



NOTTINGHAM CITY HOMES

REVIEW OF THE MAJOR REPAIRS ARRANGEMENTS

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| Report issued: | October 2009 |
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| Audit Plan: | 2009/10 |
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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 Major Repairs Arrangements

- EXECUTIVE SUMMARY -

INTRODUCTION

1. TIAA have reviewed the Major Repairs arrangements at Nottingham City Homes. The review was carried out in August 2009 as part of the planned internal audit work for 2009/10.

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).

Figure 1 - Evaluation of the Effectiveness of the Internal Controls

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| Evaluation |
| Reasonable Assurance |

KEY FINDINGS

3. The key control and operational practice findings that need to be addressed in order to strengthen the control environment are set out in the Management and Operational Effectiveness Action Plans. The prioritisation of the recommendations are summarised below (figure 2).

Figure 2 - Summary of Priorities of Recommendations

| Urgent | Important | Routine | Operational |
|--------|-----------|---------|-------------|
| 0 | 0 | 2 | 0 |

MANAGEMENT RESPONSES

4. Recommendations for improvements should be assessed by the Company for their full impact before they are implemented.

RELEASE OF REPORT

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

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| Date draft report issued: | 24 th August 2009 |
| Date revised draft report issued: | 7 th October 2009 |
| Date management responses recd: | 23 rd October 2009 |
| Date final report issued: | 26 th October 2009 |



MANAGEMENT ACTION PLAN
PRIORITY 1, 2 AND 3 RECOMMENDATIONS

| Risk | Finding | Recommendation | Priority | Management Comments | Implementation Timetable | Responsible Officer |
|--|---|---|----------|---|--------------------------|--|
| Failure to direct the process through approved policy and procedures | The Company's Asset Management Strategy does not detail the actual procedures to be followed in updating the Stock Condition Data Base system, when reports are run and when the interface of systems and data takes place. | Recommendation 1: A procedure manual be devised which outlines the process and procedures of the major repairs function and to include the operation of the automatic interface, when this is completed. | 3 | <i>Procedure is to be compiled pending delivery of both the Northgate Keystone interface and Northgate upload tool by ICT. Delivery by ICT is dependent on prioritisation of the project by Directorate or EMT.</i> | End of March 2010 | Tim Shirley – Asset Data Manager supported by Robert Allen – Head of ICT |

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 | Control issue on which action should be taken. |
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| Risk | Finding | Recommendation | Priority | Management Comments | Implementation Timetable | Responsible Officer |
|--|---|---|----------|--|--------------------------|---|
| Failure to direct the process through approved policy and procedures | The Company does not have a process flowchart identifying each stage of the consultation process and requirements of the Commonhold and Leasehold Reform Act for major refurbishment works. | Recommendation 2: A detailed process flowchart be devised, mapping each stage of the consultation/requirements in accordance with the Commonhold and Leasehold Reform Act 2002, where major refurbishment is required. | 3 | COMPLETE. <i>Process map has been compiled and will be agreed with the Leaseholder Forum November.</i> | <i>Immediate</i> | <i>Simon Temporal – Interim Leaseholder Manager</i> |

PRIORITY GRADINGS

| | | |
|---|--------|--|
| 1 | URGENT | Fundamental control issue on which action should be taken immediately. |
|---|--------|--|

| | | |
|---|-----------|--|
| 2 | IMPORTANT | Control issue on which action should be taken at the earliest opportunity. |
|---|-----------|--|

| | | |
|---|---------|--|
| 3 | ROUTINE | Control issue on which action should be taken. |
|---|---------|--|



OPERATIONAL EFFECTIVENESS MATTERS

| Item | Management Comments |
|--|---------------------|
| No Operational Effectiveness Matters were raised. | |

ADVISORY NOTE

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



- DETAILED REPORT -

SCOPE AND LIMITATIONS OF THE REVIEW

6. The review considered the arrangements for the identification, programming and monitoring of works required to bring the properties managed by the Company up to the authorised standards. The scope of the review did not include consideration of the adequacy of the individual property condition surveys carried out or the appropriateness of the estimated costs for the remedial works
7. The limitations and the responsibilities of management in regard to this review are set out in the Annual Plan.

ASSESSMENTS OF THE KEY RISK CONTROL OBJECTIVES

8. 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 mitigating the key probity risks is provided. The assessments are:

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| 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

9. Nottingham City Homes manages the major repairs programme for approximately 29,000 Nottingham City Council homes. The 2009/10 Nottingham City Council's budget for major repairs is £48 million and the actual spend at the date of the review was £8,132,414.

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| 10 Risk | Failure to direct the process through approved policy and procedures |
| Risk Control Objective | Arrangements in place provide for compliance with established policies, procedures, laws and regulations. |
| Evaluation | <u>Reasonable Assurance</u> |

11. The following matters were identified in reviewing the Key Risk Control Objective:
 - 11.1 The Company's major repairs policy is contained in the Asset Management Strategy, which was approved by the Board in July 2008. The Strategy sets out the Company's objectives in helping Nottingham City Council meet its corporate themes and to



ensure that the Decent Homes Standard will be achieved within the projected available resources by the end of March 2013.

- 11.2 The Company's Standing Orders, approved by the Board in May 2008 are split into three parts, Governance, Financial Regulations and Tender and Contract Procurement Rules.
- 11.3 The Financial Regulations include details of the delegated authority of payments to contractors. The Regulations also identify the provisions regarding variations to contracts and contract price, and the provisions where completion of a contract is delayed beyond the contract period.
- 11.4 The process for updating the Stock Condition Database and recording when refurbishment work has been completed on the Decent Home Standard programme, is documented in the Company's Asset Management Strategy and a flowchart is also available briefly showing the process of updating the stock condition database when surveys are completed, and refurbishment work has been completed.
- 11.5 The Asset Management Strategy and Flowchart does not however detail the actual procedures to be followed in updating the system, when reports are run and when the interface of systems and data takes place.
- 11.6 The Company is planning to introduce an automatic interface to allow the automatic updating on completed works, Voids, Repairs, the Major Repairs Programmes, Decent Homes, Adaptations etc.

Recommendation 1: A procedure manual be devised which outlines the process and procedures of the major repairs function and to include the operation of the automatic interface, when this is completed.

- 11.7 The Company's Asset Management Strategy identifies the requirements for consultation with leaseholders (approximately 1,000 homes), regarding major refurbishment to properties. The Company has devised an example of a Consultation/Tender Plan and a Procurement Process Checklist but does not have a formal process flowchart detailing each stage/requirement of the consultation process and the personnel responsible.

Recommendation 2: A detailed process flowchart be devised, mapping each stage of the consultation/requirements in accordance with the Commonhold and Leasehold Reform Act 2002, where major refurbishment is required.

- 11.8 The managing of the Company's Property Services Division is split between the Commercial Delivery and Asset Management sections, with the delivery of the Decent Homes programme under Asset Management.

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| 12 Risk | Losses arising from unauthorised action by staff. |
| Risk Control Objective | Arrangements in place provide for safeguarding the Company's assets and interests from avoidable losses. |
| Evaluation | <u>Substantial Assurance</u> |

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

Risk: The refurbishment works required to bring all properties up to the minimum acceptable standard are not known which may lead to unforeseen costs for the Company.



- 13.1 In November 2008, the Audit Commission carried out an Almo Re-inspection of Nottingham City Homes. The Company was awarded a two star service. No adverse comments were made by the Commission, regarding the capital improvement project and major repairs work.
 - 13.2 The decent homes programme of work commenced in 2008 and is scheduled to be completed by 2013.
 - 13.3 There are clear plans in place and a timetable for the completion of the improvement programme. Nottingham City Homes has a five year asset management strategy which has identified the properties and the work required to bring them up to the Nottingham Decent Homes Plus Standard.
 - 13.4 A stock condition survey was originally carried out in 2005 by Nottingham City Council when 10% of the properties were surveyed, with a further 2,000 surveys carried out to meet the requirements of the Decent Homes Programme, giving a total of surveyed properties of 17%. All different types of properties were surveyed to give a full representation.
 - 13.5 Stock condition survey information has been entered onto the Keystone system, which contains the stock condition database.
 - 13.6 In July 2008 Saviles PLC, a firm of real estate service providers, began carrying out further surveys and the strategy now is to survey every property. As at August 2009, approximately 50% of properties had been surveyed.
 - 13.7 If during responsive repair work, it is identified that major repair work is required, then the work is carried out and the scheduled programme of refurbishment work amended.
 - 13.8 Tests carried out on a sample of the highest responsive maintenance jobs carried out in the previous twelve months identified that jobs which replaced items in the refurbishment programme, the stock condition database had been updated following completion of the job and the refurbishment programme adjusted accordingly.
- Risk: The work is not carried out in a planned manner thereby leading to financial loss.**
- 13.9 Faithful and Gould, a project and cost management consultancy firm carry out the day-to-day monitoring of the major repairs contracts.
 - 13.10 The Company's programme, entitled The Secure - Warm-Modern programme is set to improve on the Decent Homes Standard and achieve the Nottingham Decent Homes Plus Standard. The programme is split into twenty regions.
 - 13.11 The Company's surveyors and contract managers are based with the contractors and carry out quality assurance checks and contractor performance. Contractors submit invoices together with a list of works completed. Valuation Certificates are raised by Faithful and Gould based on completed works and the quality checks carried out by the Company.
 - 13.12 The stock condition database is updated at the completion of the major repair work carried out at each property.
 - 13.13 Tests carried out during the review identified that the stock condition database had been updated accordingly on a timely basis following the completion of work on a property.
 - 13.14 Notice to tender for the decent homes contracts were all procured through OJEU. The two largest contracts awarded in the last twelve months are for the provision of new windows and doors and the heating contract.
 - 13.15 For the contract of the replacement of PVCu windows and doors, forty-nine organisations registered an interest in the contract with twenty-eight returning pre qualification questionnaires. Six contractors were invited to tender and all returned a final bid for the contract, although only two bids were ultimately affordable.



- 13.16 The contract was awarded equally to Nationwide Windows and Yorkshire Windows for twenty-six months for commencement on 1 January 2009, with a total value of £33 million.
- 13.17 For the heating replacement contract, forty-three organisations registered an interest with twenty-nine returning pre qualification questionnaires. Six contractors were invited to tender and returned a final bid.
- 13.18 The contract was awarded to Vinshire Plumbing and Heating Limited and Superior Plumbing Installations Limited for thirty months commencing on 1 January 2009, with a total value also of £33 million.
- 13.19 The tendering and process of selecting contractors, for all contracts reviewed during the audit, had been carried out in accordance with the Company's Tender and Contract Procedure Rules.
- 13.20 All contracts include standard contract conditions as specified in the Standing Orders - Tender and Contract Procedure Rules and include checks on Health and Safety, Equality and Diversity, obtaining insurance details, financial checks and parent company guarantees, where applicable. These issues are also discussed at all pre contract meetings.
- 13.21 PCC, Standard Partnering Framework Contracts are used for all major repairs work.
- 13.22 There are planned lifetimes for each key component of a property, which are used for planning the replacement programme.
- 13.23 While the programme of work is ongoing, on a weekly basis, contract meetings are held between the Company, consultants, contractor and subcontractors and all formally minuted.

Risk: Payments could be authorised for works that were not carried out to the stated requirement of the Company thereby leading to financial loss.

- 13.24 Payments to contractors are made in accordance with the work carried out.
- 13.25 Nottingham City Council has an approved capital project that sets the budget each year for completion of the Decent Homes Standard.
- 13.26 Interim contract payments are only made following the receipt of a Valuation Payment Certificate. The Valuation Payment Certificates are completed and signed off by the contract management consultants, Faithful and Gould. The Certificates are authorised for payment per the delegated authority limits set in the Financial Regulations. The invoices, list of properties and valuation certificates are then issued to the City for payment.
- 13.27 During the review, a spreadsheet of payments made to contractors for the financial year was obtained. A sample of payments made to the contractors involved in the Decent Homes Programme was reviewed to confirm that payments were only made following the receipt of a Payment Valuation Certificate duly authorised per the Financial Regulations. No errors were identified and documentary evidence was available to authorise all payments tested.
- 13.28 Ongoing reconciliations are carried out through Capital Monitoring Reports of all contracts per scheme and submitted to Nottingham City Council. Monthly project finance meetings are held to cover all aspects of the capital spend. These are attended by the Head of Decent Homes, Finance Department staff and the contract management consultants.
- 13.29 Tests carried out during the review of the new windows and doors and replacement heating programmes, identified that monitoring and reconciliations had been completed between the general ledger and budget.
- 13.30 The Senior Governance Officer maintains a central contracts register. A detailed contracts register is maintained by the Procedure Department, which contains details



of all contractors that submitted tenders and completed questionnaires, when tenders were received and opened etc.

- 13.31 Tests carried out during the review on a sample of ongoing and completed contracts confirmed that all contract details were recorded.
- 13.32 Remedial work identified during the defects liability period is required to be rectified within a fourteen days period by all contracting partners at their own expense.
- 13.33 Tests carried out during the review on a sample of properties subjected to major repair work in the last twelve months identified that where any rectification work was required, the contractor had not made a charge. The defects liability period is industry standard, six months for building work and twelve months for mechanical and electrical.
- 13.34 The company does not include retentions in major repair work. Each payment for major work is paid on properties completed. A final account is submitted and signed off when all work has been completed following inspections.
- 13.35 Post completion reviews are carried out for all refurbishment projects, which include contractor's performance.
- 13.36 Reports are routinely presented to the Board on Decent Homes update and Capital monitoring.
