



Internal Audit FINAL REPORT

Contract Systems (Housing) 2008-09

To: Diane Burridge, Director of Operations

For information: John Mitchell, Interim Chief Executive
Michael Perry, Assistant Chief Executive
Adrian Webb, Interim Director of Central Services
Roz Millership, Head of Building Services
Russell Goodey, Building Services Manager

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Audit Assurance Opinion	Substantial
Sufficiently robust controls	Yes
Recommendations made	Two
Risk Level 4	None
Risk Level 3	None
Risk Level 2	Two
Risk Level 1	None

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Internal Auditor

Reviewed and Issued By: Sheila Bronson
Audit Manager



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Contract Systems (Housing) 2008-09

1. Introduction

- 1.1 An audit of Contract Systems (Housing) has been carried out as part of the 2008-09 audit plan. This audit was assessed as risk level **2** as part of Internal Audit's planning approach

Previous Audit

- 1.2 The previous audit of this service was completed in July 2004.

The 4 recommendations made at this audit have been fully implemented.

Scope and Objectives of Audit Work

- 1.3 The scope of and the approach to this audit were agreed with the Chief Auditee, Roz Millership, Head Of Housing Management in the Terms of Reference.
- 1.4 The key areas of possible risk identified at the planning stage of the audit were as follows:
- a) A failure to comply with the Council's Standing Orders relating to Contracts and tendering, or best practice is not followed, or Contract Standing Orders are inadequate;
 - b) A lack of trained staff to participate in the tendering process, or confidential information is leaked to unauthorised parties, or there is a lack of confidentiality over the tendering process
 - c) An unsuitable firm is Contracted;
 - d) The evaluation of tenders process is weak;
 - e) An external Contract is let when the work could be performed cheaper in-house, or a Contract does not represent Value for Money;
 - f) A Contractor fails to comply with or complete the terms of a contract;
 - g) Fraudulent or illegal acts take place during the awarding of contracts;
 - h) Failure of IT system / inadequate IT system used to support Housing Contracts;
 - i) The cost of a Contract exceeds the Budget;



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- j) Additional costs are incurred because a Contractor goes into liquidation or bankruptcy, or a Performance Bond is not arranged;
 - k) Additional expenditure because of an inadequate Contract or poor Contract management;
 - l) Overpayments are made because the agreed & contracted Schedule of Rates is not adhered to;
 - m) UK or EU legislation is not complied with;
 - n) Reputational risk if public funds are spent extravagantly or wastefully, or the contracting process is perceived to be inconsistently managed;
 - o) Management information during the life of a contract is inadequate;
 - p) Insufficient consultation with leaseholders makes it difficult to recharge costs of contracts.
- 1.5 The methodology stated in the terms of reference document was used to establish and test the controls that management have in place for mitigating or reducing the above risks to an acceptable level.

2. Executive Summary

- 2.1 Taking into account the issues identified in paragraphs 2.2 to 2.6, in our opinion the controls within the service as currently laid down and operated provide **Substantial** assurance that risks material to the achievement of the objectives for this service are managed and controlled

Conclusion on the Adequacy and Application of Controls

- 2.2 Based on the evidence obtained from our testing, we have concluded that the adequacy and application of controls **is** sufficiently robust to provide assurance that the activities and procedures in place will achieve the objectives for the service.

Recommendations

- 2.3 We have made **2** recommendations -
- 0** risk level 4 matters that are fundamental and require immediate attention and priority action;
 - 0** risk level 3 matters that are considered significant that should be addressed within six months;
 - 2** risk level 2 matters that are considered important that should be addressed within twelve months.
 - 0** risk level 1 matters that merit attention and would improve overall control levels.



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- 2.5 This report has been prepared by exception. Therefore, we have included in Section 3 (Findings and Recommendations) only those areas with scope for improvement of controls or examples of lapses in control identified from our testing, and not the outcome of all the audit testing undertaken.
- 2.6 In addition to the findings described in detail in Section 3, we also found the following examples of good practice in the management of risk achieved through the effective design and consistent application of controls:
- The maintenance by one of the Surveyors of comprehensive records of ongoing contracts. A recommendation has been made that this standard is adopted uniformly by all the Surveyors;
 - Use of the 'Constructionline' service to obtain commercial / trade references and establish the financial standing of contractors being considered for invitations to tender for contracts, saving the need to prepare and maintain an in-house list of approved contractors;
 - Avoiding the risk that an 'internal contractor' cannot provide an adequate and economic service by appointing external contractors.

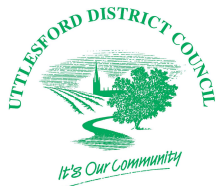
Acknowledgement

- 2.7 Several Housing Services staff gave their time and co-operation during the course of this review. We should like to record our thanks to all of the individuals concerned.

Audit Assurance Opinion – definitions

2.8

Opinion	Definition
Substantial	Good effective management of risk; no significant recommendations arising. Overall there should be no more than six recommendations of which: none are risk level 4 or 3 recommendations and no more than two are risk level 2 recommendations
Adequate	Sound satisfactory management of risk; identification of some elements of the control framework that merit attention; Marginal identification of deficiencies in the control framework that result in some risks not being managed effectively and must be addressed. Overall there should be no more than ten recommendations of which: no more than one recommendation is at either a risk level 4 or 3 and no more than six are risk level 2 recommendations
Limited	Unsatisfactory identification of deficiencies in the control framework compromising the overall management of risks demanding immediate attention. Overall there should be no more than fourteen recommendations of which: no more than four recommendations are at risk levels 4 and 3 and no more than ten recommendations are at risk level 2
Little	Major controls have failed and/or major errors have been detected. There will be: more than fifteen recommendations or more than four recommendations at risk level 4 and 3 or more than ten recommendations at risk level 2



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CONTRACT SYSTEMS (HOUSING) 2008-09

3. Findings and Recommendations

No	Expected Controls	Test Results and Implications	Recommendations	Risk * 1- 4
3.1	Active management of contracts and monitoring of costs during their lifetime.	Interviews with the Surveyors and reviews of their records established that different methods are used to monitor costs. In particular, where actual charges varied significantly from the quoted cost there was no record of discussions with the contractor to establish the reason. This creates a risk of accusations that costs are not adequately controlled.	We recommend that records of any and all negotiations and discussions with contractors regarding final costs are maintained, and that a uniform standard of record-keeping is adopted for all contracts.	2
3.2	Transparent procedures for letting contracts.	All members of the Building Services team suggested that using the Hub might have delayed the letting of new contracts and have expressed doubts that money has been saved by letting contracts through it .	We recommend that the Building Services team's concerns, backed up with suitable evidence, are passed to the Director of Operations so that a decision may be made at the appropriate level whether to continue to use the Hub or not.	2

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 4. Catastrophic effect - immediate action required. Matters that are considered fundamental that require immediate attention and priority action.
 3. Significant impact – action required. Matters that are considered significant that should be addressed within six months.
 2. Some impact – action necessary. Matters that are considered important that should be addressed within twelve months.
 1. Little or no impact. Matters that merit attention and would improve overall control levels.



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MANAGEMENT ACTION PLAN

4. Management Action Plan

For completion and return by **10 June 2008**

Ref	Recommendation	Risk 1-4	Agreed / Not agreed	Officer Responsible	Officer Comments	Implementation date
3.1	We recommend that records of any and all negotiations and discussions with contractors regarding final costs are maintained, and that a uniform standard of record-keeping is adopted for all contracts.	2	Agreed	Russell Goodey	All officers will follow procedure.	01/07/08
3.2	We recommend that the Building Services team's concerns regarding the Procurement Hub, backed up with suitable evidence, are passed to the Director of Operations so that a decision may be made at the appropriate level whether to continue to use the Hub or not.	2	Agreed	Building Services Team and Manager, Russell Goodey	We will continue to review this process	Ongoing

Agreed Roz Millership (Head of Division) Date 24/07/08