



NOTTINGHAM CITY HOMES

**REVIEW OF THE
CONTRACT SERVICES - SERVICE DELIVERY
ARRANGEMENTS**

Report issued:	February 2009
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Audit Plan:	2008/09
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The matters raised in this report are only those that came to the attention of the auditor during the course of the internal audit review and are not necessarily a comprehensive statement of all the weaknesses that exist or all the improvements that might be made. This report has been prepared solely for management's use and must not be recited or referred to in whole or in part to third parties without our prior 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. TIAA neither owes nor accepts any duty of care to any other party who may receive this report and specifically disclaims any liability for loss, damage or expense of whatsoever nature, which is caused by their reliance on our report.

Business Assurance

Review of the Contract Services - Service Delivery Arrangements

- EXECUTIVE SUMMARY -

INTRODUCTION

1. TIAA has reviewed the Contract Services - Service Delivery arrangements at Nottingham City Homes. The review was carried out in November 2008 as part of the planned internal audit work for 2008/09.

SUMMARY

2. Two Key Risk Control Objectives were identified and tested and based on the findings from this work an overall evaluation of the overall adequacy of the internal controls was established (figure 1 below).

Figure 1 - Evaluation of the Effectiveness of the Internal Controls

System	Evaluation
Contract Services - Service Delivery	Reasonable Assurance

KEY FINDINGS

3. The following significant matters were identified which need to be addressed in order to strengthen the control environment.
 - It was noted that three weekly timesheets had not been signed by the team leader.
 - A van stock has not been completed and documented for the gas section operatives.

OPERATIONAL EFFECTIVENESS MATTERS

4. The principal purpose of the review was to assess the effectiveness of the internal control arrangements in mitigating against risk. One Operational Effectiveness action point was identified and opportunities for enhancements to the current arrangements are set out in the Operational Effectiveness management action plan.

MANAGEMENT RESPONSES

5. Effective implementation by management of the recommendations made in this report is important for the maintenance of a reliable internal control system. Recommendations for improvements should be assessed by the Company for their full impact before they are implemented. Management responses have been received for all the recommendations made in this review.

**MANAGEMENT ACTION PLAN**

Para. Ref.	Recommendation	Priority	Management Comments	Implementation Timetable	Responsible Officer
19.1	All weekly timesheets be signed by the appropriate team leader.	2	<i>Agreed.</i>	<i>February 2009</i>	<i>Head of Property Services</i>
19.3	A van stock be completed and documented for the gas section operatives.	2	<i>Agreed.</i>	<i>June 2009</i>	<i>Procurement Manager</i>
19.2	It be documented that Drivers have been given permission to take vehicles home to comply with the requirements of the insurance policy.	3	<i>Agreed.</i>	<i>September 2009</i>	<i>Head of Finance (Property)</i>

PRIORITY GRADINGS

1	URGENT	fundamental control issue on which action should be taken immediately.
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2	IMPORTANT	control issue on which action should be taken at the earliest opportunity.
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3	ROUTINE	issue on which action should be taken.
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OPERATIONAL EFFECTIVENESS MATTERS

Para. Ref.	Item	Management Comments
18.14	Consideration be given to staggering the times that operatives collect stock from the stores.	<i>Implemented.</i>

ADVISORY NOTE

Operational Effectiveness Matters need to be considered as part of management review of the procedures, rather than on an one-by-one basis

- DETAILED REPORT -

SCOPE AND LIMITATIONS OF THE REVIEW

6. The objective of the review was to assess the effectiveness of the key risk controls which provide assurance that the Contract Services - Service Delivery system is operated in accordance with the Company's requirement.
7. The review considered the receipt of requests for work, the allocation of works instructions, monitoring of standard and timeliness of work and advising the client that works have been carried out. The review did not include tendering arrangements, or the actual receipt of payment for the works carried out.
8. The responsibility for a sound system of internal controls rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses that may exist. Neither should internal audit work be relied upon to identify all circumstances of fraud or irregularity, should there be any, although the audit procedures have been designed so that any material irregularity has a reasonable probability of discovery. Even sound systems of internal control may not be proof against collusive fraud.
9. For the purposes of this review reliance was placed on management to provide internal audit with full access to staff and to accounting records and transactions and to ensure the authenticity of these documents.

ASSESSMENTS OF THE KEY RISK CONTROL OBJECTIVES

10. Details of the two Key Risk Control Objectives that were reviewed and the individual assessments of the effectiveness of the control arrangements are shown below (figure 2 below).

Figure 2 - Summary of the Evaluations of the Key Risk Control Objectives

Risk	Control	Assurance Assessment
Failure to direct the process through approved policy & procedures.	Arrangements in place provide for compliance with established policies, procedures, laws and regulations.	Substantial Assurance
Losses arising from unauthorised action by staff.	Arrangements in place provide for safeguarding the organisation's assets and interests from avoidable losses.	Reasonable Assurance

11. This review identified and tested the controls that are being operated by the Company and an assessment of the combined effectiveness of the controls in meeting each of the Key Risk Control Objectives is provided. Internal controls can only provide reasonable and not absolute assurance against misstatement or loss. The limitations on assurance include the possibility of one or more of the following situations, control activities being circumvented by the collusion of two or more persons, human error, or the overriding of controls by management. Additionally, no assurance can be provided that the internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks



that may arise in future. The assessments, which are based solely on the audit carried out are:

Substantial Assurance	robust series of internal controls in place which should ensure continuous and effective achievement of the control objective
Reasonable Assurance	reasonable number of internal controls in place, however may not be operated all the time
Limited Assurance	the controls in place are not sufficient to ensure the continuous and effective achievement of the control objective
No Assurance	fundamental breakdown or absence of core internal controls

MATERIALITY

12. The Contract Services budget for the current financial year is £26,146,879

RELEASE OF REPORT

13. The table below sets out the history of this report.

Date draft report issued:	17 th November 2008
Date management responses recd:	5 th February 2009
Date final report issued:	9 th February 2009

- DETAILED REPORT -

14. Risk	Failure to direct the process through approved policy & procedures.		
Risk Control Objective	Arrangements in place provide for compliance with established policies, procedures, laws and regulations.	Evaluation	From the review of the documentation and tests carried out the Control Evaluation is: <u>Substantial Assurance</u>

15. The following matters were identified in reviewing the Key Risk Control Objective 1:
- 15.1 An Asset Management Strategy is in place. A draft Repairs and Maintenance Strategy has been produced and it is anticipated that this will be completed and approved in November 2008.
 - 15.2 Documented procedures are made available to all staff on a shared drive. These are continually being updated.
 - 15.3 The Customer Services Improvement Team maintains a complaints database. The number of complaints by category is reported.
 - 15.4 A number of KPIs are recorded. These are reported to the Departmental Management Team on a monthly basis and the Performance Report is presented to Performance Executive Management Team for the whole of Nottingham City Homes. A Contract Report is presented the Performance and Quality, Health and Safety, Finance and Value engineering meetings.

16. Recommendation:	Priority
There are no recommendations.	

17. Risk	Losses arising from unauthorised action by staff.		
Risk Control Objective	Arrangements in place provide for safeguarding the organisation's assets and interests from avoidable losses.	Evaluation	From the review of the documentation and tests carried out the Control Evaluation is: <u>Reasonable Assurance</u>

18. The following matters were identified in reviewing the Key Risk Control Objective:

Risk: The absence of a robust financial and operational plans for the Contract Services service could lead to financial loss arising for the Company.

18.1 There is a five year business plan in place for the duration of the contract which ends in July 2013.

18.2 The Head of Finance (Property) is responsible for co-ordinating and preparing the budget. The budget is based on Contract Services breaking even in each of the 5 years of the business plan. The budget proposal is submitted to the Director of Finance. This is consolidated into the Nottingham City Homes budget, which is presented to the Executive Management Team, Finance Sub-Committee and finally the City Council for approval.

Risk: Contract Services do not have the staffing resources to deliver the agreed level of service.

18.3 There are 385 operatives and 73 office based staff within Contract Services.

18.4 The payroll department maintain a record of the hours worked per week. Any hours worked at premium rates are authorised by the department managers.

18.5 A recruitment request form is completed if there is a need for additional labour. Various employment agencies are used dependent upon the trade required.

18.6 Weekly timesheets are completed by the operative and forwarded to payroll for checking. All timesheets for week ending 12th October were reviewed. All had been signed by the operatives. It was noted that three had not been signed by the team leader. These were for pay numbers 318, 483 and 570. (Recommendation 19.1 refers).

Risk: Unavailability of either transport or plant prevents work from being carried out.

18.7 Nottingham City Council owns all large tools and machinery held by Nottingham City Homes. A log through a 'T-Card' system is maintained of smaller equipment, as all the equipment must be PAT tested. This was last done as part of the vehicle replacement programme. Any equipment hired is done so for a specific purpose or job and is through a contract with Nottingham City Council.

18.8 There are 312 new leased vehicles and 25 old ones that are owned by Nottingham City Council used by Contract Services. The vehicles lease contract runs from July 2008 for a period of five years.

18.9 The majority of the vehicles are taken home by the operatives to enable them to go straight to the first job of the day. They have been given clear instructions that they are not to be used for any private purpose. Vehicles that are not taken home are kept at the Nottingham City Homes depot at Harvey Road. The insurance policy covers the use of vehicles in connection with Nottingham City Homes business and extends to include travelling to and from home, where the employee has been given permission to take the vehicle home. It was noted that it is has not been documented that drivers have written permission to take vehicles home. (Recommendation 19.2 refers).

18.10 Operatives are provided with Arval fuel cards, which can be used at most filling stations. Operatives are encouraged to source the cheapest stations available. Monitoring of vehicle mileage and fuel usage is monitored.

Risk: Absence of control over material purchases leads to financial loss to the Company.

18.11 All procurement is conducted through the formal tendering process, which then determines the supplier to be used. A contract is put in place which includes a

commitment on maximum delivery times. The ROCC system manages the minimum stock levels that are to be held in the store. There are no significant amounts of stock held on the vans.

- 18.12 Purchase cards are held by the gas engineers who obtain parts as and when required from authorised suppliers. The statements are received and checked to ensure that invoices have been obtained for each purchase.
- 18.13 There are few part used materials held, as materials are booked out specifically for each job. Any that are leftover would be held on the vans. Non-standard items are not retained. Discussions with the Procurement Manager identified that, due to the safety tests that have to be completed, this was not worthwhile.
- 18.14 Materials are booked in by the raising of a purchase order, which after being checked in by the storekeeper, is accepted into the ROCC system. To book materials out, operatives produce a job ticket at the stores counter with items and quantities required listed. These are picked by the storekeepers and logged against the job card. Operative can collect stock from stores at any time of the day between 7:00 am and 4:00 pm. It was noted that the majority collect their stock before 9:00 therefore creating a bottleneck with operatives queuing for stock. (Operational Effectiveness Matter).
- 18.15 A full stocktake is completed once a year prior to year-end. The intention is that this will be completed on a rolling programme in the next financial year.
- 18.16 An imprest stock of materials is issued to each operative and is specific to the particular trade. Materials are booked out to each job to be completed. A van stock was completed for the responsive repairs team in January and February 2008 at which point a new imprest stock was issued. The gas servicing team holds minimal values of stock. Discussions with the gas Maintenance Manager identified that a van stock had not been completed in the current calendar year for the gas repairs team. (Recommendation 19.3 refers).
- 18.17 Obsolete and surplus materials are identified on a regular basis and recorded and valued for authorisation to write off. The last review was completed prior to the start of the contract in July 2008.

Risk: Work is not allocated or monitored resulting in backlogs of work to be done and/or work not being carried out to the agreed standards.

- 18.18 The contact centre informs the tenant at the time of the call being logged when the work will be carried out. A letter is sent as confirmation and also a text message is sent to the tenant 24 hours before to the appointment time. If the tenant aborts the visit, then the repair job would be re-logged with the contact centre and a new appointment made. If the operative aborts the visit, a new appointment is made with the tenant if, the job cannot be completed by a different operative.
- 18.19 Where a handyperson advises that additional works above the set financial limit are required, this is reported to the Maintenance Manager for authorisation. Contract Services are permitted to vary the job up to a limit of £75.
- 18.20 Quality Control Officers complete a minimum of 10% post inspections. This is made up of all recalls, complaints and inspections requested by the contact centre with the balance being selected from the list of general jobs completed. The Quality Controller completes a post on site quality control assessment form. A spreadsheet is maintained by the Quality Systems and Improvement Officer of the post inspections completed and the outcomes. Details of all inspections that are regarded as a fail are passed back to the Project Manager for investigation.



Risk: The service is operated without close financial monitoring and as a consequence financial losses are incurred by the Company.

18.21 Trading accounts are produced monthly and are distributed to the head of department and the contract sub-committee. Significant variances against the budget are not commented on in the management accounts but are explained in the bi weekly project manager meetings which are minuted. Management accounts are produced monthly and are distributed to the head of departments and the contract sub-committee.

19.	Recommendations:	Priority
19.1	All weekly timesheets be signed by the relevant team leader.	2
19.2	It be documented that Drivers have been given permission to take vehicles home to comply with the requirements of the insurance policy.	3
19.3	A van stock be completed and documented for the gas section operatives.	2
