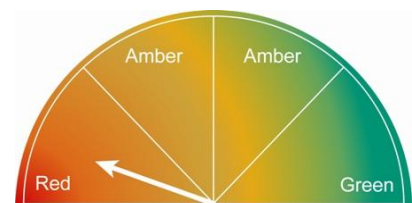


RSM Tenon

Thurrock Council
Re-Charging Tenants
Internal Audit Report
FINAL

Overall Opinion



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Debrief meeting	15 th November 2012	Auditors	Chris Harris – Partner
Draft report issued	30 th November 2012		Gary Clifford - Client Manager
Responses received	24 th January 2013		Liv Shand - Senior Internal Auditor
Final report issued	25 th January 2013	Client sponsor	Martin Hone - Director of Finance and Governance Barbara Brownlee - Director of Housing
		Distribution	Martin Hone - Director of Finance and Governance Barbara Brownlee - Director of Housing K Adedeji – Client Contract Manager



This review has been performed using RSM Tenon's bespoke internal audit methodology, **i-RIS**.

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

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1 EXECUTIVE SUMMARY

1.1 INTRODUCTION

A review of Rechargeable housing repairs due to breakages/neglect was specifically requested by the Director of Finance and Corporate Governance to confirm that debts are raised and income collected.

It is council policy to recover the cost of a repair plus a 15% administration charge from tenants where the tenant, or his/her family or visitors have caused damage deliberately, maliciously or through neglect. The following groups of tenants are not normally required to pay for rechargeable repairs due to wear and tear only:

- Elderly tenants (who have no non-dependant/able-bodied person living with them)
- People with disabilities

No exemptions apply for rechargeable repairs due to breakage or neglect.

The scope of the review covered the roles and responsibilities for raising recharges, the administration and debt collection. The recharges are raised on the Saffron Housing system and sundry debtors logged on Oracle Financials. Income which cannot be collected from the tenant after a period of time is written off. The following data was extracted from these systems:-

Oracle Financials:

Recharge Budget - Breakdown Repairs 2011/12	£ (600) k	Actual balance £6817 including write offs	Miscellaneous Income received £ (2224.10) Key fobs
Recharge Budget - Breakdown Repairs 2012/13	£ (600) k	Actual balance £1582 including write offs	Miscellaneous Income received £ (809.77) Key fobs

Saffron:

Potential recharges - Breakdown Repairs 2011/12	£184,788	Uncollected
Potential recharges - Breakdown Repairs to September 2012 -2012/13	£54,455	Uncollected

It must be noted that the recharge process has been restricted. This is due to the fact that the Housing Repairs main contractor Morrison (MFS) has been unable to identify actual costs due to invoicing issues. In addition, although the recharge policy dated 2008 is clear, in practice there are no comprehensible roles and responsibilities across the Housing Department. This has resulted in delays to debts being raised.

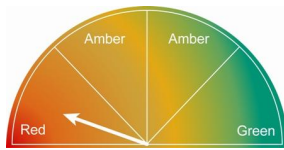
The audit was designed to assess the controls in place to manage the following objectives and risks:

Objective	The Council has a formal system in place for identifying and recovering funds for re-chargeable jobs.
Risk	A formal procedure may not be in place to re-charge tenants for acts of vandalism resulting in financial loss to the Council.
Objective	A formal policy is understood by and complied with by all members of staff.

Risk

The standards set by Council policy may not be understood by members of staff and not complied with as a result.

1.2 CONCLUSION



Taking account of the issues identified, Thurrock Council cannot take assurance that the controls upon which the organisation relies to manage these risks are suitably designed, consistently applied and effective. Action needs to be taken to ensure these risks are managed.

The above conclusions feeding into the overall assurance level are based on the evidence obtained during the review. The key findings from this review are as follows:

Effectiveness

- The overall opinion is that the recharge system is ineffective due to a lack of direction and reinforcement of roles and responsibilities.
- A lack of invoices from Morrison had resulted in the Housing Department being unable to clearly identify actual costs.

Design of control framework

- Although there is a recharge policy and process in place, it had not been adapted to account for a new major Housing Breakdown Repairs partnership.

Application of and compliance with control framework

- The recharge policy had not been complied with due to contractual invoicing issues.
- Staff across the Housing Department were not clear about the process.
- Finance were not notified that recharges were not being collected in full.

1.3 SCOPE OF THE REVIEW

To evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied, with a view to providing an opinion... Control activities are put in place to ensure that risks to the achievement of the organisation's objectives are managed effectively. When planning the audit, the following controls for review and limitations were agreed:

Control activities relied upon:

- Housing Recharge Policy
- Contract management
- Performance management
- Debt Collection
- Roles and Responsibilities

Limitations to the scope of the audit:

The scope of this audit will be limited to reviewing processes in place and conclusions are based upon results of sample-testing. Our work does not provide any guarantee against material errors, loss or fraud or provide an absolute assurance that material error, loss or fraud does not exist.

The approach taken for this audit was Risk-Based.

1.4 RECOMMENDATIONS SUMMARY

The following tables highlight the number and categories of recommendations made. The Action Plan at Section 2 details the specific recommendations made as well as agreed management actions to implement them.

Recommendations made during this audit:

Our recommendations address the design and application of the control framework as follows:

	Priority		
	High	Medium	Low
Design of control framework	2	0	0
Application of control framework	1	3	0
Total	3	3	0

The recommendations address the risks within the scope of the audit as set out below:

Risk	Priority		
	High	Medium	Low
A formal procedure may not be in place to re-charge tenants for acts of vandalism resulting in financial loss to the Council.	2	0	0
The standards set by Council policy may not be understood by members of staff and not complied with as a result.	1	3	0
Total	3	3	0

1.5 ADDITIONAL FEEDBACK

Good Practice Identified During the Audit

Kwest survey introduced to improve performance management process.

1.6 ACKNOWLEDGEMENTS

The following staff gave their time and co-operation during the review and we would like to record our thanks:

Name	Position
M. Hone	Director of Finance and Governance.
B. Brownlee	Director of Housing.
L. Sinclair	Interim Head of Housing.
K. Adedeji	Contracts Manager.
L. Clark	Landlord Services & Strategic Commissioning Manager
B. Sargeant	Local Manager, Area Housing Office - South

Name	Position
S. Atherton	Repairs Service Manager
D. Garner	Senior Surveyor
S. Gallacher	Account Manager – Morrison Facilities Services
S. Zacharia	Business & Strategic Development Manager (Revenues, Benefits & Exchequer Services)
L. Porter	Senior Debt Recovery Assistant
A. Martin	Cashiers Team Leader
M. Browne	Customer Service Advisor
T. Fletcher	Contact Centre Team Manager
M. Jones	Management Accountant

2 ACTION PLAN

The priority of the recommendations made is as follows:

Priority	Description
High	Recommendations are prioritised to reflect our assessment of risk associated with the control weaknesses.
Medium	
Low	
Suggestion	These are not formal recommendations that impact our overall opinion, but used to highlight a suggestion or idea that management may want to consider.

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
1.1	Clear guidance should be provided to all relevant members of the Housing Directorate. The policy needs to be periodically reviewed.	High	Y	The recharges policy is scheduled to be a part of a wider review of the responsive repairs policy.	April 13	Kathryn Adedeji
1.2	A system must be set up to ensure the Head of Corporate Finance is notified of any amendments to the 'rechargeable works' policy. This should be implemented via regular meetings between the Management Accountant and the Housing directorate.	High	Y	Regularly monthly meetings now take place with minuted actions.	November 12	Housing Technical Services Manager
2.1	All income must be presented for payment where charges can be justified. This will enable managers to maximise the amount to be recharged and offset against costs.	High	Y	A new process for providing evidence packs to support invoices, including photographs a description of the works and the rationale for why it has been determined that wear and tear could not account for the need to undertake the works is being developed.	February 13	Susan Murray

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
2.2	Rechargeable repairs need to be passed to the appropriate Manager/Technical Officer for processing promptly. This will enable the Authority to realise the relevant income achievable in a timely manner, against the budget set for recharges. A greater portion of the costs will be met by the income collected.	See 2.1	Y	This recommendation will be covered by the new processes that are due to come into effect under the contractual framework for the new responsive repairs contract. This will stipulate a time frame for both raising the recharge request (service provider) and for a review of the recharge request (Thurrock tech team) for approval of the works. Without this approval works will not be authorised to be undertaken.	February 13	Kathryn Adedeji
2.3	The policy in place to recharge tenants for damage caused to properties needs to be refreshed and rolled out. The policy could be implemented as an integral part of the transformation review within Housing in relation to the Morrison contract. This will provide a holistic approach to works orders raised and encourage a more accurate and timely process for recharging tenants.	Medium	Y	The Morrison contract was terminated and ends on the 31 st January. An interim contract is due to commence on 1 st February. This contract has provision within it for the contractor to identify potential recharges for responsive repairs. This has been integrated into the variation approval process which has time limits by which the approval must be given in order to proceed with the work.	April 13	Kathryn Adedeji
2.4	A refresh of the contractual process; with regards to the identification and reporting of recharges is required. A clear process will enable operatives to identify report and collect evidence of potential recharges that may be missed by the Client.	Medium	Y	An agreed revised recharges process map will form part of the new contract with Mears Ltd.	February 13	Kathryn Adedeji

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
2.5	Although the process for raising debts is clearly identified in the recharge policy, a working group is required to enable debtors to liaise with Housing staff in relation to recharges. This will create a clear channel of communication between Housing and Debtors and the income received can be monitored and reported regularly.	Medium	Y	Monthly meetings are now in place between Debtors and Housing. These meeting are tracking progress with changes identified and will track the progress of income.	November 12	Kathryn Adedeji
2.6	Roles and responsibilities must be clearly outlined and explained, in order to achieve an effective service.	See recommendation 1.1	Y	Agreed new process maps with defined roles and responsibilities are being put in place as part of the mobilisation of the new contract.	Feb 13	Kathryn Adedeji

3 FINDINGS AND RECOMMENDATIONS

This report has been prepared by exception. Therefore, we have included in this section, only those areas of weakness in control or examples of lapses in control identified from our testing and not the outcome of all audit testing undertaken.

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
Risk 1: A formal procedure may not be in place to re-charge tenants for acts of vandalism resulting in financial loss to the Council.					
1.1	A formal procedure for charging tenants for rechargeable works is in place and is monitored by Housing.	Yes	<p>A review of the policies in place for rechargeable works was undertaken. A recharge policy was created in 2008 and refreshed in 2009. A training module was designed and delivered to the Area Housing Offices at that time. Procedure documents were also evident.</p> <p>The tenancy agreement confirmed tenant's obligations and was advertised on the Council website.</p> <p>Although the policy was comprehensive, in practice Housing staff were unclear about their roles and responsibilities with regards to raising and approving recharges. This was also partly due to invoicing issues with the new strategic partner for Breakdown Repairs and Voids, who were failing to provide details of actual costs.</p>	Clear guidance should be provided to all relevant members of the Housing Directorate. The policy needs to be periodically reviewed.	High
1.2	Decisions must be authorised by the Directors for Finance and Housing when amounts are amended or written-off.	No	Over the financial year 2012/2013 there had been no reporting of rechargeable works to the Head of Corporate Finance. It was agreed to not charge tenants for 2011/12 due to the issues surrounding the Morrison contractor work. However this was expected to be re-established during 2012/13. It was discovered from the sample that some income	A system must be set up to ensure the Head of Corporate Finance is notified of any amendments to the 'rechargeable works' policy. This should be	High

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
			had been received into the account codes for rechargeable works. This represented key fob not repair work costs.	raised at the regular meetings between the Management Accountant and the Housing directorate.	
Risk 2: The standards set by Council policy may not be understood by members of staff and not complied with as a result.					
2.1	All recharges are supported by documents held on the Financial Management System and information on this database is accurate. Invoices are raised promptly.	No	<p>A review of the recharge budget codes was undertaken. The income codes HR302 4512 and HR302 4519 were sampled for in-depth testing. It was found that a limited amount of income was being received from tenants into these codes. Cashiers explained this mostly represented charges relating to tenant 'key fobs'. There was a very small sample of old debt payments for repairs. These codes also identified a series of write offs from previous years which resulted in the written back costs exceeding income collected.</p> <p>A reconciliation of the Oracle records with the Management Accountant's files found that all subjective codes relating to rechargeable works; (Contribution by Tenant, Void Property Recharge, Rechargeable Works, Vandalism Housing Stock, and Void Rechargeable Works), were accurate.</p> <p>The Saffron system was checked for 2011/12 and 2012/13 to quantify any potential recharge income. Approximately £ 185 k was found for 2011/12 and approximately £55k for 2012/13 to September 2012. These recharges had not been presented for approval.</p>	All recharges must be presented for payment where charges can be justified. This will enable managers to maximise the amount to be recharged and offset against costs.	High

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
2.2	An In-House repairs team has been established to manage all the repair orders from Council tenants.	Yes	Discussions with the Repairs Team identified that the Contact Centre staff were recording potential recharges where a tenant declares the damage involved. This was identifiable on Saffron with a recharge code. This also applied to recharges raised by inspectors' onsite for breakdown repairs. Voids recharges were only identifiable by specification at present. This was because works orders were not split into works and rechargeable works. A sample of all orders raised for breakdown repairs was obtained. Voids specifications were also reviewed. It was discovered that the recharges had not been submitted for approval.	Rechargeable repairs need to be passed to the appropriate Manager/Technical Officer for processing promptly. This will enable the Authority to realise the relevant income achievable in a timely manner, against the budget set for recharges. A greater portion of the costs will be met by the income collected.	See 2.1
2.3	Area Housing Offices are responsible for raising, recording and monitoring rechargeable repairs identified through inspections. A debt is raised and agreed with the tenant and an invoice raised by debtors.	Yes	Four Area Housing Office Managers were contacted to review the recharges raised in the last 18 months. It was evident from responses that the number of recharges was either non-existent or very small in numbers. Although there had been a training course rolled out and a policy was in place, there appeared to be a lack of clarity and consistency about its enforcement. A lack of accurate financial information from the Morrison billing service had prohibited recent activity.	The policy in place to recharge tenants for damage caused to properties needs to be refreshed and rolled out. The policy could be implemented as an integral part of the transformation review within Housing in relation to the Morrison contract. This will encourage the raising of works orders and assist in providing a more accurate and timely process for recharging tenants.	Medium

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
2.4	Morrison operatives are tasked with identifying rechargeable works onsite via direct works orders including incidental finds. This is noted in the contract and identifies an incentive for reporting works not seen by the Client.	Yes	<p>The Rechargeable Works clause within the Morrison Contract clearly states "it is the responsibility of the Service Provider's work person or supervisor (Morrison Contractor) to contact the Duty Officer and await instructions".</p> <p>Discussions with the Morrison Client Manager revealed that the operatives were carrying out repairs for recharges identified by the Client by works order. Identification and collection of evidence outside of this method was not being carried out. Voids were covered by the inspectors on visits but incidental finds were not being catalogued and reported as expected. This included work by third party providers, who may have identified potential rechargeable work.</p>	A refresh of the contractual process; with regards to the identification and reporting of recharges is required. A clear process will enable operatives to identify report and collect evidence of potential recharges that may be missed by the Client.	Medium
2.5	The Debtors Section receives invoice requests from the Area Housing offices and processes the form for collection of income.	Yes	<p>The Senior Debt Recovery Assistant declared that very little income had been collected for the current financial year and previous year. A review of the Oracle system for the recharge codes confirmed this statement. There was a small amount of income identified, outside of the debtors system, relating to recharges for key fobs. This was recorded by cashiers as miscellaneous income. This is administered by the Customer Service Advisors, although the majority of work seems to be centred in Grays.</p> <p>It was explained by the Senior Debt Recovery Assistant that when the contract changed to Morrison, recharging was stopped. It was declared that until the Pricing Agreement has been finalised, debtors cannot start recharging. This has prevented</p>	Although the process for raising debts is clearly identified in the recharge policy, a working group is required to enable debtors to liaise with Housing staff in relation to recharges. This will create a clear channel of communication between Housing and Debtors and the income received can be monitored and reported regularly.	Medium

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
			debtors raising invoices with tenants as amounts could not be justified without original invoice forms. This also impacted upon Area Housing Offices where potential recharges may have been identified.		
2.6	Senior Management Team meets regularly to discuss on-going strategies with regard to tenant recharging.	Yes	It was not possible to review the Housing Management Monitoring Group minutes to confirm policy discussions, due to access concerns. It was possible to confirm contractual meetings on a strategic and operational level had taken place. These were led by the Contract Repairs Team and senior management.	Roles and responsibilities must be clearly outlined and explained in order to achieve an effective service.	See recommendation 1.1