

Dacorum Borough Council

Internal Audit Final Report

Housing Asset Management

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Key dates:

Date of fieldwork: October 2011

Date of draft report: December 2011

Receipt of responses: December 2011

Date of final report: December 2011

This report has been prepared on the basis of the limitations set out in Appendix C.

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1. Executive summary

1.1. Background

At the request of the Director of Finance, separate to the Internal Audit programme for 2011/12 (approved by the Audit Committee in February 2011), we have undertaken an audit of the Council's systems of internal control in respect of recent changes to the Council's Housing Asset Management processes.

As a result of the Government's April 2012 Localism Bill, Dacorum Borough Council has been required to review the methods by which it finances housing under its current Housing Strategy. This change is being implemented to encourage councils to manage their housing for the benefit of local residents in a more transparent, accountable and cost effective way. Developments associated with the introduction of this initiative include the completion of a Stock Condition Survey, the approval of a Base Data Survey and the adoption of a Self-Financing Strategy.

Audit have recognised that, given this project plan will span 30 years, at the time of the audit many aspects are still in the planning phase or at a draft stage. The audit has concluded that progress so far is in line with specified targets and expectations, however, there are a number of key milestones which are not due to be achieved until later this year and / or early in 2012. It would therefore be beneficial for audit to raise this report in the context of progress to date and to complete an additional follow up at an appropriate later date.

Internal Audit are hopeful that recommendations can be considered as a basis for developments or improvements to be made as the project progresses and new business processes are adopted and aligned across the Council.

1.2. Objectives and Scope

The overall objective of this audit was to provide assurance over the adequacy and effectiveness of current controls over the Housing Asset Management project, and provide guidance on how to improve current the controls going forward.

In summary, the scope covered the following areas: Project Plan, Asset Management Software; Base Data Survey, Stock Condition Survey and Self Financing Business Plan, albeit in some areas we were unable to carry out fully testing as a consequence of the stage the project is at. Further detail on the scope of the audit is provided in Section 2 of the report.

1.3. Summary assessment

Our audit of DBC's internal controls operating as part of the Housing Asset Management project found that there is a basically sound system of internal control design. However, there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Our assessment in terms of the design of, and compliance with, the system of internal control covered is set out below.

Evaluation Assessment	Testing Assessment
Substantial	Substantial

Management should be aware that our internal audit work was performed according to UK Government Internal Audit Standards which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

Similarly, the assessment gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board. The classifications of our audit assessments and priority ratings definitions for our recommendations are set out in more detail in Appendix A, whilst further analysis of the controls operating within the Housing Asset Management project are shown in Section 3.

1.4. Key findings

We have raised four priority 2 recommendations where we believe there is scope for improvement within the control environment. These are set out below:

- A complete and up to date Project Plan is in place;
- Regular reporting to CMT;
- Obtain a signed contract; and
- Dacorum Council to select sample of surveys provided.

Full details of the audit findings and recommendations are shown in Section 4 of the report.

1.5. Management Response

A summary of management's response is included in Section 4 – Observations and Recommendations.

We would like to take this opportunity to thank all staff involved for their time and co-operation during the course of this visit.

2. Scope of assignment

2.1 Objective

The overall objective of this audit was to provide assurance that the systems of control in respect of the 2011/12 Housing Asset Management project, with regards the areas set out in section 2.3, are adequate and are being consistently applied.

2.2 Approach and methodology

The following procedures were adopted to identify and assess risks and controls and thus enable us to recommend control improvements:

- discussions with key members of staff to ascertain the nature of the systems in operation;
- evaluation of the current systems of internal control through walk-through and other non statistical sample testing;
- identification of control weaknesses and potential process improvement opportunities;
- discussion of our findings with management and further development of our recommendations; and
- preparation and agreement of a draft report with the process owner.

2.3 Areas covered

The audit was carried out to evaluate and test controls over the following areas:

- *Project Plan*

The Council has an approved project plan in place, outlining target dates which are reviewed and reported on regularly.

- *Asset Management Software*

The Council is compliant with financial regulations and the EU tendering processes.

- *Stock Condition Survey*

A project brief is in place and the contract for the Stock Condition Survey has been tendered, agreed and signed. Surveys have been completed and are updated on the asset management system.

- *Base Data Survey*











External audit work carried out on the Base Data Survey is verified and reported to senior management.

- *Self Financing Business Plan*

The Self Financing Business Plan is accurate, approved and incorporates the results of the Stock Condition Survey and the Base Data Survey.

3. Assessment of Control Environment

The following table sets out in summary the control objectives we have covered as part of this audit, our assessment of risk based on the adequacy of controls in place, the effectiveness of the controls tested and any resultant recommendations.

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
<i>Project Plan</i>			Recommendation 1 and 2
<i>Asset Management Software</i>			
<i>Stock Condition Survey</i>			Recommendation 3 and 4
<i>Base Data Survey</i>			
<i>Self-Financing Business Plan</i>			

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

4. Observations and Recommendations

Recommendation 1: A complete and up to date Project Plan is in place. (Priority 2)

Recommendation

The Project Plan that is in place should be complete; including all relevant deadlines where appropriate e.g. aligned with the Government's Transition Timetable or future relevant legislation.

Observation

The Government's Transition Timetable outlines the progress of the self-financing model and the targets for implementing the model. The Council should have a project plan in place outlining how the project will be progressed, which should include these target deadlines.

We found that the Council has a Housing Asset Management Project Plan in place for the various stages of project implementation. Whilst parts of the Government's timetable had been incorporated, some relevant areas had not been. For example, the cut-off date for submission of the base data to Government and attending conferences relating to the Public Works Loan Board.

Whilst not all of the Transition Timetable can be included in the Council's Project Plan, there are relevant dates included that affect the Council. If these deadlines are not monitored and achieved, there is a financial risk to the Council in not being ready to go live in April 2012 when this model is launched. This could then have an impact on resourcing for maintenance and repair work which will impact upon the everyday lives of residents.

Responsibility

Fiona Williamson, General Manager (Property and Places)

Management response / deadline

Asset management software tender award recommendation in the statutory approval process.

The cost data has been received from Savills and the penultimate on site survey meeting scheduled for Thursday 22nd December. There will be ongoing monthly meetings to enable the data to be compiled and the various reports created to refine the business plan.

Self-financing is an Improving Dacorum Programme critical project and a comprehensive project plan is being created to incorporate the detailed milestones in relation to Government legislation and treasury management decisions. There is ongoing consultation with residents regarding the priorities for inclusion in the first year of the business plan, which will further refine this after the 22nd December 2011.

Recommendation 2: Regular reporting to Senior Management (Priority 2)

Recommendation

Management information should be provided on the progress of the Housing Asset Management Projects to senior management on a monthly basis. This should be documented and retained on file as evidence. Consideration should be given to pro-actively discussing the project as part of the agenda at CMT meetings.

Observation

The progress of the Housing Asset Management Project should be reported to senior management on a regular basis. This will enable any issues or concerns to be investigated and rectified in a timely manner.

We found that the progress of the project was not reported to CMT on a regular basis. Some evidence of reporting was reflected in arrangements for a meeting held for the Housing Self-Financing Core Group on 28th October 2011, a date which fell after the Audit. Where meetings have occurred between the Housing Asset Management team and senior management, it was not documented through notes or minutes.

If management information is not provided for senior management / CMT, any issues or concerns relating to the implementation of the project may not be investigated and rectified in a timely manner. This could have financial implications if the project is not rolled out in April 2012, which could then impact upon the maintenance and repairs of Council assets.

Responsibility

Fiona Williamson, General Manager (Property and Places) / Directors

Management response / deadline

Regular meetings are held to populate the business plan model and consider the various options in relation to treasury management and the investment planning. These are minuted and attended by the Corporate Director for Housing and Regeneration so that any issues can be discussed. In order for this to be considered on a monthly basis by the senior management team the project will be on the monthly reports to CMT commencing in January 2012.

Recommendation 3: Obtain a signed contract (Priority 2)

Recommendation

A contract should be located for Savill's to the completion of the Stock Condition Survey. It should be agreed and signed by both parties and should stipulate terms and conditions, including performance monitoring. This will protect the council.

Observation

A contract should be agreed and signed with contractors that are employed to undertake any work for the Council. This contract or agreement should include terms and conditions to protect the Council should any work / services not be completed to a sufficient standard.

Evidence could not be provided of the Council having a contract or agreement in place with Savill's to carry out the Stock Condition Survey. Whilst Audit were provided with a copy of a letter of intent, these referred to the terms and conditions of the contract.

If a signed contract or agreement is not in place there is risk that the Council may face difficulties in enforcing the conditions and performance targets.

Responsibility

Ben Hosier, Corporate Procurement Manager

Management response / deadline

The contract documentation was originally signed as part of the Places for people framework agreement and the additional documents relating to the commissioning of Savills have been received by the Procurement Group Manager and these are being completed for retention on file.

Recommendation 4: Dacorum Council to select sample of surveys provided (priority 2)

Recommendation

The Council should select the sample of properties that Savill's provide the survey sheets/property information for.

Observation

A sample of the site survey form's which have been completed by Savill's are provided to the Council. These forms evidence a percentage of the Stock Condition Surveys which Savill's have completed as part of a contractual agreement with the Council. The Council use these surveys as part of a monitoring tool and complete desktop verification checks against existing Council records.

We found that Savill's send a 10% sample of the surveys they have carried out since the last set of data provided. In the latest case this was 28 out of 280 surveys carried out. Of these 28, only 10% had the survey forms attached (3) which are in agreement with the Council records. This sample of 3 was selected by Savill's and not the Council.

If Savill's continue to select the sample provided to the Council, there is a risk that they will go through their own quality management process and only select a fully complete and accurate sample. This will not highlight any poor quality surveys or gaps in information, which could impact upon the estimated maintenance costs and level of debt.

Responsibility

Fiona Williamson, General Manager (Property and Places)





Management response / deadline

The second batch of surveys were randomly selected by the Asset Team Leader to ensure the data quality of the surveys. On Thursday 22nd December Savills will be providing all on-site completed survey data for review and validation. Once the site survey has been completed by Savills there will be an on site validation exercise undertaken of a random sample of the surveyed properties.

Appendix A – Reporting definitions

Audit assessment

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used:

Level	Symbol	Evaluation Assessment	Testing Assessment
Full		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
Substantial		Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited		Weaknesses in the system of internal control design are such as to put the system objectives at risk.	The level of non-compliance puts the system objectives at risk.
Nil		Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

The assessment gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full' does not imply that there are no risks to the stated control objectives.

Grading of recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
Priority 1	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
Priority 2	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
Priority 3	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
System Improvement Opportunity	Issues concerning potential opportunities for management to improve the operational efficiency and/or effectiveness of the system.

Appendix B – Staff interviewed

The following personnel were consulted:

- Fiona Williamson - General Manager (Property and Places)
- Elliott Brooks - Assistant Director (Housing Landlord)
- James Deane - Group Manager (Finance)

We would like to thank the staff involved for their co-operation during the audit.

Appendix C - Statement of responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system. The assurance level awarded in our internal audit report is not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Deloitte & Touche Public Sector Internal Audit Limited

London

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