

INTERNAL AUDIT REPORT

FROM: Audit and Risk Manager

TO: Head of Housing Services
Asset Manager

C.C. Chief Executive
Deputy Chief Executive (BH)
Head of Finance
Compliance Manager
Business Administration Manager
Maintenance Team Leader
Portfolio Holder – Cllr Day
Portfolio Holder – Cllr Matecki

SUBJECT: Housing Repairs and Maintenance

DATE: 23 September 2019

1 Introduction

- 1.1 In accordance with the Audit Plan for 2019/20, an examination of the above subject area has been completed recently and this report is intended to present the findings and conclusions for information and action where appropriate.
- 1.2 Wherever possible, results obtained have been discussed with the staff involved in the various procedures examined and their views are incorporated, where appropriate, in any recommendations made. My thanks are extended to all concerned for the help and co-operation received during the audit.

2 Background

- 2.1 The focus of this assignment is primarily on responsive and void repairs to the Council's HRA housing stock. Based on a rough analysis of activity over the twelve months prior to the audit, these two categories account for an annual level of expenditure of just over £4 million overall.
- 2.2 The procurement side of the repairs service is managed primarily under three main contracts:

Contract	Contractor	Estimated Value per annum (£m)
General and Void Repairs	Axis Europe PLC	2.5
Electrical Maintenance & Repairs	Dodd Group Ltd	1.1
Gas Servicing (Housing)	D&K Heating Services Ltd	1.0

- 2.3 The gas servicing and electrical maintenance contract sums include allocations for programmed work and the latter is also scoped for repairs to corporate properties as well as HRA stock.
- 2.4 The Asset Management division of the Chief Executive's Office administers the repairs service on behalf of the Head of Housing.
- 2.5 At the time of the audit, a restructure of Asset Management and consequent post reassignments and appointments had only recently been completed. While the structures and processes came across as mostly settled by the time of the audit, some ongoing elements service re-design were still in evidence. Examples to emerge during the audit included:
- advent of 'desktop' surveys by Maintenance Surveyors in place of site visits;
 - negotiations on migration of the base schedule of rates on the General and Void Repair contract to a different national set;
 - development of repairs self-service being explored under the Digital Transformation Programme.

3 Scope and Objectives of the Audit

- 3.1 The audit examination was undertaken for the purpose of reporting a level of assurance on the adequacy of structures and processes for ensuring that responsive repair work to Council housing stock is delivered economically, efficiently and effectively.
- 3.2 The examination took the form of a systematic risk-based review of the applicable structures and processes in the context of the following themes:
- policies and procedures
 - roles and responsibilities
 - maintenance of asset records
 - procurement
 - processing, authorising and monitoring repair requests
 - certification and payment
 - rechargeable cost recovery
 - performance and improvement.
- 3.3 The examination drew primarily on the control recording and testing model for housing repairs and maintenance contained CIPFA Systems-Based Auditing Matrices. Given the limitations of this model due to its age, some adaptation was necessary and this was supplemented by application of a light-touch version of the internal contract audit review model to the General and Void Repairs contract.
- 3.4 The findings are based on discussions with the Compliance Manager and Maintenance Administrator, evidenced by supporting documentation and records where possible. Where applicable, the findings have also drawn on asset attribute testing and light-touch reviews of the gas servicing and electrical maintenance contracts that were undertaken as part of the audit of the Housing Improvement / Maintenance Programmes reported in December 2018.

3.5 Control testing has been primarily focused on routine and void repairs under the contract with Axis. The Business Support Manager (Housing Service) has also been consulted on aspects of rechargeable works.

4 Findings

4.1 Recommendations from previous report

4.1.1 There were two recommendations arising from the previous audit reported in September 2016 (both low risk) as follows:

Recommendation	Management Response	Current Status
The housing repair procedure notes should be transferred from the previous intranet system to the current intranet Housing page.	Agreed. This has been completed.	The document referred to no longer appears to exist, probably due to the service re-design. The area of procedure documentation is considered anew in Section 4.2 below.
Refresh the business process to ensure that all rechargeable works are invoiced to the tenant on a timely basis.	Agreed. A new process has been implemented.	Indications are that a sound process has been put in place, but legacy issues remain (discussed further in Section 4.8 below).

4.2 Policies and Procedures

4.2.1 The Council's policy provisions on responsive repairs are manifest in the terms and conditions of the standard tenancy agreements, supplemented by the Tenant's Handbook and (where applicable) the Leaseholder's Handbook. These also inform policy on void repairs in so far as liability of outgoing tenants to recharge.

4.2.2 Discussions on procedure documentation have left the impression that the need for an authoritative set of notes (as described in the previous audit report) is considered by management to have receded substantially as a consequence of the service re-design.

4.2.3 Certain factors support this, most significantly the advent of a specialist Repairs Team which handles all requests from tenants in the form of 'triage' role and initiates them in the MIS Repairs system. The system supports this role through in-built schedules of rates and empowerment to raise work orders directly to the contractor under certain circumstances.

4.3 Roles and Responsibilities

4.3.1 Review of the organisational structure and relevant job descriptions showed clear and appropriate lines of responsibility to support effective delivery of operational, supervisory and management roles (both internally and for joint client/contacting working).

4.4 **Maintenance of Asset Records**

- 4.4.1 A single asset database in the MIS system underpins all primary housing and property management functions.
- 4.4.2 In recent years, this has drawn in leaseholder service charges and recharge of repair expenditure to tenants (where liable under the tenancy terms and conditions), both of which were previously levied remotely through sundry debtor invoicing in the Total Financial Management System (FMS).
- 4.4.3 The asset database content fully meets the test criteria under the CIPFA model. The integration of the single database and restricted access permissions for amending the asset data serve to ensure that repair requests can only be initiated on eligible properties. Data match testing against sold and disposed of properties did not reveal any anomalies.

4.5 **Procurement**

- 4.5.1 The light-touch contract reviews referred to confirmed that the relevant contracts have been awarded in accordance with the Council's Code of Procurement Practice.
- 4.5.2 Unit costs under the General and Void Repairs contract are aligned to a specific national schedule of rates. It was advised during the audit that consultations are in place on migrating to a preferred alternative national schedule of rates, on the strength of which it was decided not to undertake detailed testing on unit cost data within the system beyond general observations from analyses of work order data.

4.6 **Processing, authorising and monitoring repair requests**

- 4.6.1 The manner in which MIS Repairs system drives the progress of repair requests through to completion of work is essentially unchanged from previous audits. Only the parties involved in the various stages of progress and certain basic rules have changed, again due to the service re-design.
- 4.6.2 The term 'triage' has come up frequently in relevant discussions used to describe the way of working for general repairs. This allows for basic routine repair requests to be fast-tracked to the contractor under certain circumstances without separate authorisation or the need for independent technical input.
- 4.6.3 The primary conditions for this to apply for each case are that:
 - the subject faults are adjudged directly remediable through specific schedule of rates items; and
 - the work order total does not exceed £150.
- 4.6.4 Where the first condition is not satisfied, the Maintenance Assistant handling the request is required to refer for pre-inspection by a Maintenance Surveyor.

- 4.6.5 Where the first condition is satisfied but not the second, the work order is required to be authorised in the system by the Maintenance Administrator (as contract administrator) or delegated substitute. This was main the focus of exception testing on an extract of work orders raised.
- 4.6.6 While there was a significant number of output exceptions, further examination on individual cases showed up limitations in the reports available which did not take into account key factors such as independent pre-inspections, emergency priority cases and contractor variations. In the end, there were no issues to report from the testing.
- 4.6.7 Void repairs were looked at in desktop overview only. These are essentially triggered from requests initiated in the system by the Allocations Officers in Housing Services as properties are vacated. Void repair commissions tend cover several contracts including gas servicing, electrical maintenance, asbestos inspection and asbestos removal as well as the contract with Axis.
- 4.6.8 The Maintenance Administrator directly steers the process through based on a standard repair pro-forma. Any variations are signed off on a contractor form by a Maintenance Surveyor.

4.7 **Certification and Payment**

- 4.7.1 Payments on monthly valuations are established for all the primary contracts with automated interfaces that collate the transaction detail on work orders flagged as completed for export to the Total Creditors system. This data is separately extracted to support the contractors' pro-forma invoices and certificates for payment.
- 4.7.2 On completion of export to Total, the interfaces automatically re-flag the captured work orders to 'Charged' to prevent duplicate payment. The valuation certificate is signed by three officers designated respectively as certifier (usually the contract administrator), checker and authoriser (usually the contract manager) subject to authorised substitutes as necessary.
- 4.7.3 A duplicate work order test on a full Axis payment data download covering all transactions since the inception of the contract did not reveal any anomalies that might have indicated interface update failure.

4.8 **Rechargeable Cost Recovery**

- 4.8.1 The means by which rechargeable works are accounted for and sums owed recovered changed in 2015 from use of sundry debtor invoicing in the Total FMS to creating sub-accounts in the MIS rent accounting module, an approach similar to that for recovering overpayment of housing benefit.
- 4.8.2 From discussions and correspondence seen, part of the reasoning behind this was the embedding of an evidence trail in the tenant's history that could be taken into account in any re-housing decisions for tenants (current and former) that have failed to settle outstanding sums.

- 4.8.3 A key outcome of this change, that may not have been fully recognised, is that the recovery processes operated by Finance (Financial Support Team) could no longer be relied upon and the responsibility for recovery now rests with Housing Services. It is known that there have been recent discussions about this with view to seeking clarity.
- 4.8.4 While the basic process of flagging, reporting and 'billing' for rechargeable repairs comes across as sound on the face of it, the underlying data gives rise to some concern. In summary the issues are:
- A marked downturn in the annual levels of recharge is in evidence from 2018/19 compared to previous years (over 60 per cent in monetary terms).
 - Recovery performance has to be seen as poor (less than 40 per cent of charges made).
 - An accumulated balance of £54,000 in unpaid charges has accrued since migration to MIS sub-accounts.
- 4.8.5 Based on further detailed examination of the overdue balances, it is doubtful that a substantial proportion of the unpaid debt has any realistic prospect of being recovered.
- 4.8.6 No clear reasons behind the downturn could be ascertained, although several factors could be speculated upon. While a more detailed review might reveal some issues, it is acknowledged that the relatively low financial significance in overall context would inevitably place such a review low down in priority.

Risk

Income due from rechargeable repairs may not be collected.

Recommendations

- (1) A review of the 'capture' of rechargeable works should be considered to ensure that all such works are identified at source.**
 - (2) A clear policy on recovery of unpaid recharges to tenants should be considered including delegation of responsibilities.**
 - (3) The accumulated balances of unpaid recharges should be reviewed and appropriate recovery actions taken.**
- 4.8.7 Under certain circumstances, the Council repairs service is also provided to leaseholders of properties of which the Council is the freeholder. The qualifying circumstances are made clear in the Leaseholders Handbook.
- 4.8.8 A data match test was undertaken to identify Axis repair orders from inception of the contract against individual leasehold residences. This showed up a relatively small number of cases and all of these were found to meet the qualifying criteria.

4.8.9 It has assumed that these will have been captured as applicable for service incorporation in service charges (this is covered under separate audits of Leaseholder Service Charges). The scale of these instances was not significant enough to warrant any detailed testing.

4.9 **Performance and Improvement**

4.9.1 The provisions for managing performance and improvement have been examined by reference to the relevant Service Plans and as part of the light-touch contract reviews.

4.9.2 No issues emerged in terms of the basic process from this examination. In terms of application in practice, it was reported early in the audit that consultations were in place with Axis aimed at resolving anomalies in Key Performance Indicator (KPI) outturn data being produced due to a divergence in criteria being used between Axis and the Council.

4.9.3 On the strength of this, audit testing of KPI outturn was not considered justified.

5 **Conclusions**

5.1 Following our review, in overall terms we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place to deliver the housing repairs and maintenance service are appropriate and working effectively.

5.2 The assurance bands are shown below:

Level of Assurance	Definition
Substantial Assurance	There is a sound system of control in place and compliance with the key controls.
Moderate Assurance	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited Assurance	The system of control is generally weak and there is non-compliance with the controls that do exist.

5.3 The issues that have arisen are concentrated in the area of rechargeable works. In financial and other risk terms, these are not seen as detracting from the overall assurance level but can only increase in significance if not addressed.

6 **Management Action**

6.1 The recommendations arising above are reproduced in the attached Action Plan (Appendix A) for management attention.

Richard Barr
Audit and Risk Manager

Action Plan

Internal Audit of Housing Repairs and Maintenance – September 2019

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.8.6 (1)	A review of the 'capture' of rechargeable works should be considered to ensure that all such works are identified at source.	Income due from rechargeable repairs may not be collected	Low	Asset Manager Compliance Manager	Review with Repairs Team Leader and Housing on what objectively constitutes a rechargeable repair and subjective considerations. Provide group training to the Repairs & Maintenance team.	31 Oct 2019
4.8.6 (2)	A clear policy on recovery of unpaid recharges to tenants should be considered including delegation of responsibilities.		Medium	Sustaining Tenancies Manager	Agreed. A recharge policy will be established and will include delegation of responsibilities.	31 May 2020
4.8.6 (3)	The accumulated balances of unpaid recharges should be reviewed and appropriate recovery actions taken.		Medium	Sustaining Tenancies Manager	Agreed. A process for managing and monitoring recharges will be produced.	31 Dec 2019

* Risk Ratings are defined as follows:

High Risk: Issue of significant importance requiring urgent attention.

Medium Risk: Issue of moderate importance requiring prompt attention.

Low Risk: Issue of minor importance requiring attention.