

www.pwc.co.uk

Internal Audit Report 2017/2018

Housing repairs

***Hinckley and Bosworth
Borough Council***

FINAL

March 2018

▶ Click to launch

pwc

Contents

Executive summary

1



Current year findings

2



Appendices

- A. Basis of our classifications
- B. Terms of reference
- C. Limitations and responsibilities

Distribution list

For action: Sharon Stacey, Director – Community Services

For information: Ashley Wilson, Section 151 Officer
Audit Committee

Executive summary (1 of 2)

Report classification



Medium Risk (7 points)

Trend

A review of this nature has not been performed in previous years.

Total number of findings

	Critical	High	Medium	Low	Advisory
Control design	0	0	1	1	0
Operating effectiveness	0	0	0	3	0
Total	0	0	1	4	0

Executive summary (2 of 2)



Headlines/summary of findings

This review has focused on providing assurance around the design and proper application of controls in relation to Housing Repairs processes. The outcome is a report with a medium risk rating, as there was 1 medium and 4 low risk findings:

- **Monitoring of purchased materials (Control design – Medium risk):** HBBC does not have a process to identify materials purchased for a job which is subsequently cancelled, or where there is a surfeit of material;
- **PFH spend reports (Operating effectiveness – Low risk):** Every month the Council spot checks two transactions for every engineer employed by PFH, the main contractor, but one engineer was missed from checking in October 2017 and December 2017. No evidence is retained of the date of the spot checks, the investigation performed on exceptions or evidence of review by the Operations Manager;
- **Purchase of housing repair materials (Operating effectiveness – Low risk):** To make a purchase engineers must provide the supplier with a job number or address of the job. Testing identified two exceptions where no job code or address was provided to the supplier.
- **Cancellation of housing repair jobs (Operating effectiveness – Low risk):** A valid reason for cancellation must be recorded in Orchard in order for cancellation request to be approved. Testing identified 1 of the 25 cancellations sampled where no reason for cancellation was recorded on the system;
- **Budget monitoring (Control design – Low risk):** Every month the Housing Repairs team receives updated year-to-date budget information from the Finance team which must be analysed alongside the WIP report extracted from Orchard. The current process involves manual line by line consolidation performed during the monthly budget meeting between Finance and Housing Repair.

We would like to thank all the staff involved for their help in supporting the internal audit review.

Current year findings (1 of 5)

Monitoring of purchased materials

Control design

1

Finding rating

Rating

Medium

Finding and root cause

The Council does not have a formal process in place to check for materials bought for jobs which are subsequently cancelled, or where a surplus of material is purchased.

We identified that of the purchases between April 2017 and the date of audit fieldwork there were 31 purchases for jobs which were subsequently cancelled. In 5 cases, items, with a total value of £178, were retained in engineers' vans to be used on other jobs.

Implications

The Council is at risk of asset misappropriation when a job is cancelled, or when materials are bought in excess.

Action plan

This will be manageable once the Council has the new vehicle fleet as each operative will have a 'van stock' to which returns can be credited to. For bigger or more expensive items the returns should be made to the suppliers with a return/credit note. The following actions will be undertaken:

- Manual auditable system of return to suppliers and/or holding at Jubilee by end of May 2018
- Return to auditable van stock pilot by end of December 2018
- Automated systems by April 2019

Responsible person/title:

Ged Hickey, Operation Manager

Target date:

Various – see action plan

Current year findings (2 of 5)

PFH spend reports

Operating effectiveness

2

Finding rating

Rating

Low

Finding and root cause

On a weekly basis, HBBC receives a report from its main supplier, PFH, with a breakdown of spend. Every month, two transactions per engineer are checked to the job details on Orchard.

Testing identified that 1 engineer of the 25 was missed from the October 2017 and December 2017 spot check. It was also identified that there is a lack of audit trail to demonstrate the date the spot check was performed, the investigation performed on exceptions or evidence of review by the Operation Manager.

There is currently no action to reconcile the monthly PFH invoices which are processed through the purchase system to the weekly reports which are used as the basis of the spot checks.

Implications

There is a risk that the spot checks may not be completed and investigations not performed on a timely basis.

Action plan

- (1) Ensure that all engineer are included as part of the monthly spot check performed.
- (2) The spot check should be signed, dated and reviewed so that there is evidence of the check being performed. Any investigations should be documented to provide a clear audit trail of action taken.
- (3) Instead of performing spot check on the weekly reports received from PFH, perform spot check on monthly invoices received.

Responsible person/title:

Ged Hickey, Operation Manager

Target date:

March 2018

Current year findings (3 of 5)

Purchase of housing repair materials

Operating effectiveness

3

Finding rating

Rating

Low

Finding and root cause

In order to make a purchase engineers must provide the supplier with the job number or address of the job so the purchase of materials can be appropriately allocated and accounted for. A purchase should not be made without this information.

Testing of all purchases made between April 2017 and the date of audit fieldwork, in January 2018, noted two instances where no job code or address was provided to the supplier. Upon identification of these issues the team have since been able to allocate the materials to specific jobs.

Implications

The Council could potentially pay inappropriate charges for materials not linked to recorded jobs.

Action plan

Staff should be reminded of the importance of providing a job reference number or address for all purchases made.

On a regular basis the team should scan through the purchase report to identify and investigate any purchases made where a job code has not been provided.

Responsible person/title:

Ged Hickey, Operation Manager

Target date:

March 2018

Current year findings (4 of 5)

Cancellation of housing repair jobs

Operating effectiveness

4

Finding rating

Rating

Low

Finding and root cause

A valid reason for cancellation must be recorded in the Orchard system in order for a cancellation request to be approved.

We identified 1 of the 25 cancellations sampled, where no reason for cancellation was recorded on the system.

Implications

The Council may not be delivering an effective service if jobs are cancelled inappropriately.

Action plan

Staff are to be reminded of the need to adhere to the Council's process of recording the reason for cancellation accurately on the Orchard system.

Responsible person/title:

Ged Hickey, Operation Manager

Target date:

March 2018

Current year findings (5 of 5)

Budget monitoring

Control design

5

Finding rating

Rating

Low

Finding and root cause

On a monthly basis, Housing Repairs team receives updated year-to-date budget from Finance team which must be analysed alongside the Work in Progress (WIP) report extracted from Orchard. The current process involves manual line by line consolidation performed during the monthly budget meeting between Finance and Housing Repair.

Implications

Manual consolidation of Budget and WIP report during the meeting gives rise to risk of human error e.g. missing out line items from the consolidation. As a result, budget review may be performed based on incorrect information.

Action plan

The finance team to provide the facility to make the budget report be integrated with WIP. This will establish a more effective process to consolidate the Budget and WIP report in advance of the monthly budget meeting between Finance and Housing Repairs team.

Responsible person/title:

Lois Windsor, Finance and Performance Officer

Target date:

March 2018



**Appendix A: Basis of our
classifications**

**Appendix B: Terms of
reference**

**Appendix C: Limitations
and responsibilities**

Appendices

Appendix A: Basis of our classifications

Individual finding ratings

Critical

A finding that could have a:

- **Critical** impact on operational performance; or
- **Critical** monetary or financial statement impact; or
- **Critical** breach in laws and regulations that could result in material fines or consequences; or
- **Critical** impact on the reputation or brand of the organisation which could threaten its future viability.

High

A finding that could have a:

- **Significant** impact on operational performance; or
- **Significant** monetary or financial statement impact; or
- **Significant** breach in laws and regulations resulting in significant fines and consequences; or
- **Significant** impact on the reputation or brand of the organisation.

Medium

A finding that could have a:

- **Moderate** impact on operational performance; or
- **Moderate** monetary or financial statement impact; or
- **Moderate** breach in laws and regulations resulting in fines and consequences; or
- **Moderate** impact on the reputation or brand of the organisation.

Appendix A: Basis of our classifications

Individual finding ratings

Low

A finding that could have a:

- **Minor** impact on the organisation's operational performance; or
- **Minor** monetary or financial statement impact; or
- **Minor** breach in laws and regulations with limited consequences; or
- **Minor** impact on the reputation of the organisation.


Advisory

A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Report classifications

The report classification is determined by allocating points to each of the findings included in the report.

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Report classification	Risk rating	Points
	Low risk	6 points or less
	Medium risk	7 – 15 points
	High risk	16 – 39 points
	Critical risk	40 points and over

Appendix B: Terms of reference

Hinckley and
Bosworth Borough
Council
January 2018

www.pwc.co.uk

Terms of reference

Housing repairs

To: Sharon Stacey – Director, Community Services
From: Richard Bacon, Head of Internal Audit

pwc

Background and audit objectives



This review is being undertaken as part of the 2017/18 internal audit plan approved by the Audit Committee.

Background and audit objectives

The Housing Repairs Team deals with the maintenance and upkeep of council owned houses, flats, bungalows, sheltered complexes and garages. Below are some of the tasks that they carry out:

- Property inspections and surveys
- Conditional consent for tenant improvements and alterations
- Repairs to the main structure of the property
- Out of hours emergency property repairs to council owned properties
- Adaptation of council owned properties, following a referral from Social Services
- Servicing and repair of all gas appliances belonging to the council
- Programmed improvements to council owned properties
- External decoration of council owned properties

Where work is planned supervisors within the Housing Repairs Team can visit a number of local suppliers and using a procurement card purchase materials required to complete the planned work. Details of all work performed and materials used are recorded on the Orchard system. On a monthly basis an invoice is received from suppliers and the charges made are reconciled to the records of work performed with any exceptions identified and investigated.

The team also record on the Orchard system details of when planned works are cancelled, the reason for this and have a process in place to ensure work is completed on a timely basis.

The Housing Repairs team submit monthly budget monitoring reports to finance with details regarding the current financial position and performance against budget. These are informed by a review of the current caseload and level of work in progress.

Audit scope and approach (1 of 3)



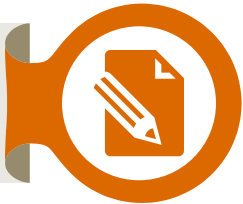
Scope

We will review the design and operating effectiveness of key controls in place relating to the auditable unit during the period April 2017 to the date audit fieldwork.

The sub-processes, risks and related control objectives included in this review are:

Sub-process	Risks	Objectives
Purchase of housing repairs materials	The Council is at risk theft of materials or paying inappropriate charges for materials not linked to recorded jobs	<ul style="list-style-type: none"> The Council has in place an effective system to record what materials have been purchased and details regarding which job they relate to There is a mechanism for reconciling material charges to records of work performed
Cancellation of housing repair jobs	<p>The Council may not be delivering an effective service if jobs are cancelled in appropriately.</p> <p>There is a risk around the misappropriation of assets where jobs are cancelled.</p>	<ul style="list-style-type: none"> The Council has in place a process to ensure that where jobs are cancelled the materials ordered are used appropriately The Council has a process to reschedule jobs when cancelled to ensure an efficient service is delivered The Council maintains adequate records to evidence why jobs have been cancelled
Housing repairs budget monitoring	The department may not be able to deliver its services in line with its allocated budget.	<ul style="list-style-type: none"> The Housing Repairs team has an effective system in place around budget monitoring Work in progress reports are prepared on a timely and accurate basis and provided to finance.

Audit scope and approach (3 of 3)



Limitations of scope

The scope of our work will be limited to those areas outlined above. Our review will be performed in the context of the information provided to us. Where circumstances change the review outputs may no longer be applicable.

Audit approach

Our audit approach is as follows:

- Obtain an understanding of the auditable unit through discussions with key personnel and review of systems documentation;
- Identify the key risks of the auditable unit;
- Evaluate the design of the controls in place to address the key risks; and
- Test the operating effectiveness of the key controls.

Internal audit team and key contacts



Internal audit team

Name	Role	Contact details
Richard Bacon	Head of Internal Audit	richard.f.bacon@pwc.com
Jodie Stead	Internal Audit Manager	jodie.a.stead@pwc.com
Andrew Chan	Internal Audit Team Member	chan.l.andrew@pwc.com

Key contacts – Hinckley and Bosworth Borough Council

Name	Title
Ashley Wilson	Section 151 Officer
Sharon Stacey	Director – Community Services
Mark Tuff	Housing Repairs Manager
Ged Hickey	Housing Repairs Operations Manager
Rachel Moss	Operations Admin Support Officer
Lois Windsor	Finance and Performance Officer

Timetable and information request



Timetable

Fieldwork start	5 February 2018
Fieldwork completed	16 February 2018
Draft report to client	9 March 2018
Response from client	16 March 2018
Final report to client	23 March 2018

Agreed timescales are subject to the following assumptions:

- All relevant documentation, including source data, reports and procedures, will be made available to us promptly on request.
- Staff and management will make reasonable time available for interviews and will respond promptly to follow-up questions or requests for documentation.

Please note that if Hinckley and Bosworth Borough Council requests the audit timing to be changed at short notice and the audit staff cannot be deployed to other client work, Hinckley and Bosworth Borough Council may still be charged for all/some of this time. PwC will make every effort to redeploy audit staff in such circumstances.

Information request

- Copies of any procedure notes supporting the housing repairs process
- Copies of the monthly invoices from suppliers
- Copies of the latest budget monitoring return

Appendix C: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken this review subject to the limitations outlined below:

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other changes; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

This document has been prepared only for Hinckley and Bosworth Borough Council and solely for the purpose and on the terms agreed with Hinckley and Bosworth Borough Council in our agreement dated 10 May 2016. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is aligned to Public Sector Internal Audit Standards. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

In the event that, pursuant to a request which Hinckley and Bosworth Borough Council has received under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), Hinckley and Bosworth Borough Council is required to disclose any information contained in this document, it will notify PwC promptly and will consult with PwC prior to disclosing such document. Hinckley and Bosworth Borough Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such report. If, following consultation with PwC, Hinckley and Bosworth Borough Council discloses any this document or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

© 2018 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to the UK member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

151118-224115-GC-OS