



NOTTINGHAM CITY HOMES

REVIEW OF THE CONTRACT SERVICES - PURCHASING 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 - Purchasing Arrangements

- EXECUTIVE SUMMARY -

INTRODUCTION

1. TIAA has reviewed the Contract Services - Purchasing 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 - Purchasing	Reasonable Assurance

KEY FINDINGS

3. The following significant matters were identified which need to be addressed in order to strengthen the control environment.
 - A review of the access and user rights within the purchase order system (ROCC) is required.
 - An external door to the stores area was observed to have been left ajar during the audit review.

OPERATIONAL EFFECTIVENESS MATTERS

4. The principal purpose of the review was to assess the effectiveness of the internal control arrangements in mitigating against risk. Operational Effectiveness action points were identified and opportunities for enhancements to the current arrangements are set out in the Operational Effective 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	User access rights within ROCC be reviewed to ensure segregation of duties have not been compromised.	2	<i>Agreed.</i>	<i>March 2009</i>	<i>Head of Finance (Property)</i>
19.3	All external doors to the stores area be secured at all times.	2	<i>Agreed.</i>	<i>Ongoing</i>	<i>Procurement Manager</i>
16.1	The Financial Regulations be amended to make reference to the basis on which stock held at the end of the year-end is to be valued.	3	<i>Agreed.</i>	<i>September 2009</i>	<i>Head of Finance (Property)</i>
19.2	The Company's terms and conditions be amended to include: - <ul style="list-style-type: none"> • The Company's terms and conditions prevail over the suppliers. • The order must stipulate the quantity and description of the goods or services required • All goods and services will be at the agreed quality • The price shown is fixed and includes carriage 	3	<i>Agreed.</i>	<i>June 2009</i>	<i>Procurement Manager</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
15.3	A policy be produced and approved that operatives cannot purchase materials for their own use at the time of collecting or purchasing goods for Contract Services.	<i>To be considered as part of the procurement review.</i>
18.13	A review of the staff discount scheme be considered with regard to a possible breach of Schedule 1 of the Housing Act. This currently applies to RSLs but may be required under the proposed new regulator (TSA), which will include Councils and ALMOs.	<i>Will be considered.</i>
18.12	Rules be determined as to what items are permitted to be collected and a maximum financial value on goods that can be obtained in this manner.	<i>To be considered as part of the stock rationalisation project.</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 - Purchasing system is operated in accordance with the Company's requirement.
7. The review considered the identification of need, sourcing, approving and receipt of the goods and services and the security of stock. The review did not include tendering arrangements, or payments.
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.	Reasonable 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 value of stock held at Harvey Road is £453,827 and the van stock value is £124,553

RELEASE OF REPORT

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

Date draft report issued:	15 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>Reasonable Assurance</u>

15. The following matters were identified in reviewing the Key Risk Control Objective:
- 15.1 The Financial Regulations are dated May 2008. These do not make reference to the basis on which stock held at the end of the year-end is to be valued. (Recommendation 16.1 refers).
 - 15.2 There is a Procurement Strategy in place dated October 2008. Each contract is procured via the formal procurement procedures.
 - 15.3 There is not an explicit policy that operatives cannot purchase materials for their own use at the time of collecting or purchasing goods for Contract Services. (Operational Effectiveness Matter).

16. Recommendation:	Priority
16.1 The Financial Regulations be amended to make reference to the basis on which stock held at the end of the year-end is to be valued	3

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: Contract Services is not aware in advance of need of its materials requirements and as a result is unable to carry out works in a timely manner.

18.1 The financial limits for placing orders are set within the ROCC system. Discussions with the Finance Officer identified that there are a number of staff who have access to set up and to make changes to the access levels and authority levels within ROCC. (Recommendation 19.1 refers).

18.2 The specification for materials to be used by Contract Services are determined by the Technical Officers. All product specifications were reviewed prior to the tender being prepared in July 2008.

18.3 Discussions with the Head of Service – Repair and Maintenance identified that, although there is no formal monitoring of the reason for a works order not being completed on time, any shortfall against the KPIs relating to completion of jobs are investigated with the Service Heads.

Risk: Costs of materials purchased exceeds the available budget.

18.4 A commitment accounting process is operated for purchases through an automatic interface with the ordering system. The cost codes are allocated by the purchase order. The cost codes set up are the same in the purchase order system and the general ledger.

18.5 The Finance Department are provided with yearly balances of the stock held. This is reconciled by the Finance Officer to the figures held in the purchase order system and any large variances investigated.

18.6 The Head of Finance – Property is responsible for preparing monthly management accounts for Contract Services and these are distributed to the heads of department and the Contract Sub-committee.

18.7 There is a monthly meeting of a Repairs and Maintenance Contract Finance Committee. This comprises of the Director of Finance for Nottingham City Homes, The Head of Finance for Nottingham City Council, Head of Finance – Property, Head of Service – Repairs and Maintenance, Service Improvement Manager and a Tenant Liaison Representative. These meetings are minuted and distributed to contract services, Nottingham City Homes and Nottingham City Council Finance Departments.

18.8 The Finance Officer checks the accuracy of the purchases figure on a monthly basis.

Risk: Materials are not obtained from the most appropriate supplier available resulting in failure to achieve value for money.

18.9 All contracts are put out to open tenders.

18.10 The Company's terms and conditions do not include:

- The Company's terms and conditions prevail over the suppliers.
- The order must stipulate the quantity and description of the goods or services required.

- All goods and services will be at the agreed quality.
- The price shown is fixed and includes carriage.

(Recommendation 19.2 refers).

- 18.11 There is a float of £800 held by Contract Services of which the voids manager currently holds £150. The maximum value for an individual item to be acquired through petty cash is £50. Analysis of the previous six months purchases showed only two materials purchases for values of £11 and £5.
- 18.12 Drivers and labourers are authorised to collect items directly from suppliers. There are no rules as to what items they are permitted to collect and there is no maximum financial value on goods that can be obtained in this manner. (Operational Effectiveness Matter).
- 18.13 A staff discount scheme is in operation whereby the Company's staff are given a discount by some of the suppliers on personal purchases. (Operational Effectiveness Matter).

Risk: Ineffective storage and monitoring of materials purchased may lead to materials not being available for the use for which they were purchased.

- 18.14 There are documented delivery acceptance procedures in place. The items delivered are checked against the purchase order and the delivery note then put straight into stock. Storekeepers take the delivery and enter the delivery note onto the purchase order system before passing to the Procurement and Stores Manager. The invoice is reconciled to the purchase order by the Finance Department
- 18.15 The store at Harvey Road is open between 7:00 and 16:00 Monday to Thursday and 7:00 to 13:00 on Fridays. Stock is booked out to a specific job by the purchase order system when issued. All stock is held in the stores. At the time of the audit it was noted that a fire escape door to the side of the main delivery point was left open. (Recommendation 19.3 refers).
- 18.16 Stock counts are carried out once per year by the storekeepers. The Finance Officer conducts a sample check to provide an assurance that the count is accurate. Minimal values of stock are held in the vans and drivers are instructed to take tools out of the vans at night.
- 18.17 Slam locks are fitted to the rear doors of the vans. This automatically locks the doors when they are closed. An imprest stock of materials is issued to each operative and is specific to the particular trade.

Risk: Ineffective security and failure to review standard control reports may lead to unauthorised issues of materials being made with the consequential financial loss to the organisation.

- 18.18 A stock count completed by the stores team and signed by the Procurement and Stores Manager is required to amend a stock balance. Only the Finance Officer can amend a stock record. This is authorised by the Director of Finance.



19.	Recommendations:	Priority
19.1	User access rights within ROCC be reviewed to ensure that segregation of duties have not been compromised.	2
19.2	The Company's terms and conditions be amended to include: - <ul style="list-style-type: none">• The Company's terms and conditions prevail over the suppliers.• The order must stipulate the quantity, quality and description of the goods or services required• The price shown is fixed and includes carriage• All goods and services will be at the agreed quality	3
19.3	All external doors to the stores area be secured at all times.	2
