

**EXTRACTS FROM AUDIT REPORTS WITH MODERATE OR LOW LEVEL OF  
ASSURANCE ISSUED QUARTER 3 2010/11**

**Housing Repairs – 31 December 2010**

1. INTRODUCTION

- 1.1. In accordance with the Audit Plan for 2010/11, Ian Wilson, Senior Internal Auditor completed an examination of the above subject area and this report presents the findings and conclusions for information and action where applicable.
- 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. SCOPE AND OBJECTIVES OF AUDIT

- 2.1. The examination was undertaken to evaluate the adequacy of systems for commissioning and paying for responsive repair work to domestic Housing Revenue Account properties.
- 2.2. The assignment was scoped to review and test controls in place for:
- processing repair requests from tenants;
  - raising work orders;
  - monitoring contractor performance;
  - processing payments for completed work;
  - accounting for payments and year-end liabilities;
  - quality assurance (performance and improvement).
- 2.3. The examination focused on responsive repairs commissioned under the area contracts for general repairs and out-of-hours service and the gas and electric service contracts. Programmed maintenance and void repairs were excluded.
- 2.4. The approach to the examination was to ascertain and evaluate controls by:
- updating and verifying the system documentation provided by the Audit Commission under the Joint Working Protocol, and;
  - completing the relevant CIPFA model internal control questionnaire and compliance test programme.
- 2.5. The implementation status of the recommendations from the previous audit report (March 2009) was ascertained taking due account of the impact of

the subsequent lean systems intervention and resultant process re-design.

2.6 The findings are based on examination of relevant records/documentation and discussions with staff. The principal staff contacts were:

- Sean McCabrey (Repairs Manager)
- Jane Rostron (Technical Administration Officer)
- Judy Knight (Technical Administration Assistant).

2.7 In the light of initial evaluation of the controls under the current system, special testing was undertaken to determine the incidence of duplicate payment of work orders.

### 3 FINDINGS

#### 3.1 Recommendations from Previous Report

3.1.1 The impact of the lean systems intervention is such that, of the seven recommendations of the previous report, only two continue to have any significant relevance within the audit scope. The current position for all the recommendations is detailed further below:

Recommendation		Current Position
1	A report itemising invoice amounts against work orders exceeding the respective order values should be designed, regularly generated and examined by management.	These recommendations have ceased to be relevant due to system changes following the lean systems intervention.
2	Procedures for notifying and recording variations and completions (internal and contractor) should be reviewed to ensure that the MIS order records are updated correctly and in a timely manner.	
3	Contractor compliance with notification and recording requirements for variations and completions should be reported and monitored.	
4	The method of recording and reporting on post-inspections should be reviewed with consideration given to utilising the capabilities of the MIS system for the purpose.	Selection and recording routines for post-inspections have changed substantially, but still operate outside the MIS system. The Repairs Manager has advised that migration of the process to MIS is now being pursued. In the meantime issues of completeness of record trails have arisen and are discussed in the body of the report below.
5	Officers authorising Housing repairs invoices should be instructed to stamp, sign and date them prominently and boldly taking account of their subsequent scanning into the corporate DIP system.	This recommendation has also ceased to be relevant with the advent of monthly payment certificates and on-line authorisation for payment.

6	The ability of the MIS system to produce financial totals of invoices to be exported for payment should be investigated with a view to implementing reconciliations with invoice posting returns from Finance.	As Recommendation 5 above. Only invoices under the void contract continue to be exported from MIS in weekly batches, and it is expected that the payment certificate method will be implemented for these as well in due course.
7	System reports supporting all year-end liability information should be retained.	This can be deemed as implemented. Year-end liabilities for 2009/10 were found to be properly supported by system reports and third party estimates as appropriate.

### 3.2 Key developments since previous audit

3.2.1 Following some experimentation with different approaches to commissioning and paying for repairs as part of the lean systems intervention, a much transformed process was implemented in late 2009. Key changes include:

- the role of the Customer Service Centre (CSC) restricted to raising repair requests only in the MIS computer system;
- contractors empowered to create work orders in the MIS system within set bounds and subject to monitoring by Housing and Property Services;
- contractor attendance for non-emergency repairs arranged by appointment agreed directly with the tenants;
- An 'attend and repair' ethos with the presumption of completing the repair at the first visit where this can be reasonably achieved;
- monthly payment certificates replacing the rendering of invoices for individual work orders.

3.2.2 The onset of the lean systems intervention for housing repairs pre-dates the adoption of the Corporate Business and Improvement Plan ('Fit for the Future') which has made lean systems thinking the principal approach to improving service efficiency and effectiveness throughout the Council. The Council has also adopted recently a Service Improvement Plan (SIP) for Housing and Property Services that is designed to address service performance and quality issues identified from several sources both internal and external. The SIP was submitted for Executive endorsement in tandem with consideration of the report from the Audit Commission of the outcomes of their Landlord Services inspection by the Tenant Services Authority. It has also been approved by the District-wide Tenant Panel and the Tenant Services Authority.

3.2.2 The Audit Commission report gave a 'poor' rating with 'uncertain prospects for improvement'. As part of the response, it was pointed out that a major improvement initiative had commenced prior to the inspection, of which the SIP is the manifest result and incorporates the issues raised in the inspection. It is clear from the SIP that aspects of performance and quality

management for housing repairs are at a transitional stage and due account has been taken of this in the audit findings.

3.2.3 Of more immediate impact recently has been the Area B and void repairs contractor going into administration. It was not within the scope of the audit to review the Council's preparedness for or response to this development, except to note that the Area A contractor is being relied upon to cover the Area B and void repair service in the interim before a re-tendering process can be completed.

3.2.4 The risk to contracted services from any contractor suffering financial collapse is allowed for in the Housing and Property Services' Operational Risk Register (Ref.141), with a key mitigating action of building an effective procurement strategy enabling interim measures. In the light of this episode, management should review the effectiveness of the current procurement strategy and re-evaluate the residual risk assessment.

### 3.3 Summary of Systems Evaluation and Key Findings

3.3.1 The findings are summarised below in the context of the areas of review itemised in accordance with the revised system document (initiation, recording, processing and performance/improvement management).

Sub-System	Summary of Findings
Initiation	<p>The Customer Services Centre (CSC) remains the first point of contact for reporting repairs, subject to call routing options that are available for reporting gas and electric faults.</p> <p>Initiation of a repair is by entry of a request into the MIS Active-H housing management system, normally by the CSC operator. At this point, appropriate checks are built into the process to ensure that the repair is within the Council's responsibility before proceeding further. There is also a check based on a rules script to determine whether the repair is normal priority or emergency.</p> <p>The raising of a repair request in MIS automatically alerts the Area Contractor who attends by appointment or, in the case of an emergency fault, within four hours of the report.</p> <p>In exceptional cases, the fault is referred to Housing and Property Services for the Property Maintenance Officer (PMO) to investigate. This includes where the property is subject to a Right to Buy application – tests on properties sold under Right to Buy showed no evidence of inappropriate works during the application periods.</p>
Recording	<p>Once created, the request becomes a permanent uniquely referenced record in the MIS system from which all subsequent work order and payment processing is trailed. There is a system-enforced separation of duties between creation of the request and the raising of work orders arising.</p> <p>Appropriate access restrictions enforce the boundaries within the contractors are permitted to operate when raising and updating the status of work orders.</p>

Processing	<p><u>Completion</u> The onus is on the contractor to update the status of work orders on the system. Only those flagged as completed are paid for.</p> <p><u>Monitoring and Acceptance</u> Weekly reports of work orders both completed and outstanding are regularly generated and inspected by the PMOs for appropriateness of work undertaken and cost. This is supplemented by post-inspection of completed work. The current requirement is for site inspection of all completed works costing over £600 and for 10 per cent of all others. This is supported by reports generated from the MIS database with random sampling for the latter category. Methods of inspection recording have evolved from this report generation facility, but the process remains external to the MIS system.</p> <p>Unfortunately, the audit testing undertaken could not give assurance that post-inspections are being undertaken fully in accordance with the requirements due to an incomplete record trail and evidence of gaps. The main issues are:</p> <ul style="list-style-type: none"> <li>• the scope of post-inspection reports - appears limited to completed orders under the current year contracts and omits current year completions of orders raised under prior year contracts;</li> <li>• retention of post-inspection reports – a large proportion of the previously run reports could not be located, so the date sequence follow-on between the reports could not be verified nor the original samples ascertained or reproduced.</li> </ul> <p>The Head of Housing and Property Services has advised that as part of the ongoing review of the repairs system the team are now evaluating the cost-effectiveness of post-inspections.</p> <p>From an assurance perspective, post-inspection is seen as having significant value as a preventative control and should be maintained at a suitably balanced level.</p> <p><u>Charging and Payment</u> The monthly payment certificate method has clear advantages to both the Council and contractors. It has meant that payment for a number work orders (up to around 600 in some cases) are dealt with in one transaction in place of individual invoicing against each work order as applied in the past. The process works by report generation from the MIS database capturing all completed work orders not previously charged.</p>
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<p>Processing (continued)</p>	<p>Processing and authorisation for payment are subject to the usual separation of duties enforced within the Creditors module of the Total Financial Management System.</p> <p>However, the payment process operates outside the MIS system after the certificates are produced and relies on manual intervention to close the applicable work orders so they are not captured again in future certificate generation. With this reliance comes the risk of error leading to duplicate payment of work orders and it was decided to undertake a computer-aided duplicate detection test covering the period from since the inception of the payment certificate method to date. As electronic versions of almost all previous payment certificates for the Area Contracts had been retained, it was possible (though somewhat painstaking) to reconstruct data tables for the purpose.</p> <p>In the event, duplicate payment of 69 orders was discovered totalling £7,185. The details and evidence have been referred to Housing and Property Services for recovery. There is a good prospect of recovering the whole amount.</p> <p>In quantitative context, the incidence and amount identified comes from a total population of around 14,000 work orders to the value of £1.34 million. Although the scale of duplication is comparatively miniscule, it is still seen as representing a continuing significant (though not major) risk of duplicate payment error.</p> <p>It has been advised that the system supplier is developing payment certificate production capability within the MIS system. Assuming this is ultimately released and adopted, it is anticipated that duplication prevention will be built in thus resolving the issue. In the meantime, management should consider the risk and whether more stringent checks can be applied (manual or automated).</p> <p><i>Year-End</i> Year-end liabilities for 2009/10 were found to be properly supported by system reports and third party estimates as appropriate.</p>
<p>Performance and Improvement</p>	<p>The Service Improvement Plan (SIP) already alluded to embodies the framework for performance and change management for the Housing and Property Service as a whole. In the context of housing repairs, the primary outcomes being sought under the SIP relate to:</p> <ul style="list-style-type: none"> <li>• customer and demand focus for Housing Services as a whole including tenant and staff engagement in agreeing measures for service performance;</li> <li>• reduced 'waste' and 'failure' demand in the repairs system and ensuring value for money (the lean systems intervention and resultant ongoing development is geared towards this).</li> </ul> <p>Many of the planned initiatives are still in the development stage including the establishment of performance measures. As part of this it is intended to review the format and content of the repair satisfaction questionnaires and how the information will be utilised.</p>

Performance and Improvement	<p>In the meantime, evidence has been seen of continuous service and contractor performance monitoring supported by regular system reports and based on consistent quality criteria. Performance outcomes information is presented to periodic internal management and client/contractor meetings.</p>
Other Areas in CIPFA Model	<p><u>Policies and Procedures</u>  In common with most areas covered under the model, the presence of clear written policies and office manual of procedures is given prominence. Although it has never been a priority to have consolidated manuals of procedures, a brief examination has shown the existence of appropriate and readily available sources in respect of housing repairs including the standard tenancy agreement, website pages, MIS training manuals and other reference documents. Combined, these are seen as giving reasonably clear direction to staff on the relevant policies and procedures in place.</p> <p><u>Rechargeable Work</u>  As it was advised that the policy on rechargeable repairs is to be reviewed, the audit examination was verbal verification of key procedures and limited to brief analytical review of recharges made.</p> <p>The rules script developed for the CSC indicates circumstances where the repairs are the tenant's responsibility. The Repairs Manager confirmed that tenants are required to sign a disclaimer effectively accepting the charge before the work is carried out.</p> <p>Sundry debtor accounts are raised for all recharges. Analysis over the past three years, ignoring highly exceptional items found, shows recharges being raised typically totalling around £8,000 per annum. With write-offs occurring at an average of around £3,500 per annum, the implied recovery rate of recharges is approximately 55 percent.</p> <p>It is recognised that requiring payment in advance would bring its own problems and may well be regarded as extreme given the relatively small benefit from improved recovery.</p> <p>Any charging for works to privately owned works under the major works programmes is reviewed under Leaseholder Service Charges</p> <p><u>Tenant relocation during major works</u>  Where tenants are required to relocate temporarily whilst repairs are carried out to their residences, the process is dealt with in accordance with standard guidelines which are incorporated in an information notice to the tenants. Under this, the Council acknowledges responsibility to arrange and pay for removals of tenants' belongings and safeguarding fixtures and fittings from damage.</p> <p>No testing was undertaken as there have been too few occurrences in recent years to make this a significant area to review.</p>

#### 4 ISSUES ARISING

##### 4.1 Loss of Contractor

4.1.1 With the Area B and void repairs contractor going into administration, only one contractor is left to cover all routine repairs and maintenance other than

specialist heating and electrical repairs, at least for the short term. Assessments under the corporate risk management regime have been amended in recognition of the event, and mitigation measures provided for in the Corporate Procurement Plan in line with the Risk Register action commitment to 'develop effective procurement strategies'.

#### 4.2 Post-Inspection Recording and Monitoring

- 4.2.1 The findings highlight shortcomings in the record trails maintained to the extent that audit testing was unable to give the hoped for assurance that post-inspections are being undertaken fully in accordance with the requirements.
- 4.2.2 It has been established the MIS system can be used for recording post-inspections, although this does not address the scope and retention of the original sample selections for post-inspection extracted from the database.
- 4.2.3 While it is recognised that the value of post-inspections is under review, they are viewed from an assurance perspective as a key control to prevent financial loss from overcharging. While there may be scope for reducing the level of post-inspections being undertaken, it is important for maintaining their assurance value that samples are truly representative of completed jobs in each period covered and a full record trail is maintained.

#### **Risk**

***Post-inspections are not being undertaken to the scale required under prevailing policy.***

#### **Recommendations**

**Electronic copies of all post-inspection selection reports should be retained in .pdf format and organised in appropriate network folders for future reference.**

- (1) Checks should be made when generating post-inspection selection reports that the date periods follow on directly from those previously used to ensure no omissions.**
- (2) The configuration of post-inspection selection reports should be reviewed and amended as necessary to ensure that completions on work orders raised under prior year contracts are incorporated.**

#### 4.3 Duplicate Payments

- 4.3.1 The findings prove a significant, though not major, risk of overpayment to the repair contractors caused by clerical error. Those identified from computer-aided testing have been referred for recovery.
- 4.3.2 The root of the problem lies in the payment certificates becoming external to the MIS system once generated, a situation that is reportedly being dealt with by the supplier with the development of an in-built payment certificate function. In the meantime, it is viewed that more stringent checks (e.g. batch control totals) or some automated approach to closing the applicable work



orders on the MIS system risk should be explored. The risk is not seen as severe enough to warrant reverting to the previous payment method based on invoicing against every single work order.

**Risk**

***Overpayment to contractors due to duplicate work orders being processed in payment certificates.***

**Recommendation**

***The procedure for closing work orders in the MIS system when the related payment certificates have been released should be reviewed to determine the potential for automation of the process or more effective checks.***

5 **CONCLUSIONS**

5.1 The findings show a sound system in place with effective controls to mitigate the key risks, subject to significant exceptions relating to:

- the record trail for post-inspections;
- incidence of duplicate payment on work orders under the monthly payment certificate method;
- transitional status of key aspects of performance and improvement management.

5.2 In view of these qualifying factors, the findings are seen to give MODERATE assurance of the capability of the structures and processes for delivering the key objectives of the housing repairs service.

**Assurance Opinion:** Moderate.