

INTERNAL AUDIT REPORT

FROM: Audit and Risk Manager **SUBJECT:** Housing Investment & Maintenance Programmes

TO: Head of Housing & Property Services **DATE:** 28 September 2015

C.C. Chief Executive
Head of Finance
Asset Manager

1 Introduction

- 1.1 In accordance with the Audit Plan for 2015/16, an examination of the above subject area has been undertaken and this report presents the findings and conclusions drawn from the audit for information and action where appropriate. This topic was last audited in December 2009.
- 1.2 Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and cooperation received during the audit.

2 Background

- 2.1 Attempts have been made to undertake audits since the last audit in 2009, but these have been postponed due to reorganisations within the department and an investigation into the letting of contracts.
- 2.2 Prior to 2009, the investment and maintenance programmes were subject to separate audits. However, the management of the contracts in relation to both programmes was found to be very similar, so the audits were combined.
- 2.3 The investment programmes are capital works designed to improve the properties. The current HIP budget, relating to the improvement and renewal works in the current financial year, is for just over £5m.
- 2.4 The maintenance programmes, as the name suggests, are in place to maintain the properties to the required standards. The revenue budgets for these works also include the responsive works that are required.

3 Scope and Objectives of the Audit

- 3.1 The audit was undertaken to test the management and financial controls in place.

- 3.2 In terms of scope, the audit covered the following areas:
- Prioritisation and planning
 - Performance monitoring
 - Budget setting and management
- 3.3 The audit programme identified the expected controls. The control objectives examined were:
- Resources are used effectively to ensure the housing stock is of a required standard
 - Works to be performed on housing stock are appropriately approved
 - Work is performed to the required standard
 - Management are kept informed of overall progress against investment schemes and work programmes
 - Sufficient funds are approved to allow for the programmes of investment schemes and maintenance works
 - Management are aware of potential budget variances.
- 3.4 During the scoping meeting, it was highlighted that a number of programmes had not yet started or works were to be of a responsive nature. With that in mind, five specific contracts / programmes were chosen for review:
- Kitchen and bathrooms (held by Lovell Partnerships Ltd)
 - Window and door replacement (also with Lovell)
 - Painting and decorating (Ian Williams Ltd)
 - Gas maintenance (D&K Heating Services Ltd)
 - Electrical maintenance (EM&I Ltd)
- 3.5 As the investigation referred to above had covered the majority of the relevant contracts that were, and still are, in place no testing was undertaken on the procurement aspects of these contracts.
- 3.6 Also, a separate audit of Housing Stock Asset Management is included within the current plan, so no strategic elements relating to the management of the stock was covered as part of this audit.

4 Findings

4.1 Prioritisation & Planning

- 4.1.1 The programmes of works should be driven by the stock condition survey. However, the last stock condition survey was undertaken in 2010.
- 4.1.2 The Asset Manager (AM) advised that this is known to be an issue and the team (following a re-design) has been developing a plan to improve the council's asset management data. This includes the development of surveying software and the design and procurement of a survey to collect stock condition data for all of the dwellings and communal areas. Once the survey is complete (target of August 2016), the data will be used to determine future Housing Investment Programmes.

- 4.1.3 The AM also provided an options appraisal document that has been put together to look at the different delivery methods with regards to how the stock condition surveys will be undertaken and advised that a report will be sent to Executive in September to request the resources to deliver the stock condition survey.
- 4.1.4 The AM advised that the results of the last stock condition survey are still being used when the programmes are being set. This information is being combined with other information, such as historical investment data held on the Active H system and information obtained by Surveyors, Clerks of Works, Property Maintenance Officers and the contractors during the course of their day-to-day work.
- 4.1.5 The Building Surveyor (BS) responsible for managing the contracts held by Lovell confirmed that this was the case for his contracts. He advised that works on the kitchen and bathroom (K&B) programme are based on a master spreadsheet that had been put together by a previous staff member which was largely based on the stock condition data from the system.
- 4.1.6 Staff from the contractor then undertake surveys of the properties that are to be included on the programme to ascertain whether the condition is as stated (i.e. that the works need undertaking). Property Maintenance Officers would also flag up if they found issues during their visits which would warrant the inclusion of the property on the programme.
- 4.1.7 The windows and doors (W&D) programme for the year is to be set around those properties that still have single glazing and then the oldest double glazed properties.
- 4.1.8 The BSs responsible for the painting and decorating (P&D) contract, which covers external painting of most properties and the internal painting of communal areas, is currently based on a five-year rolling cycle and, as this is the last year of the current cycle, the programme is set to cover all remaining properties.
- 4.1.9 The staff managing the electrical and gas maintenance contracts advised that there are programmes in place for the cyclical, statutory, safety checks, with the contracts largely covering responsive maintenance works. Historically systems have been replaced on a responsive basis, however the AM and Repairs Manager (RM) confirmed they are going to investigate the benefits of planned replacement programmes and will implement them where they have value.
- 4.1.10 As the programmes are partly generated from data held on Active H, testing was to be undertaken to ensure that the works undertaken were accurately reflected on the system, to ensure that the properties did not get included on future programmes until a relevant period had passed.
- 4.1.11 During discussions with the BSs responsible for the different investment programmes, it was established the jobs are updated on Active H once the final accounts had been signed off for the year. However, the open book processes were still being concluded so the system had not yet been updated with data from the previous financial year.

- 4.1.12 For the gas and electrical maintenance works, the team advised that the system is updated once individual jobs are complete and have been costed. However, it was not possible to undertake any testing to confirm this, as the only way of identifying the works was from lists that were actually generated by the system.
- 4.1.13 The AM highlighted that, when the system is updated with the completed works, the asset (property) attributes would reflect the work performed. ICT staff can then run processes to reflect these works in the programmes and, although it is more of a manual process at the moment, the team are reviewing ways to use ICT to automate the process with the ICT team as part of ongoing systems and process reviews.
- 4.1.14 The actual programmes of works no longer receive approval from Members. Instead, Members approve the total budget available for the programme. A specific breakdown is approved for the different streams under the Housing Investment Programmes for the capital works, with the maintenance programmes being covered by the overall revenue funding budgets.

4.2 Performance Monitoring

- 4.2.1 Upon review of the files and documentation maintained by the BSs, it was confirmed that progress reviews are held with each contractor, with the meetings being appropriately minuted.
- 4.2.2 The meetings with Lovell cover all of their contracts. The relevant BS confirmed that these are generally held on a monthly basis, although this will depend on whether any work is ongoing on the contract. Upon review, it was confirmed that meetings had been held appropriately to cover the periods when programmed works were being undertaken.
- 4.2.3 Meetings with Ian Williams for the P&D contract are held on a weekly basis. Copies of the meeting minutes were provided which confirmed that meetings have been held each week during the current financial year.
- 4.2.4 Meetings are held with both D&K and EM&I and the intention is that these are held on a monthly basis. Copies of minutes were provided although a number of gaps were noted.
- 4.2.5 The BS highlighted that the meetings are held as regularly as possible although some may have been missed due to other commitments. She also advised that meetings for the electric contract only started when she took over the management of it, because of several staffing issues prior to the service re-design.
- 4.2.6 Day-to-day monitoring of some of the contracts is also undertaken by the Clerks of Works. For the K&B contract weekly progress reports are completed and they will also be produced when the W&D programme starts. These were found to be in place for the completed programme for 2014/15 and the year to date for 2015/16.

- 4.2.7 For the P&D contract, each job will be checked by a Clerk, with handover certificates being signed off by both a representative from the contractor and the Clerk.
- 4.2.8 The RM advised that there is no 'auditing' of the works that are undertaken as part of the gas and electric maintenance contracts, although this is being considered. However, he also highlighted that the specialist nature of the works require formal certificates to be issued by the contractors on completion of works.
- 4.2.9 The BS responsible for the K&B contract advised that there would be a number of changes to the programme during the year for various reasons. These would be agreed with the contractor as required, with some of the programme being released in different tranches.
- 4.2.10 As previously highlighted, the overall programme is driven by a database put together by a previous staff member, setting out the stock condition survey as per the system. The batches of properties released allow for surveys to be undertaken, but works may not actually be needed, so the actual programme of works to be undertaken constantly evolves throughout the year based on the variation between the statistical stock condition data and the observations at the time of inspection.
- 4.2.11 Various emails showing the release of different batches for the current year were provided, along with correspondence showing those that were being removed from the programme.
- 4.2.12 Whilst not variations to the actual programme of works, variation instructions will also be completed where works required are 'non-standard' and do not fit in with the main contract. Sample copies were viewed on the contract file.
- 4.2.13 For the P&D contract, the BS highlighted that variations would similarly occur for various reasons. The minutes reviewed highlighted the addition of a number of properties to the original programme and the BS suggested that these would have been discussed directly with the contractor.
- 4.2.14 Whilst correspondence was generally found to be in place for these variations, it is considered that formal documentation should be established so that there is a clear trail showing all variations from the original programmes.

Risk

Works to be undertaken may not be appropriately communicated.

Recommendation

Changes to programmes of works should be formally documented.

- 4.2.15 For the current financial year, payments made in relation to the K&B contract, including preliminaries for the W&D contract, have been made based on the value of the work undertaken. The first application for payment was based on an even split of the budget. However, the BS

advised that the payment was based on actual costs as detailed on the spreadsheets submitted and subsequent payments have also been made on this basis.

- 4.2.16 The BS advised that he would check the actual costs submitted against the handover packs for each property included on the claim, to ensure that the jobs had been appropriately signed off. However, testing to confirm the receipt and checking of these documents could not be undertaken as, at the time of audit testing, the folder containing the handover packs could not be located.
- 4.2.17 Whilst this is an issue that needs to be resolved, there was evidence of controls operating in relation to the payments made, with the payment certificates and invoices being appropriately signed off as certified, checked and authorised by authorised signatories.
- 4.2.18 Whilst the 'routine' payments had been made, the BS highlighted that the open book processes have resulted in some issues with the final accounts payments, and suggested that, at the time of the audit, the final accounts had not been agreed for 2014/15 for either of the contracts held by Lovell. This was attributed to the lack of expertise in the operation of the open book contracts and is a known issue within the department.
- 4.2.19 The department has recently requested an exemption from the Code of Procurement Practice in relation to the retention of the services of Impart Links who provide cost management services for these open book contracts.
- 4.2.20 The extension to the contract will allow for the 2015-16 final accounts to be signed off by Impart Links, although the contracts run until March 2018.
- 4.2.21 The report to Executive, where the exemption was requested, highlights that the contract pricing models are to be reviewed, so this may be the last period that these services are required. However, should the open book model be retained, there will be a need to ensure that staff are appropriately trained to ensure that the costs of these contracts can be managed appropriately.
- 4.2.22 As a review of the pricing models is already scheduled, no recommendation is included in this report. However, the need for training should be borne in mind in the event that the open book model is continued with. The AM advised that the service area was aware of the need to continue to train in-house staff however he also felt it was important to note that specialist external support, like that provided by Impart Links, would remain necessary as long as the contracts remain on the current open book model.
- 4.2.23 For the P&D contract, the payments are based on the percentage of work completed at each property. A control book spreadsheet is completed by the contractor and the valuation is then agreed.
- 4.2.24 The payments for the year to date were reviewed and it was confirmed that the valuations had been appropriately signed off. Sample testing was also undertaken to ascertain whether handover certificates for this contract had

been submitted for the jobs shown as being 100% complete as per the control book spreadsheet.

- 4.2.25 All of the properties from the extract were found on appropriately signed certificates. However, a number of anomalies were noted:
- Six properties were recorded as being complete on more than one certificate.
 - Sixteen properties detailed on the certificates were not on the extract. It was subsequently established that these properties were shown as 98 or 99% complete on the spreadsheet. However, other properties that were at the same stage had not been included on certificates.
 - One property (44 Mason Avenue) was not included on the spreadsheet at all but was included on a certificate.
- 4.2.26 The BS advised that the first two issues had been resolved, as the contractor had employed a new foreman on the contract who had been rechecking the properties and was now ensuring that the works were fully completed before they appeared on the handover certificates.
- 4.2.27 The omission of 44 Mason Avenue could not, however, be explained as it was confirmed to be a council property and the work had been signed off. As it wasn't on the spreadsheet, no payment has been made for this work.

Risk

Incorrect payments may be made.

Recommendation

The next payment in respect of the painting and decorating contract should be amended to include payment for the works undertaken at 44 Mason Avenue.

- 4.2.28 The BS for the P&D contract advised that similar issues had been encountered with regards to the final accounts for this contract.
- 4.2.29 Payments in relation to the gas maintenance contract are based on cost-tracker reports generated from the Active H system. Once generated, query reports are sent to the contractor to ask them to explain the costs for any outliers. Payments will then be agreed, with the valuation certificates being signed off.
- 4.2.30 The two payments made in the current financial year, at the time of audit testing, generally agreed to the cost-tracker figure when added to the preliminaries and the allowed overheads and profits, although there was a minor discrepancy on one payment. The valuations for these payments were found to have been appropriately signed off by an authorised signatory.
- 4.2.31 The electrical maintenance contract operates in similar fashion with reports being generated from Active H. However, as it operates on a schedule of rates as opposed to an open-book contract, no query reports are generated.
- 4.2.32 The payments made agreed to the reports generated from Active H and the valuation certificates had been authorised as appropriate by an authorised signatory. In one instance, the authorised copy of the valuation certificate

had not been scanned. However, the invoice held had been appropriately authorised.

- 4.2.33 The Building, Surveying & Construction Manager (BSCM) advised that he has one-to-one meetings with his BSs every two weeks at which time the progress of their contracts will be discussed. Handwritten notes are made of these meetings. He highlighted that if particular issues are noted he may attend the next meeting with the contactor.
- 4.2.34 The AM advised that he will also receive updates from the relevant managers as part of their one-to-ones. General discussions will be held as to the state of the contracts, with any issues that they feel need raising being highlighted. He advised that handwritten notes are made and formal minutes will be introduced once the staffing-restructure had settled and other key corporate schemes had been concluded.
- 4.2.35 The AM suggested that, at present, he generally leaves the prioritisation of jobs to the individual contract administrators, although he may intervene if a specific issue arises. However, in the future, once the stock condition survey has been performed, there will be an upfront exercise to prioritise all of the jobs, with the team using the improved stock condition data to model and agree a five year programme of works.

4.3 Budget Setting & Management

- 4.3.1 As highlighted above, the budget for the year is approved by Members based on the planned works programmes. An extract was taken from TOTAL of the HIP capital budgets and this was confirmed to the budgets that had been agreed with Members, with the latest budgets reflecting the slippage from the previous year, as detailed in the final accounts.
- 4.3.2 As also highlighted, the maintenance budgets are approved as part of the main budget setting and are not individually identified in the report to Members. As these include a large element of responsive work, these do not reflect programmes as such.
- 4.3.3 Spreadsheets are used within the department for budget monitoring, with target and actual expenditure recorded along with details of the individual payment certificates and remaining budgets.
- 4.3.4 A new spreadsheet has been developed by the BSCM for the contracts managed by the Surveyors that report to him and they have now been adopted by the administrators of the gas and electrical maintenance contracts, although they have some work to do on populating some of the figures. The AM advised that these are discussed during one-to-ones and also at the newly introduced monthly team budget meetings.
- 4.3.5 It was noted that the P&D budget was shown as already being overspent on TOTAL. However, this was as a result of the way that the order had been structured on the system and the profile of the payments made.

- 4.3.6 The relevant Principal Accountant advised that, as a result of the monitoring performed and the reviews of anticipated programmes by the BSCM, some variances to the HIP budgets have already been reported to Members.
- 4.3.7 However, he also highlighted that monthly budget meetings were due to be held with various members of the Housing & Property Services department including both the AM and the RM and none of these had taken place at the time of the audit. The AM advised this was due to diary conflicts between Housing & Property Services and Finance but the original appointments would be re-scheduled so the meetings could take place.
- 4.3.8 He also highlighted that, whilst the BSCM had been able to identify some variances, requests for details of potential variances relating to other areas of the programme had not been responded to.
- 4.3.9 It was flagged up that issues had been encountered during the previous financial year with some significant overspends being identified within the Housing & Property Services budgets. However, these did not directly relate to the contracts that have been reviewed, and it is considered that the new monitoring spreadsheets will help to ensure that the relevant budgets are controlled. However, the budget monitoring meetings will aid with this process.

Risk

Budget variances may not be appropriately identified.

Recommendation

The proposed monthly budget monitoring meetings should be held going forward and requests from Finance for details of potential variances are responded to.

5 Summary & Conclusion

- 5.1 Following our review, we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place in respect of Housing Investment and Maintenance Programmes are appropriate and are working effectively.
- 5.2 Minor issues were identified during the course of the audit relating to variations to programmes of works, a payment not being made in relation to works at one property and budget monitoring.
- 5.3 Whilst the number of recommendations raised is low, management within the department had also flagged up a number of issues during the course of the audit as detailed within the report, such as the lack of an up-to-date stock condition survey.
- 5.4 As management are aware of these issues and have plans to address them, this has had a bearing on the level of assurance that can be given.

6 Management Action

- 6.1 The recommendations arising above are reproduced in the Action Plan for management attention.

Richard Barr
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