
- (c) the Limited Assurance Audit Follow-Up Status Report; and
- (d) The 2012/13 Audit Plan Status Report;

(2) That an update report be provided at the next meeting of the Committee on the solution identified to the reconciliations problems experienced by the Licensing section; and

(3) That a report be provided on the due diligence checks undertaken by the Council on companies it entered into contracts with, and with particular emphasis on the Leisure Management Contract and the former Bailiffs contract.

**29. REPORTS OF THE EXTERNAL AUDITOR**

The External Auditor presented two reports to the Committee, the first being the Annual Audit Letter for 2011/12, which summarised the key issues arising from the

audit work during the year, and the second was the Fee Outturn Summary for 2011/12, which set out the final costs of the audit.

In respect of the Annual Audit Letter for 2011/12, the External Auditor reported that:

- The financial statements had given a true and accurate view of the Council's financial affairs, and were properly prepared in accordance with the 2011 Code of Practice on Local Authority Accounting.
- The Annual Governance Statement was not misleading or inconsistent with other information available.
- The significant financial systems were generally adequate for preparing the financial statements.
- One internal control deficiency within the Housing and Council Tax Benefit system had been identified and reported.
- The work of Internal Audit could be relied upon.
- There were a number of notable differences between the Whole of Government Accounts and the audited Financial Statements, which were corrected in the final consolidated pack.
- The Council had put into place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
- An unqualified Value for Money conclusion was issued.

In respect of the Fee Outturn Summary, the External Auditor reported that the final outturn fee - £157,215 - was £15,000 in excess of the planned fee. The additional fees were incurred due to:

- Time spent by senior staff on the options for self-financing of the Housing Revenue Account (HRA).
- Work performed to address issues arising from the Collection Fund, changes in the useful economic lives of HRA properties, and accounting for income and expenditure in the correct periods.
- Time spent on the Whole of Government Accounts due to the number of changes required, as outlined above.

The External Auditor expected that the fee for certification of claims for the year ended 31 March 2012 would be £58,000 as planned. The Committee was informed that it was possible to have a rebate of audit fees if the work was performed quicker than expected.

**Resolved:**

(1) That the Annual Audit Letter and Fee Outturn Summary for 2011/12 issued by the External Auditor be noted.

**30. TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS - MID YEAR REPORT 2012/13**

The Director of Finance & ICT presented the mid-year progress report on Treasury Management and Prudential Indicators, which covered the treasury activity for the first half of 2012/13, and was a requirement of the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Treasury Management.

The Director reported that the current probable outturn for 2012/13 showed a drop in capital expenditure of £3.4million, which had been re-phased into future years of the Capital Programme. This would lead to a reduction in the use of capital receipts in the current financial year of £1.01million and a higher than anticipated level of reserves, but subsequent increases in future years. There was a risk involved in reducing the balance of usable capital receipts over the next five years and this had

been included in the Council's Corporate Risk Register. Current predictions indicated there would still be £8.1million of usable capital receipts available and £3.2million in the Major Repairs Reserve at the end of 2016/17. Therefore, it had been concluded that there were adequate reserves available for the Capital Programme in the medium term.

The Director confirmed that, in respect of the Council's indebtedness for capital purposes, there had been no breaches of the Authorised Limit (£200million), the Operational Boundary (£186million) and the Maturity Structure of Fixed Rate Borrowing during the first six months of the year. The Council's largest loan had been that of £185.456million taken out for the refinancing of the Housing Revenue Account. The risks for the Council were associated with affordability, interest rates and refinancing. The affordability risk was whether the Council could afford to service its loans; this had been evidenced by the Council producing a viable thirty-year for the Housing Revenue Account. Only 17% of the amount borrowed was at a variable rate with the remainder of the loans at fixed rates. Any upward movement in interest rates would be 'hedged' by a corresponding increase in the interest earned on the Council's investments. It was anticipated that all borrowing would be repaid upon maturity and all future capital expenditure would be financed from within internal resources, therefore there was currently no refinancing risk.

The Director informed the Committee that during the first half of the year, the Council's average investment position had been approximately £53.6million, and that there had been no breaches of any of the prudential indicators. Finally, in respect of the Heritable Bank, the administrators had indicated that a further dividend would be paid in January 2013, and ultimately it was still expected that the Council would receive 90% of its total investment.

In response to queries from the Committee, the Director stated that the interest incurred by the Council on its variable rate loans should not exceed the interest earned on the Council's investments. The thirty-year financial plan for the Housing Revenue Account was reviewed every six months by the Housing Scrutiny Panel, and further reports would be submitted to the Scrutiny Panel if the Plan no longer seemed viable. However, the Council had sourced most of its lending from the Public Works Loans Board at a lower rate than that available from commercial institutions.

**Resolved:**

(1) That the mid-year progress report on Treasury Management and the Prudential Indicators for 2012/13, and the management of the risks therein, be noted.

**31. CO-OPTED MEMBERS - TERMS OF OFFICE**

The Democratic Services Officer reminded the Committee that Article 11 of the Constitution, Audit & Governance Committee, had been amended at the Council meeting held on 27 September 2012 in respect of the Co-Opted members as follows:

- (a) introduction of three-year terms of office;
- (b) a limit of two terms of office as right;
- (c) an opportunity for two further terms of office, but only after a competitive selection process;
- (d) a requirement that re-appointment be conditional upon satisfactory attendance; and



(e) the creation of overlapping terms of office so that the terms for both Co-Opted members did not expire at the same time.

The Democratic Services Officer reported that the two Co-Opted members had discussed this issue prior to the meeting, and had suggested that their terms of office should begin from their dates of appointment, this being September 2007 and February 2009 respectively. This would mean that both Co-Opted members had already been reappointed for a second term, and would be subject to a competitive selection process if they wished to seek a third term in September 2013 and February 2015 accordingly. The Committee was requested to ratify the proposal from the two Co-Opted members.

**Resolved:**

(1) That the overlapping three-year terms of office for the two Co-Opted members be commenced from their dates of appointment, this being September 2007 and February 2009 respectively.

**32. ANY OTHER BUSINESS**

The Committee noted that there was no other urgent business for consideration at the meeting.

**CHAIRMAN**