

INTERNAL AUDIT REPORT

FROM: Audit and Risk Manager **SUBJECT:** Corporate Properties Repairs and Maintenance

TO: Deputy Chief Executive (BH) **DATE:** 18 April 2018
Asset Manager

C.C. Chief Executive
Head of Finance
Building Surveying and
Construction Manager
Portfolio Holder – Cllr Mobbs

1 Introduction

- 1.1 In accordance with the Audit Plan for 2017/18, 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 range and scope of the 'corporate' property portfolio for the purpose of this audit defies simple definition. Whilst for the most part this constitutes all non-HRA property assets, the portfolio also includes commercial non-operational properties historically classified as HRA.
- 2.2 Due to variations in the way that they are represented between the key data sources, it is difficult to give a precise number of discrete sites and units within this portfolio. Based on the schedule supplied around the end of 2014 to support the review of the Council's portfolio commissioned from the Warwick Limited Liability Partnership (LLP), and after allowing for sundry changes since, a figure slightly short of 500 sites and units emerges.
- 2.3 However, this figure is based on the representation of corporate property assets in the 'Logotech' Asset Register managed by Finance, while extracts from the MIS Housing and Property Management system put the total number nearer to 240.
- 2.4 The disparity is mostly accounted for by the separation of land from buildings in the Asset Register and other variations in the sub-division of premises.

- 2.5 Year-on-year, the base budget for planned maintenance and responsive repairs in relation to the corporate portfolio is close to £1 million, although additional allocations in the current year of £1½ million for slippage and £¼ million for additional works have been approved.
- 2.6 A preventative maintenance programme is managed by the Assets Team with the sites covered categorised as follows:
- operational building fabric
 - non-operational building fabric (where the Council is responsible under statute and lease terms)
 - mechanical and electrical
 - public open spaces
 - surface car parks.
- 2.7 Although the bulk of works undertaken under the programme are commissioned and managed by the Assets Team, improvement projects managed by Neighbourhood Services under the Green Space Strategy are also represented in the programme allocations. Conversely multi-story car parks do not come under the scope of the 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 the adequacy of controls to maintain the Council's corporate property assets in proper state of repair.
- 3.2 The audit scope has been tailored to reflect the transitional status of the Assets Team with regard to organisation structure and staffing. It is also recognised that the strategic baseline is itself in transition with the development of a new Asset Management Strategy to replace the 2008 Asset Management Plan still ongoing at the time of this report. The scope was also impacted to a degree by time constraints.
- 3.3 The examination took the form of a risk-based overview of key processes for determining and meeting ongoing repair and maintenance requirements for corporate properties, focusing on the following themes:
- planning and programming
 - leased properties
 - procurement
- 3.4 The audit was conducted mostly as a desktop exercise following initial consultations with Daljeet Matharu (Interim Asset Manager) and Russell Marsden (Building Surveyor). The primary aim was to re-confirm the key processes in place as ascertained and evaluated in the previous audit of 2014 (there had been no report of any significant change). A measure of consultation with other Assets Team staff proved necessary to obtain further information in support of sample testing on 'quoted work' orders.
- 3.5 The findings are based on the above consultations and examination of relevant documents and records. The latter included analytical review and exception testing of relevant financial and procurement data.

- 3.6 In part, the findings are also based on references to audits undertaken in early 2017 on Open Spaces and Corporate Property and Portfolio Management.

4 Findings

4.1 Recommendations from previous report

- 4.1.1 The current position in respect of the recommendations from the audit reported in September 2014 is as follows:

Recommendation	Management Response	Current Status
1 A procurement exercise needs to be undertaken regarding door entry works at corporate properties covering the works currently being undertaken by Baydale and Dorma. <i>(Low risk)</i>	It was agreed with the previous Procurement Manager that the service should be absorbed into the current contract with Baydale as no response was received from suppliers during the unsuccessful procurement exercise undertaken in 2012/13. It is proposed to confirm this approach with the current Procurement Manager and act accordingly.	Current data shows that Dorma had ceased to be used after June 2016. Indications from tests show corporate assets now absorbed into the existing housing door entry maintenance contract, although the Contract Register does not make this entirely clear.
2 The out-of-hours situation should be investigated to ascertain if Pinners can provide this service. If not, procurement options should be investigated. <i>(Medium risk)</i>	The risk of challenge is considered by the Asset Manager, to be very low. Whilst the out-of-hours work could be split between contractors, the current arrangements are considered to be the most efficient for WDC, as it removes the need to pay several contractor duty officers. Provision for the service is made in relevant contracts. Out-of-hours instructions are carefully managed to ensure that assets are made safe and secure in the first instance and then all follow-on work is redirected to the principal contractors.	Not applicable

Recommendation	Management Response	Current Status
3 The use of the Electric Centre by Warwick Plant Maintenance staff should be formalised or consideration should be given to the use of a procurement card if appropriate. <i>(Low risk)</i>	Agreed. Officer time will be dedicated to following up this action	This has been overtaken by events, specifically the TUPE transfer of WPM to the outsourced leisure management provider.
4 The procurement options around the use of Ser-Tec Systems Ltd should be investigated, with a formal contract being put in place if no other suppliers are able to provide the service. <i>(Medium risk)</i>	Agreed. Work will be undertaken to ascertain if other suppliers are available and the contract issue will be resolved accordingly.	It had been envisaged that a review in consultation with the Procurement Manager would be undertaken by April 2016. It is not clear, however, whether this review took place and Ser-Tec continues to be used without any known formal contract. This is considered further in 4.4.3 below.

4.2 Planning and Programming

- 4.2.1 Findings from the 2017 Corporate Property and Portfolio Management audit, along with an update review over the period since, essentially confirmed that the key information base for corporate property assets is kept fit for purpose. It was noted that there had been a single addition to corporate stock in the interim period with the purchase of a non-operational property.
- 4.2.2 The roles and mechanisms identified from the evidence trail leading to the Planned Preventative Maintenance (PPM) programme for the current year were found to be unchanged from the previous audit, being developed from the same base surveys and using the same spreadsheet models. These have been supplemented in the interim period by more targeted survey and review exercises including technical base data and cost reviews requested by the Asset Steering Group.
- 4.2.3 An Open Spaces 30-year PPM model drawn up under the Green Space strategy has also begun to feed into the overall corporate PPM from the current year. This comprises green space improvement projects managed by Neighbourhood Services with funding contributions from Section 106 allocations.

- 4.2.4 The draft PPM arising continues to be subject to consultation with the designated Service Area building managers/ Heads of Service as applicable and cleared through the Asset Steering Group before submission for Executive approval.
- 4.2.5 Unsurprisingly, Riverside House continues to be excluded from the PPM thus resorting solely to responsive work commissions for necessary repairs as they arise.
- 4.2.6 As with the preparation of the PPM, the evidential trail for its implementation and monitoring of progress shows the same processes as identified in the last audit. Works are commissioned by the Assets Team through work orders raised in the MIS Property Repairs system under formal umbrella contracts, often based on quotations obtained for specified works which cannot be initially determined under schedules of rates.
- 4.2.7 Progress on implementation is monitored through a spreadsheet tool which is maintained by the Building Surveying & Construction Manager and designed to inform one-to-one and Team reviews. Review of the spreadsheet confirmed that works flagged as ordered and completed had been raised in the MIS system, with one exception. This related to a relatively major work package for which a quote was accepted from a firm that is not the existing nominated contractor for corporate property repairs. Due to restrictive controls, the works could not be raised in the MIS system so a purchase order was generated in the Total Financial Management system.
- 4.2.8 From a data review covering the 12-month period prior to the audit, this proved to be an isolated exception (this is discussed further in Paragraph 4.4.10 below). Other observations from review of the monitoring spreadsheet include:
- Approximately 40 per cent of the overall estimated value of works current year PPM is represented by prior year slippage carried over. Works to an almost equal total amount are expected slip at the end of this year.
 - Items removed from the PPM in-year, representing approximately 12 per cent of the total works value of the overall PPM, clearly illustrate an ongoing process of review and challenge. Examples include properties with sale or redevelopment opportunities emerging, deferral of repairs pending future major renewal and immediate preference for minor 'holding' repairs.
- 4.2.9 There was also an instance of removal where the repairs were found to be tenant responsibility under lease conditions and another instance relating to a duplicated item. These further testify as to the effectiveness of the in-year monitoring process.

4.3 **Leased Properties**

- 4.3.1 The controls in place to ensure that only repairs for which the Council is responsible are commissioned in respect of non-operational properties were considered at length in the 2014/15 audit. Verbal enquiries have confirmed these to be essentially unchanged.

- 4.3.2 A profile of MIS work orders raised against non-operational properties in the 12-month period prior to the audit (both PPM and responsive repairs) showed a total of 284 orders relating to 49 units at a total value of around £125,000. Testing on those units where the cumulative value was greater than £1,000 (19 in all) showed that the repairs were generally consistent with the repair responsibilities as shown in MIS data and (where available) lease review details.
- 4.3.3 More major works aside, common amenity and safety defects addressed by the Council tended to relate to electrics, heating installations, fire alarms and asbestos.
- 4.4 **Procurement**
- 4.4.1 An analytical review of MIS work orders completed over a period of three years prior to the audit represented 7,595 work orders with a total value of just over £3 million in value. The top twenty properties in terms of cumulative repair cost over the period were extracted as part of the audit, from which three unexpected inclusions were analysed further.
- 4.4.2 Two of them were non-operational properties, one requiring substantial external works and the other major 'landlord' enabling works to make the property more marketable to leaseholders. The third 'property' in question is an area of public open space for which major improvement works had been commissioned in accordance with the Green Space Strategy, partially funded by Section 106 contributions.
- 4.4.3 An analysis concentrating on those suppliers with which works were commissioned to the value of over £10,000 over the three-year period covered confirmed the procurement activity to be consistent with the established contracts as represented in the Contract Register. The sole exception is the very company that was the subject of the fourth recommendation in the previous report (see 4.1.1 above).
- 4.4.4 Ser-Tec Systems is a specialist service provider used for maintaining and attending to faults in the building management systems at the major Council properties. The costs from using Ser-Tec over the analysis period are deemed significant enough to warrant the recommendation being reincorporated here, albeit at a lower risk level.

Risk

Value for money may not be obtained.

Recommendation

The procurement options around the use of Ser-Tec Systems Ltd should be investigated, with a formal contract being put in place if no other suppliers are able to provide the service.

- 4.4.5 Analysis of the applicable MIS work orders completed during the 2017 calendar year showed that around 20 per cent of the orders (representing around 40 per cent of the overall cost) were based on discrete quotations as distinct from schedules of rates.
- 4.4.6 This is consistent with practices noted in the previous audit, where it was also noted that the final costs of such orders are reviewed as part of the monthly valuations.
- 4.4.7 An indicative sample of these was selected and traced back to available supporting documentation. The test generally showed supporting records maintained of a standard proportionate to the scale and costs involved including appropriate quotation documents where appropriate. In all cases the works were assigned to the respective approved contractors (in one case of major works at the Crematorium the documentation suggested that the work had been sub-contracted with the main contractor obtaining three competitive quotations).
- 4.4.8 There was one other case where an alternative competitive quote was present within the supporting documentation. In all other cases, the works were commissioned on a single quotation in each case.
- 4.4.9 There is no known indication of any threshold above which competitive quotations would be expected (this was also noted in the previous audit). By the same token, of the 2,766 works orders completed during 2017, only 11 were for values greater than £5,000 (the sample tested included all of these).
- 4.4.10 Exception testing showed isolated deviations from the standard work ordering route via the MIS Repairs system by raising purchase orders in the Total Creditors system. The one case deemed significant (referred to in Paragraph 4.2.7 above) was included in the above sample and the reasons for the deviation satisfactorily explained.
- 4.4.11 Tests for duplicate payments of work orders within or across monthly valuation certificates did not show up any anomalies. It is interesting to note that the entire valuation certificates for December 2016 under the general corporate repairs contract were inadvertently paid twice, but this was promptly discovered and repaid by bank transfer.
- 4.4.12 Data match exception tests between the MIS order extract and Total financial data did not show any significant anomalies.

5 **Conclusions**

- 5.1 Within the limited scope of the examination, we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place for corporate property repairs and maintenance are appropriate and working effectively.
- 5.2 There is one outstanding issue to address from the previous audit report and the recommendation arising has be reincorporated for management consideration.

5.3 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.

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 Corporate Properties and Maintenance – April 2018

Report Ref.	Recommendation	Risk	Risk Rating*	Responsible Officer(s)	Management Response	Target Date
4.4.4	The procurement options around the use of Ser-Tec Systems Ltd should be investigated, with a formal contract being put in place if no other suppliers are able to provide the service.	Value for money may not be obtained.	Low	Asset Manager	Following advice from Procurement, these works will be tendered for a 3-year contract and a contract will be in place by the end of July 2018.	July 2018

* 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.