



Stevenage Borough Council  
Audit Committee Progress Report  
4 December 2012

Recommendation

Members are recommended to note the Internal Audit Progress Report and approve the amendments to the Audit Plan as at 9 November 2012

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# 1 Introduction and Background

## Purpose of Report

- 1.1 To provide Members with:
- a) the progress made by the Shared Internal Audit Service (SIAS) in delivering the Council's 2012/13 Internal Audit Plan as at 9 November 2012.
  - b) the findings for the period 31 August 2012 to 9 November 2012.
  - c) the proposed amendments required to the approved Audit Plan.
  - d) the implementation status of previously agreed Audit Recommendations.
  - e) an update on performance management information as at 9 November 2012.

## Background

- 1.2 Internal Audit's Annual Plan for 2012/13 was approved by the Audit Committee at its meeting on 28 March 2012.
- 1.3 The Audit Committee receive periodic updates against the Annual Internal Audit Plan, the most recent of which was brought to this Committee on 10 September 2012.
- 1.4 The work of Internal Audit is required to be reported to a Member Body so that the Council has an opportunity to review and monitor an essential component of corporate governance and gain assurance that its internal audit function is fulfilling its statutory obligations. It is considered good practice that progress reports also include proposed amendments to the agreed annual audit plan.

## 2 Audit Plan Update

### Delivery of Audit Plan and Key Audit Findings

- 2.1 As 9 November 2012, 46% of the 2012/13 Audit Plan days had been delivered (calculation excludes contingency days that have not been allocated). All of the audit work scheduled in quarter 3 has commenced and all quarter 4 audit work has been resourced for completion by 31 March 2013. Appendix A provides a status update on each individual deliverable within the audit plan.
- 2.2 The following 2012/13 reports and assignments have been issued or completed in the period:

<b>Audit Title</b>	<b>Date of Issue</b>	<b>Assurance Level</b>	<b>Number of Recommendations</b>
Transfer Station	September 12	Substantial	1 medium 2 merits attention
Follow up report Housing sub contracted repairs and maintenance systems	October 12	Assurance Level - N/A One out of four recommendations implemented, one partially implemented and two not implemented.	
Buildings Maintenance Organisation pricing (issued as a section in the repairs and maintenance follow up report).	October 12	Substantial	None
Follow up report ICT Disaster Recovery	October 12	Assurance Level - N/A Three out four recommendations implemented and one is substantially implemented.	
Market Rental Income	November 12	Substantial	3 merits attention
Procurement Baseline Assessment	November 12	Substantial	1 high 5 medium

### Proposed Audit Plan Amendments

- 2.3 There are no proposed amendments to the Audit Plan for Members to consider.
- 2.4 Members of the Committee will note that in Appendix A, reference is made to two audits (Main Accounting System and Payroll) where a Control Risk Self Assessment Approach (CRSA) is being developed. This is an innovative approach, being piloted at SBC in view of its strong control environment in these areas.
- 2.5 In a CRSA approach, auditors and service managers jointly evaluate controls, and managers lead on the approach to testing, building this into 'business as usual'. The approach is designed to deliver a streamlined audit, generating savings in audit days.

High Priority Recommendations

- 2.6 One new high priority recommendation has been raised during this period, in the Procurement Baseline Assessment audit. It relates to the receipt and opening of quotations for work valued between £5,000 and £75,000. The recommendation is not yet due for implementation and is included at Appendix B for information purposes.

Stevenage Homes

- 2.7 Whilst Stevenage Homes was an Arms Length Management Organisation (ALMO) their Internal Auditors were Panel Kerr Foster (PKF). We have had a handover meeting with the PKF Director and he advised SIAS that they had no key risks that they needed to bring to our attention. We have received and reviewed copies of the reports issued by PKF and we will consider the findings as part of the Council's programme of audit work.
- 2.8 At the committee meeting on 13 June 2012, it was agreed to provide Members with periodic updates on management's progress in implementing the Stevenage Homes audit recommendations raised by PKF. The Assistant Director for Housing has provided an update in relation to the four PKF Leaseholder Services recommendations, which is included at Appendix C.
- 2.9 SIAS have followed up the four recommendations in the PKF Repairs and Maintenance report and the current implementation status has also been included at Appendix C.

Performance Management

- 2.10 The 2012-13 annual performance indicators were approved at the SIAS Board meeting on the 7 March 2012. Targets were also agreed by the SIAS Board for the majority of the performance indicators
- 2.11 The actual performance for Stevenage against the targets that can be monitored in year is set out in the table below.

<b>Performance Indicator</b>	<b>Annual Target</b>	<b>Profiled Target</b>	<b>Actual to 9 November 2012</b>
<b>1. Planned Days</b> – percentage of actual billable days against planned chargeable days completed	95%	45%	46%
<b>2. Planned Projects</b> – percentage of actual completed projects to draft report stage against planned completed projects	95%	30%	28%
<b>3. Client Satisfaction</b> – percentage of client satisfaction questionnaires returned at 'satisfactory' level	100%	100%	100%
<b>4. Number of High Priority Audit Recommendations agreed</b>	95%	95%	100%

**APPENDIX A    PROGRESS AGAINST THE 2012/13 AUDIT PLAN AT 9 NOVEMBER 2012**

**2012/13 SIAS Audit Plan**

AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
<b>Key Financial Systems – 128 days</b>								
Housing Benefits					12	Yes		Planned for January
Payroll CRSA					12	Yes	1	CRSA development Planned for December or early January
Creditors					12	Yes	8	Fieldwork in progress
Debtors					12	Yes		Planned for January
Main Accounting System CRSA					12	Yes	1	CRSA development Planned for January or early February
NNDR					12	Yes	1	In planning
Council Tax					12	Yes		Planned for December
Capital Accounting					12	Yes	4	Fieldwork underway
Cash and Payments					12	Yes		Planned for January
Treasury Management					8	Yes	1	In planning
Housing Rents					12	Yes		Planned for November
<b>Operational Audits – 106 days</b>								
Single Status					8	Yes		Planned for Qtr 4
Working Together Themed Audit					24	Yes	23	Draft Report issued
Review of Financial Regulations					5	Yes	4	Draft Report issued
Members Locality Budgets	Substantial	0	1	6	10	Yes	10	Final Report issued
Local Community Grants					5	Yes	4	Draft Report issued

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AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Car Parks Extended Follow Up					12	Yes	10	Fieldwork in progress
Use of Contractors and Consultants					12	Yes	10	Drafting Report
Transfer Station	Substantial	0	1	2	8	Yes	8	Final Report issued
Safeguarding					12	Yes	8	Field work in progress
Market Rental Income	Substantial	0	0	3	10	Yes	10	Final Report issued
<b>Risk Management and Governance – 16 days</b>								
Risk Management					8	Yes		Planned for February
Corporate Governance					8	Yes		Planned for February
<b>IT Audits – 25 days</b>								
IT Needs and Baseline Assessment					10	PwC		Planned for Qtr 4
IT Security					15	PwC	1	In planning
<b>Procurement – 34 days</b>								
Procurement Baseline Assessment	Substantial	1	5	0	10	Yes	10	Final Report issued
Buildbase Contract					12	Yes	6	Fieldwork in progress
Decent Homes and Breyers Contract					12	Yes	9	Fieldwork in progress
<b>Counter Fraud – 10 day</b>								
Counter Fraud Baseline Assessment					10	Yes	4	Fieldwork in progress
<b>Follow Up of Previous Audit Report Recommendations – 27 days</b>								
IT Disaster Recovery Follow up	N/A				3	Yes	3	Final report issued
High Priority Recommendations Quarterly Follow Up					8	Yes	2	
Repairs and Maintenance Extended follow up	N/A				8	Yes	8	Final Report issued

**APPENDIX A    PROGRESS AGAINST THE 2012/13 AUDIT PLAN AT 9 NOVEMBER 2012**

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AUDITABLE AREA	LEVEL OF ASSURANCE	RECS			AUDIT PLAN DAYS	LEAD AUDITOR ASSIGNED	BILLABLE DAYS COMPLETED	STATUS/COMMENT
		H	M	MA				
Officer interests in contracts Extended follow up					8	Yes	7	Drafting Report
<b>Strategic Support – 46 days</b>								
PKF Handover					2		2	Complete
Audit Committee					8		5	Ongoing
External Audit Liaison					4		2	Ongoing
Annual Report and Head of Internal Audit Opinion 2011/12					5		5	Complete
Monitoring					12		8	Ongoing
Ad hoc					5		2	Ad hoc work
SIAS Development					5		5	SBC Contribution
2013/14 Audit Plan					5			
<b>Remaining Contingency</b>					8			To be used to address emerging risks
<b>SBC TOTAL</b>					<b>400</b>		<b>182</b>	



No.	Report Title	Recommendation	Management Response	Responsible Officer	Implementation Date	History of Management Comments	Auditor Comment as at November 2012
1.	Procurement Baseline Assessment	When Contract Standing Orders (CSOs) are next reviewed, more robust procedures for the receipt and opening of quotations over £5,000 and up to £75,000 should be introduced, requiring opening at one time and the involvement of more than one officer. In the longer-term, the use of the e-tendering system should be extended to contracts within this banding.	The Corporate Procurement Manager will look at incorporating greater control of quotations in the next version of CSOs including reviewing the longer term potential use of the e-tendering system which will enable control of opening at a single time. In the interim we will set a requirement for officers to ensure that all quotes (not processed through the e-tendering system) are opened by two officers and a form signed to evidence.	The Corporate Procurement Manager	Quarter 4 Financial Year 2012/13	On schedule to be implemented by 31 March 2013.	Not yet due for implementation

## Leaseholder Service Charges

Rec. No.	Recommendation	Associated Risk	Priority	Responsible Officer	Management Response	Implementation date	Management Update	Auditor Comment
1	<p><b>Explanations of how leaseholder service charges are calculated</b></p> <p>It is recommended that the improvements to the information provided on leaseholder bills and key leaseholder engagement should be undertaken as planned during 2012/13.</p>	Failure to deliver customer service to a good standard.	L	Home Ownership Services Team Manager	<p><b>Recommendation Agreed:</b> Providing leaseholders with good information is vital to providing a good standard of customer service. Leasehold Service - Review action plan improvements will be put in place during 2012. Descriptions on communal listings to key leaseholders has already begun.</p>	Oct-12	<p><b>November 2012 – This recommendation has been completed as indicated below (July &amp; August updates).</b></p> <p>August 2012 - Required changes have been made to the quarterly service charge demand/invoice bearing in mind direct debit &amp; standing order payers.</p> <p>July 2012 - Information on invoices/bills have been amended to ensure details are clearer. L/hs paying by Direct debit (D/D) have commented that they want the invoices to state that they are already paying by D/D. The proposed changes are part of our 2012/13 annual plan. However, note that there are restrictions with IT system, limiting changes that can be made. Key leaseholders have also been invited to join in the estate inspection &amp; walkabouts with Housing advisors.</p>	Recommendation completed.
2	<p><b>Collection of service charges and leaseholder contributions to major works</b></p> <p>It is recommended that the working arrangements between the Home Ownership Services Team and the Property and Environment Team BMO and the Investment teams should be reviewed to establish the cause of</p>	Failure to deliver value for money	M	Home Ownership Services Team Manager/ Assistant Director (Housing)	<p><b>Recommendation Agreed:</b> Accurate recording and timely billing of recoverable costs will help deliver value for money services. We do not agree with the interpretation of the Customer Scrutiny Panel that £145,000 of potentially recoverable costs were not charged. (See paragraph 5.4.7.). Reviewing the working arrangements and ensuring clarity of information is important. This area will be reviewed in the Customer Scrutiny Panel action plan (items 9 &amp; 11.) Copy of the plan is attached as Appendix C.</p>	Jul-12	<p><b>November 2012 – suitable dates are currently being discussed.</b></p> <p>August 2012 - Training notes have been produced and dates are currently being discussed with relevant service managers and team leaders. There are 2 options (i) A member of HOST carry out training. (Resource constraint) or (ii) Team leader/service manager take team through training notes.</p> <p>July 2012 - Training has been provided to staff members at CSC, BMO &amp; Investment in the past. More S20 training is been scheduled (possibly include S20 in induction</p>	Partially implemented

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	the delays and inaccuracies in reporting completed works and ensure that there is clarity over the information that is to be provided to the Home Ownership Services Team and the timescales for providing it.						notes) Liaison with team leaders in BMO, CSC & Investment raising awareness of the necessity to comply with legislation that will enable us to recover costs. Forms (templates) have been issued to relevant officers to provide dates of commencement and estimated period/time of work, to enable HOST to follow-up and raise invoice within prescribed time.	
3	<p><b>Collection of service charges and leaseholder contributions to major works</b></p> <p>It is recommended that the management information systems maintained by the Home Ownership Services Team should be reviewed to ensure that they provide the most effective support to the delivery of the service.</p>	Failure to deliver value for money	M	Home Ownership Services Manager	<p><b>Recommendation Agreed:</b></p> <p>Data is forwarded to HOST via MSEXcel, which is then broken down further for ease of understanding for leaseholders. An audit of the management information systems by the E-Government &amp; Business Systems Team during this financial year will assist in identifying areas and priorities for improvement.</p>	Dec-12 Revised to July 2013	<p><b>November 2012 – The way in which the Home Ownership Services Team use the Housing Management System will be reviewed as part of an on-going project to improve the utilisation of existing systems. Led by the Housing Systems Administration Team, and supported by ICT and Business Improvement, the review is schedule to commence May 2013.</b></p> <p><b>In all likelihood, the solution will involve improved use of the Business Objects reporting technology that is used extensively in other areas of Housing to produce reports from the Northgate Housing Management System</b></p> <p><b>Revised Implementation date: July 2013</b></p> <p>August 2012 - This task relates to SBC audit of the management information systems by the E- Government &amp; Business Systems Team. It is not within our remit to change the format of data received from other teams, being mindful that the corporate systems in place produce and saves reports in a particular format (excel) which is suitable for ease of editing.</p>	<p>Not yet due for implementation.</p> <p>Internal Audit agreed the revised implementation date.</p>

Rec. No.	Recommendation	Associated Risk	Priority	Responsible Officer	Management Response	Implementation date	Management Update	Auditor Comment
							July 2012 - This task relates to SBC audit of the management information systems by the E- Government & Business Systems Team. It is not within our remit to change the format of data received from other teams, being mindful that the corporate systems in place produce and saves reports in a particular format (excel) which is suitable for ease of editing.	
4	<p><b>Collection of service charges and leaseholder contributions to major works</b></p> <p>It is recommended that a review should be undertaken of the resources available within the Home Ownership Services Team and the responsibilities of officers within the Team and others including the Council's Legal Team and the Income Maximisation Team clarified to ensure that unnecessary delays in collecting arrears do not arise in future.</p>	Failure to deliver value for money	H	Home Ownership Services Team Manager/ Principal Solicitor	<p><b>Recommendation Agreed:</b></p> <p>Due priority should be given to arrears casework. HOST members are aware of their responsibilities and carry these out accordingly. Collection of service charges sits under the remit of the Income Maximisation (IM) Team and not within HOST. This has been reviewed and points agreed at a meeting with SBC Legal and IM, (HOST present) on procedures and processes to overcome dealing with and unnecessary delays in escalating arrears for both service charges and major works. In March 2012 a period of testing involving the legal team in addressing arrears cases of under £350 value began. (Previously involved in over £350 value only). The cost versus benefit of earlier involvement will be reviewed in July. As indicated in performance reports to management meetings the 80% target set for recovery of major works charges appears invalid given the charging methods and payment options. Work is required to ensure a valid collection rate taking account of</p>	Jul-12	<p><b>November 2012 - Service charge arrears letters have now been automated and are running successfully. The Income team have confirmed that there is no need to automate major works arrears letters. There are not enough accounts and the Income team can manage better by doing the letters when required. The current Service Charge Advisor is able to print out the letters and authorise the required action. This recommendation has now been completed.</b></p> <p>August 2012 - HOST members are aware of their responsibilities and carry these out accordingly. The service charge (S/C) and major works (M/W) arrears processes are currently being reviewed as per July 2012 update and pending the employment of a full time service charge officer within the Income Team, dedicated to chasing S/C and M/W arrears solely for leaseholders. The economics of enforcement on a small debt is disproportionate as the enforcement fee alone is £100. This does not include SBC officer time in issuing proceedings demands and preparing for court.</p> <p>July 2012 - Major Works arrears and collection is challenging as there is no set</p>	Recommendation completed

Rec. No.	Recommendation	Associated Risk	Priority	Responsible Officer	Management Response	Implementation date	Management Update	Auditor Comment
					payment options and payment profile. For 2012/13 a collection rate target of 50% is to be set.		process for recovery. This is picked up when service charge arrears are monitored. A major works arrears escalation process and procedure is being drafted and housing IT are drafting and building up a DTI (automation process) for invoicing and arrears chasing / collection. Leaseholders have the option/provision of spreading/repaying M/W over a 5-year period a factor which is not considered in the profiling at the moment.	

#### Repairs and Maintenance Recommendations

No.	Agreed Management Action	Priority	Target Date	Current Position	Status
1.	<p><b>Sub-Contracted Repairs and Maintenance Reports</b></p> <p>It is recommended that a full list of all sub-contracted repairs and maintenance works should continue to be produced and challenged on a regular basis. From now on this report should be considered at the monthly meetings of Property Services Management.</p>	Medium	April 2012	<p>The Service Manager receives a full list of all sub contracted repairs and maintenance on a monthly basis. The Service Manager will query work that has taken place which has not been awarded to the Buildings Maintenance Organisation (BMO).</p> <p>The Service Manager has received monthly reports from the Divisional Manager (Investment Team) for June, July and August.</p>	Implemented

No.	Agreed Management Action	Priority	Target Date	Current Position	Status
	<p><b>Management Response:</b> The list of sub-contracted repairs and maintenance works will continue to be produced. The report will be reviewed at quarterly meetings of appropriate managers.</p> <p><b>Responsible Officer:</b> Service Manager (Property Repairs and Maintenance)</p>			The management team no longer consider it necessary to discuss these reports during their quarterly meetings as any issues are resolved between the relevant managers.	
2.	<p><b>Selection of Suppliers</b></p> <p>It is recommended that officers should be required to record more clearly the reasons why works are required and the basis upon which the suppliers (and not the BMO) have been selected. Where an existing contract is being used or a supplier has been selected through a purchasing consortium this should be clearly evidenced. Any discrepancies between the price quoted and the final invoiced amount should also be explained and recorded.</p>	Medium	May 2012	The recommendation has not been implemented. The Divisional Manager indicated a meeting needs to be arranged to discuss how this recommendation will be implemented. The management team need to agree a process that fits with current working protocols, e.g. system recording. The meeting is to be scheduled for September, and so we recommend a revised target date for implementation of 30 <sup>th</sup> November 2012.	Not implemented.

No.	Agreed Management Action	Priority	Target Date	Current Position	Status
	<p><b>Management Response:</b></p> <p>The rotation of contractors chosen from ‘construction line’ allows clearer indication of contractor choice.</p> <p>The internal requisition form that it was intended to record the reason for the choice of contractor may be subject to change to address corporate matters. (See recommendation 3 below)</p> <p>Monthly project meetings (with project managers) will review variations including cost and time enabling explanation of variations to be recorded and signed-off by the Service Manager.</p> <p><b>Responsible Officer:</b> Divisional Manager (Investment Team)</p>				
3.	<p><b>Internal Requisition Form</b></p> <p>It is recommended that Property Services Management should review the internal</p>	Medium	May 2012	The Investment Team are still using the old Work Order form which is considered not to meet all the requirements, as there is no way of documenting all the steps of the procurement	Not implemented.

No.	Agreed Management Action	Priority	Target Date	Current Position	Status
	<p>requisition form currently used by the Investment Team, to ensure that it enables officers to document all of the steps of the procurement process that they are required to follow. The form should be used consistently across both the Investment Team and the Property and Environment Team.</p> <p><b>Management Response:</b> The Stevenage Homes Procurement Procedure and Flow Chart would benefit from review to ensure corporate systems and processes are considered.</p> <p>The documentation used in the procurement process should be reviewed at the same time.</p> <p>An interim review of the Internal Requisition Form will be undertaken by and for Stevenage Homes.</p> <p><b>Responsible Officer:</b> Divisional Manager (Investment Team)</p>			<p>process that have taken place. If the form were available electronically this would enable officers to demonstrate the procurement process in one place. See also previous response.</p> <p>As the Responsible Officer has now left we recommend that a new form is available from November 2012, to allow time for an alternatively member of staff to take over this role.</p>	



No.	Agreed Management Action	Priority	Target Date	Current Position	Status
4.	<p><b>Inspection Records</b></p> <p>It is recommended that a clearer record should be maintained of the inspection of works undertaken by officers.</p> <p><b>Management Response:</b> Pre- and Post-Inspections will be documented on the site diary records on the project management file. The Service Manager (Asset Management) will review the inspection records periodically.</p> <p>The BMO currently use Northgate to log all Pre- and Post- Inspections. The Service Manager (Property Repairs) will review the record of inspections periodically.</p> <p><b>Responsible Officer:</b> Divisional Manager (Investment Team) and Service Manager (Property Repairs and Maintenance)</p>	Medium	May 2012	<p><u>Investment Team</u></p> <p>Pre inspections are completed by the contractor when they are identifying what work needs to be completed. The record of this pre-check is the work order being raised.</p> <p>Where the work requires a completion certificate this will act as the post check and all completion certificates are held electronically. Where a completion certificate is not required the post inspection will be recorded on the invoice if a check was completed.</p> <p>The Divisional Manager indicated he would like to investigate how the BMO record these checks on the Northgate system.</p> <p>Where the value of the work completed is in excess of £5,000 a post inspection check is completed.</p>	<p><u>Investment Team</u></p> <p>Partially Implemented.</p> <p>However, a clearer record needs to be maintained indicating the jobs where pre and post inspections have taken place. A record should be retained when the Divisional Manager or Service Manager has completed their checks.</p>

No.	Agreed Management Action	Priority	Target Date	Current Position	Status
				<p><u>BMO</u>            Pre-inspections on demand as the problems need to be diagnosed. Operatives will complete pre-checks before completing the work where the customer services have only identified the trade needed. This is called 'first time fix'. Pre and post inspections are recorded on Northgate to ensure that the work has been completed to the correct standards; a rating of either satisfactory or unsatisfactory is recorded. Where work is deemed unsatisfactory supplementary notes are recorded detailing the reason behind the unsatisfactory rating.</p>	<p><u>BMO</u>            Implemented             A clear record of pre and post inspections can be located easily on Northgate.</p>