

# Thurrock Council

## Internal Audit Report - Final

Housing Capital Programme (Kitchens & Bathrooms)

Audit Plan: 2013/14

**CONTENTS**

<b>Section</b>	<b>Page</b>
Executive Summary	1
Action Plan	4
Findings and Recommendations	7

Debrief meeting	21 December 2012	Auditors	C. Harris – Head of Internal Audit
Draft report issued	23 January 2013		G. Clifford - Manager
Responses received	10 October 2013		L. Shand - Senior Auditor.
Final report issued	25 October 2013	Client sponsor	B. Brownlee - Director of Housing
		Distribution	B. Brownlee - Director of Housing K. Adedeji - Head of Housing, Investment and Development. S. Clark – Head of Corporate Finance

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.

This report, together with any attachments, is provided pursuant to the terms of our engagement. The use of the report is solely for internal purposes by the management and Board of our client and, pursuant to the terms of the engagement, it should not be copied or disclosed to any third party or otherwise quoted or referred to, in whole in part, without our written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

© 2013 Baker Tilly Business Services Limited

The term "partner" is a title for senior employees, none of whom provide any services on their own behalf.

Baker Tilly Business Services Limited (04066924) is registered in England and Wales. Registered office 25 Farringdon Street, London, EC4A 4AB.

**1 EXECUTIVE SUMMARY**

**1.1 Introduction**

This review covers the contract and project management of the Kitchen and Bathroom replacement programme, as part of the 2012/13 Capital programme. The audit was carried out as a result of a specific management request and as a result, further work was commissioned by the Housing Department. Therefore, it was agreed that the work would carry forward from 12-13 into the 13-14 plan.

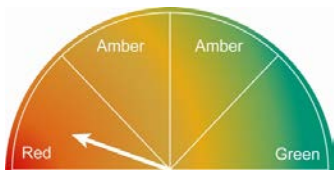
The Housing Capital Programme is delivered by Europa Services and includes the management of projects for Decent Homes works. The budget for the Kitchen and Bathrooms scheme for 2012/13 is approximately £2.3m for approximately 200 dwellings across the borough as agreed by Cabinet in December 2011. The improvements were planned as part of a programme to maintain the Council's housing stock to the Government's Decent Homes standard.

The procurement of the first tranche of Kitchen and Bathroom replacements under Decent Homes works was carried out in 2010 and a framework agreement established with 3 providers: HW Wilson, Crangates and Breyer.

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

<b>Objective</b>	To check that the Housing capital programme is managed effectively and provides value for money.
<b>Risk</b>	Programme delivery may be inefficient resulting in delays. This could lead to reputational risk and poor value for money.

**1.2 Conclusion**



Taking account of the issues identified, Thurrock Council cannot take assurance that the controls upon which the organisation relies to manage the risk above are suitably designed, consistently applied and effective.

Action needs to be taken to ensure this risk is 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**

Although there are good processes in place to deliver the Housing Capital Programme, there are some key weaknesses identified in the reporting of programme delivery, budget management and contract management. However, it was acknowledged that a restructure within the Housing governance framework, and key staff changes within Europa Services, have impacted upon the reporting process. It was also acknowledged that most of the control weaknesses identified during the review have also been identified by both Council and Europa Services and that new controls are either currently being developed or have already been strengthened.

**Design of control framework**

- The performance reporting framework for financial and project progress was not fully in place during the first half of the current financial year.
- Saffron reporting tools did not adequately support the financial reconciliation process.
- Contract management was not supported by formal minutes.

**Application of and compliance with control framework**

- The Schedule of Rates was checked by the Surveyors and was confirmed as correct by sample testing.

- Supporting documentation for properties in need of Decent Homes work under the scheme, works orders, variations and correspondence were maintained.
- The Housing Capital Programme had been approved by Cabinet.
- Surveyors produced weekly reports, although management and Client sign off was not apparent.
- Invoices were approved correctly. However, they were not supported by costings per property.
- Invoices were logged on Saffron and added to housing request forms for approval.
- Contract monitoring occurred on a daily basis, including inspections, variations and dealing with issues arising.
- Customer Surveys were undertaken regularly and recorded with positive outcomes.

#### **Control issues**

- Comprehensive project management information was lacking between April and October 2012, other than Surveyors monthly reports.
- Budgets and associated outturn against these budgets were not reported on a regular basis between April and November 2012.
- Saffron transaction reports did not reconcile to Oracle Financials.
- Key performance indicators were not adequately supported, other than by customer surveys.
- Contract management was not sufficiently developed to report property costs, emerging issues, risks, design requirements or additional works that might impact upon budgets.
- Contractor and project meetings were not minuted, although email evidence and surveyor's weekly reports supported some level of monitoring.
- Sample testing showed that invoices were presented for payment before orders had been approved in some cases.
- Additional works/variations were not managed and budgets were affected.
- Document retention was not evident with regard to the evaluation of the tenders for Decent Homes works.

### **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:**

- Budget management;
- Project management;
- Contract management;

#### **Limitations to the scope of the audit:**

- The scope of this audit was limited to reviewing processes in place and our conclusions are therefore based upon the 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 a Risk-Based Audit.

### **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	4	2	0
Application of control framework	1	1	0
<b>Total</b>	<b>5</b>	<b>3</b>	<b>0</b>

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

Risk	Priority		
	High	Medium	Low
Programme delivery may be inefficient resulting in delays. This could lead to reputational risk and a lack of value for money.	5	3	0
<b>Total</b>	<b>5</b>	<b>3</b>	<b>0</b>

**1.5 Additional Feedback****Good Practice Identified During the Audit**

Customer surveys are undertaken regularly, which provides useful information regarding the contractor's level of performance.

## 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	A review of the budget management reporting template is required between Europa Services and Housing to agree a format. Furthermore, a review of Saffron reports is required to ensure financial data can be reconciled and quality of data checked.	High	Y	This is no longer applicable as this element of the SSP has been transferred back to the Council, and the Council's standard budgetary maintenance processes and controls now apply.	2/8/13	Kathryn Adedeji
1.2	Surveyors also need to provide programme managers and Finance with costing information on a regular basis. This will help form the basis for sound financial reporting and reconciliation.	Medium	Y	This is no longer applicable as following the transfer of the Europa staff into Housing the processes that support the Capital Programme have changed and they no longer have responsibility for managing finance.	2/8/13	Kathryn Adedeji
1.3	Key performance indicators need to be supported by up-to-date project information and be available for review. This will enable the Council to have	High	Y	This is no longer applicable as this element of the SSP has been transferred back to the	2/8/13	Kathryn Adedeji

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
	confidence that the work programme is being delivered efficiently and on time.			Council.		
1.4	Key project documents, identifying project progress and management information, including associated costs, risks and potential problem areas need to be produced. This will provide the Council with the confidence that projects are well managed, delivered efficiently and providing value for money.	High	Y	This failing occurred whilst the Housing Capital Programme was managed via the SSP. The capital programme is now supported by site, operational and strategic governance with associated performance reports, a risk register and cost reports.	2/8/13	Kathryn Adedeji
1.5	Comprehensive contract management information is required, to form an essential part of the overall decision making process. A lack of contract management information may result in a lack of value for money.	High	Y	This failing occurred whilst the Housing Capital Programme was managed via the SSP Following the transfer of services the programme is now supported by appropriate programme and contract governance.	2/8/13	Kathryn Adedeji
1.6	Works should not be started without a properly approved works order. This ensures only those works approved are carried out.	High	Y	This failing occurred whilst the Housing Capital Programme was managed via the SSP - The housing capital programme now has a 2 stage process that ensures a full approval process 2 weeks prior to works commencing. This ensure costs are managed and known prior to works commencing.	2/8/13	Kathryn Adedeji

Ref	Recommendation	Categorisation	Accepted (Y/N)	Management Comment	Implementation Date	Manager Responsible
1.7	Proper formal minutes of contractor meetings should be maintained to provide evidence that issues which could result in variations are being raised with Housing.	Medium	Y	This failing occurred whilst the HCP was delivered via the SSP, since the transfer the management of the programme has changed and contractual governance meetings are in place and this includes – formal minutes.	2/8/13	Kathryn Adedeji
1.8	It is essential to retain tender evaluation documentation to support the tender process. The Council may be at risk of challenge and value for money may be difficult to prove without this documentation.	Medium	Y	This failing occurred whilst the Housing Capital Programme was managed via the SSP property services output specification. The new Capital Programme fully addresses the tender evaluation reports and the financial management is fully evidenced.	2/8/13	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
<b>Risk 1: Programme delivery may be inefficient resulting in delays. This could lead to reputational risk and a lack of value for money.</b>					
1.1	Budget Management is undertaken regularly.	No	<p>A review of the budget management arrangements within Europa was undertaken. It was established that full and comprehensive budget information had not been submitted to the Housing Department until November 2012. This was stated as due to a number of reasons:</p> <ul style="list-style-type: none"> <li>i) Oracle Financials delay in reporting function.</li> <li>ii) Preparation of the accounts was affected by incomplete/unreliable Saffron reports.</li> <li>iii) A lack of financial documentation/costing reports held by Surveyors to enable a reconciliation of spend be carried out.</li> </ul> <p>A review of the budget reports made available in November and management requests for information indicated that there were some gaps in information provided.</p> <p>Reconciliation for the Kitchen and Bathroom scheme capital code was attempted by Audit, but this was complicated by the fact that reliable reports were not available from Oracle Financials at this stage. However, a further review of the capital code (H0127 9881) was carried out within these limitations. The reconciliation showed there were gaps in information. Saffron data did not reconcile to Oracle Financials. A full and comprehensive report of all orders and invoices raised on Saffron in the financial year 2012 was not available.</p>	<p>A review of the budget management reporting template is required between Europa Services and Housing to agree a format. Furthermore, a review of Saffron reports is required to ensure financial data can be reconciled and quality of data checked.</p>	High

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
1.2	Budget Management is undertaken regularly.	No	A list of contractor's invoices for works completed for the Kitchen and Bathroom scheme was not maintained by the Surveyor. Comprehensive budget information and costings were not reconciled to Saffron.	Surveyors need to provide programme managers and Finance with costing information on a regular basis. This will form the basis for sound financial reporting and reconciliation.	Medium
1.3	Performance Management is undertaken each month and reported via key performance indicators to the Council.	Yes	<p>A review of satisfaction surveys was undertaken and confirmed that records were maintained of surveys sent to tenants for feedback. The sample indicated positive feedback from the works carried out.</p> <p>However, customer satisfaction is only one out of nine project management categories with key performance indicators that should be reported. A second key performance indicator linked to the Project Brief Initiation document was also supported. For the other seven key performance indicators there was a lack of supporting documentation and progress reports were not available.</p>	Key performance indicators need to be supported by up to date project information and available for review. This will enable the Council to have confidence that the work programme is being delivered efficiently and on time.	High
1.4	Project Management is in place and is reported regularly.	No	<p>It was established that some key project management documents were missing, not available or incomplete. Project initiation documentation was available and confirmed as approved by the Project owners for Decent Homes works. However, key delivery reports, Gantt charts and costing reports for 2012 financial year from the project team were absent.</p> <p>It was acknowledged that a new project template for the Capital Programme has been designed with Housing and was put into use from 03.12.12.</p>	Key project documents identifying project progress and management information, including associated costs, risks and potential problem areas need to be produced. This will provide the Council with the confidence that projects are well	High

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
				managed, delivered efficiently and provide value for money.	
1.5	Contract management and monitoring is carried out regularly by the project Supervisors.	No	<p>A sample of schedule of rates (SOR) for kitchens and bathrooms was checked to the SOR submitted by the third party contractor to support invoice submission. The SOR for works was confirmed as accurate.</p> <p>Design works were carried out by Howden's and Nicholls &amp; Clarke. The designs were reviewed with HW Wilson the main contractor delivering works on the framework. The design alterations have not been reviewed by Housing to discuss costs and design requirements or materials.</p> <p>A sample of 32 invoices was reviewed to confirm the approval process and costs involved. It was ascertained that good supporting documentation was held by the surveyors supervising the Decent Homes kitchen and bathroom scheme. However, costings and additional works identified during testing were not reported to the Housing Department, in order to review budget implications.</p> <p>It was established through invoice testing that post inspections are noted on the invoice. The Surveyor signs to confirm that the properties have been inspected and any snags were followed up by email. Photographs are also taken to support findings.</p>	Comprehensive contract management information is required, to form an essential part of the overall decision making process. A lack of contract management information may result in a lack of value for money.	High

	Controls (actual and/or missing)	Adequate Design (yes/no)	Test Result / Implications	Recommendation	Categorisation
1.6	Contract management and monitoring is carried out regularly by the project Supervisors.	No	It was also established that 9 out of the 32 invoices tested were presented before the works orders had been approved. Invoices were not logged by surveyors, although scheduled works per property was held on file.	Works should not be started without a properly approved works order. This ensures only those works approved are carried out.	High
1.7	Contract management and monitoring is carried out regularly by the project Supervisors.	No	Email evidence to support performance review and variations arising was evident, but formal minutes were not maintained. Issues arising were not presented to Housing as part of management information.	Proper formal minutes of contractor meetings should be maintained to provide evidence that issues which could result in variations are being raised with Housing.	Medium
1.8	A procurement procedure is in place and liaison with Procurement Services and Legal an integral part of the tender process.	Yes	A review of the procurement and legal files confirmed that the procurement was carried out through the OJEU process and the JCT contracts awarded. The evaluation process was examined to check that the tenders were scored and evaluated based upon set criteria. It was determined that a majority of the tender and evaluation documents had been forwarded, by Europa, to the previous Head of Housing. However, Housing could not find these documents at the time of the review.	It is essential to retain tender evaluation documentation to support the tender process. The Council may be at risk of challenge and value for money may be difficult to prove without this documentation.	Medium