

# Dacorum Borough Council

## Final Internal Audit Report

### Housing Repairs

December 2015

This report has been prepared on the basis of the limitations set out on page 11.

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**Key Dates:**

Date of fieldwork: September/October 2015

Date of draft report: December 2015

Receipt of responses: December 2015

Date of final report: December 2015

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# 1. Executive Summary

## 1.1. Background

As part of the Internal Audit Programme for 2015/16, we have undertaken an audit of the Council’s systems of internal control in respect of Housing Repairs.

In July 2014, Dacorum Borough Council entered into a 5 year contract with Osborne Property Services to manage planned and responsive repairs for the Borough’s 10,500 homes. The contract is a Total Asset Management model which means the contractor uses repairs data to supplement stock condition information with a view to reducing the number of day to day repairs that are required.

## 1.2. Audit Objective and Scope

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

In summary, the scope covered the following areas: Policies, Procedures and Legislation, Monitoring of Completion of Works, Contract Monitoring and Performance Management, Resident Queries and Complaints, Budget Monitoring and Payments to Contractor.

## 1.3. Summary Assessment

Our audit of the Council’s internal controls operating over Housing Repairs found 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.

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 Public Sector Internal Audit Standards (PSIAS) which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Similarly, the assurance 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.

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 control environment over Housing Repairs is shown in Section 3.

#### 1.4. **Key Findings**

We have raised three Priority 2 recommendations and one Priority 3 recommendation where we believe there is scope for improvement within the control environment. These are set out below:

- Policy and Procedure documentation should be reviewed and updated on a regular basis. (Priority 3).
- Where repairs are the responsibility of the tenant, a process should be in place to recharge the cost of the repairs to the tenant. (Priority 2)
- The council should raise the issue of the quality of information maintained by Osborne Property Services at contract monitoring meetings. (Priority 2).
- The Council should maintain, and provide to the contractor, a list of all eligible properties under the five year rolling plan for two room redecorations. (Priority 2).

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

#### 1.5. **Management Response**

We received the management responses in a timely manner, and these have been included in the main body of the report.

#### 1.6. **Acknowledgement**

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 Housing Repairs, with regards to 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:

#### **Policies, Procedures and Legislation**

There is a signed contract between Dacorum Borough Council and Osborne Property Services, and the staff involved in the management of the contract have access to it and are aware of its content. Policies and procedures are available to the housing staff which are reviewed on an annual basis.

#### **Monitoring of Completion of Works**

Works are appropriately categorised as Day to Day repairs, small works or capital works. Works are efficiently and timely completed to the required standards. Failure to complete work on time and any poor quality work is identified and addressed. Void repairs are monitored to ensure turnaround times are as short as possible in order to maximise income. Recharges to tenants are only made where appropriate.

#### **Contract Monitoring and Performance Management**

The contractor is working to the agreed standards and specification defined within the contract. Corrective action is taken to when the performance falls below the set standard. There are metrics in place to measure the contractor's performance against, and these are regularly monitored by the council. Management information is completely, accurately, validly and timely produced to allow for effective monitoring and decision making as part of the identifying, monitoring and paying for housing repairs in line with management and contractual requirements.

#### **Resident Queries and Complaints**

All queries or complaints from residents are dealt with promptly and effectively. Any areas for improvement arising from complaints are identified and addressed. The council regularly monitors the complaints log maintained by the contractor.

#### **Budget Monitoring and Payments to Contractor**

Annual budget is set appropriately and the housing repairs programme is set to reflect the budget and monitored regularly. Stock condition survey data feeds into the annual programme. Monthly applications are checked on a sample basis (prior to receipt of invoices). Invoices are checked and authorised prior to payment and are in line with contract terms and conditions.

### 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.

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

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
Policies Procedures and Legislation			Recommendations 1 and 2
Monitoring of Completion of Works			Recommendations 3 and 4
Contract Monitoring and Performance Management			
Resident Queries and Complaints			
Budget Monitoring and Payments to Contractors			

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: Policy and Procedure Documentation (Priority 3)

<p><b>Recommendation</b></p> <p>Policy and Procedure documentation should be reviewed and updated on a regular basis.</p>
<p><b>Observation</b></p> <p>Having up to date and in depth procedure notes will help to ensure that individuals understand their responsibilities with respect to the Housing Repairs function. It also helps to provide a consistent approach in the activities undertaken.</p> <p>From the six policies and procedures relating to the Housing Repairs function, we found that three of them ( Responsive Repairs, Rechargeable Works Policy and Cyclical Maintenance) had not been recently reviewed.</p> <p>Where policies and procedures are not updated regularly, there is a risk that processes within the Housing Repairs function will not be carried out effectively or efficiently.</p>
<p><b>Responsibility</b></p> <p><b>Group Manager – Property and Place</b></p>
<p><b>Management response / deadline</b></p> <p>The Housing Service is currently reviewing the approach towards the management and review of policies. Working with the Corporate Performance and Projects Team. A new intranet based process map template is being developed with hyperlinks to the relevant policies and procedures.</p> <p>The Property and Place Policies and procedures will all be reviewed and amended by the end of March 2016 and can be included in the programme for the development of individual process maps, as each is concluded.</p>

**Recommendation 2: Recharges to tenants (Priority 2)**

<p><b>Recommendation</b></p> <p>Where repairs are the responsibility of the tenant, a process should be in place to recharge the cost of the repairs to the tenant.</p>
<p><b>Observation</b></p> <p>The Council's 'rechargeable works policy' informs tenants which repairs to properties should be considered responsibilities of the Council, and which are deemed to be the responsibility of tenants. It is also said that in case of works performed and paid by the Council but under the responsibility of the tenant, the Council has the right to claim back the amount spent.</p> <p>Our testing found that currently, no records of the costs that could be claimed back from the tenant are being kept, and no recharges are being made.</p> <p>Where records relating to possible recharges are not being kept, there is a risk that income due to the Council is not being recovered.</p>
<p><b>Responsibility</b></p> <p><b>Group Manager – Tenants and Leaseholders</b></p>
<p><b>Management response / deadline</b></p> <p>A growth bid has been submitted for consideration by Cabinet to enable a full time recharges officer to be appointed to manage the recharges process. The benefits are both in terms of the collection of rechargeable work costs but also the behavioural change of tenants who will be made aware that recharges will be robustly pursued</p> <p>Once this has been approved the recruitment can commence so that an officer is in post for the beginning of the next financial year.</p> <p>There are existing procedures that have been developed historically that are still fit for purpose and these will be adopted by the Recharges Officer to ensure there is an audit trail and that, where viable, rechargeable costs are recovered.</p>

**Recommendation 3: Quality of information maintained by Osborne Property Services (Priority 2)**

<p><b>Recommendation</b></p> <p>The council should raise the issue of the quality of information maintained by Osborne Property Services at contract monitoring meetings.</p>
<p><b>Observation</b></p> <p>By monitoring the quality of data provided, the council will be able to rely on the information provided by the contractor to support effective management of the contract.</p> <p>From the source documentation used to select our sample for the Two Room Redecorations works, we found that in four out of ten cases, the date input as the handover to the council following completion of works was prior to the date input as the start date of the job.</p> <p>Where the source documentation contains errors, and the quality of the data is not checked, there is a risk that the information being fed into the performance management targets is inaccurate, leading to incorrect management decisions being taken.</p>
<p><b>Responsibility</b></p> <p>Team Leader – Programme and Procurement</p>
<p><b>Management response / deadline</b></p> <p>The issue has been raised with the Contracts Manager of Osborne, who are currently undertaking a data quality review in preparation for all historic data to be interfaced into the Council's Housing Management System, Orchard.</p> <p>The two room redecoration spreadsheet will be reviewed and appropriate amendments made prior to the information being interfaced.</p> <p>The importance of data quality will be reviewed at the Operational Meetings and the IT follow up meeting scheduled for January 15<sup>th</sup> 2016.</p>

**Recommendation 4: List of eligible properties provided to contractor (Priority 2)**

<p><b>Recommendation</b></p> <p>The Council should maintain, and provide to the contractor, a list of all eligible properties under the five year rolling plan for two room redecorations. This would reduce the amount of works completed that are subsequently voided as a result of this.</p>
<p><b>Observation</b></p> <p>Providing the contractor with a report of only eligible properties under the Two Room Redecoration scheme would maximise the efficiency in redecorating properties in need of this service.</p> <p>Our testing found that currently, it is the contractor’s responsibility to determine eligibility from the list of all properties classed as suitable for elderly persons. From our sample of ten redecorations carried out since April 2015, we found that four properties had previously received a full redecoration within the last five years. Of these four, one property had been fully redecorated in 2014.</p> <p>Where the Council does not provide a list of eligible properties to the contractor, there is a risk that properties in need of redecoration are being missed. There is also a risk that the Council does not identify these properties on receipt of the monthly invoice, therefore resulting in loss of income.</p>
<p><b>Responsibility</b></p> <p>Team Leader – Programme and Procurement</p>
<p><b>Management response / deadline</b></p> <p>The Database and Performance officer was appointed in October and is currently ensuring all historic data is input into the Council Asset Management Database. The database will be interrogated to produce a report of the sheltered properties that require 2 room redecoration.</p> <p>The Contracts Manager at Osborne is implementing a process to ensure that all properties are checked against any void work schedules to prevent redecorations being undertaken within 5 years of any void redecoration work.</p> <p>It is proposed to get programmes developed in February, prior to the commencement of the programmes in which start in April and this information will be uploaded into the Housing Management System, Orchard so that it can be made visible to the tenants using the customer service portal.</p>

## 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
<b>Full</b>		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied.
<b>Substantial</b>		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.
<b>Limited</b>		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.
<b>Nil</b>		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
<b>Priority 1</b>	Recommendations which are fundamental to the system and upon which the organisation should take immediate action.
<b>Priority 2</b>	Recommendations which, although not fundamental to the system, provide scope for improvements to be made.
<b>Priority 3</b>	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.
<b>System Improvement Opportunity</b>	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                      Group Manager (Property and Place)
- Wimal Alahakon                      Commercial Relationship Surveyor (Property and Place)
- Yaqubul Islam                      Directorate Accountant (Housing and Regeneration)
- Lesley Jugoo                      Empty Homes Lead Officer (Strategic Housing)
- Katie Kiely                      Tenant Services Manager
- Sarah Delaney                      Performance and Administration Manager (OPS)
- Alan Perrett                      Contracts Manager (OPS)
- Adrian Hoole                      Contracts Team Leader

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

## 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 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 our 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 us 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. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our 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 work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

### **Mazars Public Sector Internal Audit Limited**

#### **London**

#### **December 2015**

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