

***London Borough of Hammersmith &
Fulham***

Final Internal Audit Report

***Procurement Compliance – Corporate
Property Services Framework***

March 2018

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1 Introduction

As part of the internal audit plan for 2017/18, agreed by the Audit Pensions and Standards Committee, we have undertaken an internal audit of Procurement Compliance in respect of the Corporate Property Services Framework Tender at the London Borough of Hammersmith & Fulham.

The London Borough of Hammersmith and Fulham established and procured a Framework consisting of eight lots in October 2013 from which to commission corporate property work. The current framework expired in October 2017, however an extension to 1 January 2018 was agreed to allow its re-procurement to take place. The main users of the framework are officers from Corporate Property Services, Housing, and Planning procuring property services and advice.


A review of the current framework has been undertaken to help inform revisions to the next property services framework lots to be procured. The Council is seeking to procure six lots for the provision of a range of property advice that may be required in respect of LBHF assets. The agreed lots to the new framework are:

1. Homebuy, variation of leases for loft conversion, basements, and other associated transactions (maximum 2 providers);
2. Housing valuation appraisals, regeneration valuation advice, reinstatement cost appraisal, development advice and operational portfolio advice (maximum 4 providers);
3. Asset Valuations, HRA Stock valuations, Rating (maximum 2 providers);
4. Professional Consultancy: CPO: property advice (general): property advice for the Planning Department (maximum 6 providers);
5. Advertising Hoardings (maximum 2 providers); and
6. Telecomms and ancillary advice (maximum 2 providers).

Building and Property Management Senior Management Team (chaired by the Director) is acting as the Project Board. The Head of Asset Strategy & Portfolio Management is the Senior Responsible Officer for the procurement work.

2 Executive Summary

2.1 Assurance Opinion

	Nil	Limited	Satisfactory	Substantial
Audit Opinion				

2.2 Recommendations Summary

The following table highlights the number and categories of recommendations made. The Action Plan at Appendix 1 details the specific recommendations made, as well as the agreed management actions to implement them.

Area of Scope	Adequacy	Effectiveness	Recommendations Raised		
			High	Medium	Low
Strategic Assessment and Business Justification (Strategic Outline Business Case);			*	0	0
Project Governance;			1	1	0
Contract Strategy; and			0	0	0
Delivery/Procurement Strategy (Outline Business Case & Options Appraisal and Authorisation to Proceed to Procurement).			0	0	0
Total			1	1	0

*An issue relating to this scope area has been raised in scope area 02: Project Governance.

Please refer to the Appendix 2 for a definition of the audit opinions and recommendation priorities.

3 Summary of Findings

In Internal Audit's opinion, **Limited Assurance** can be given to Members, the Chief Executive and other officers that the controls relied upon at the time of the audit were suitably designed, consistently applied and effective in their application. A number of documents were not provided during the audit and we are unable to provide assurance in these areas.

The key findings and an assessment of controls are summarised below.

Design of and compliance with controls to address the key risks identified

- The re-procurement of the Property Services Framework was linked to the strategic aim of being 'the BEST council' and requires the Council to provide 'the best asset management services'. The requirement is needed as a result of the current framework for similar services expiring in October 2017 albeit having been extended to January 2018 to allow for finalisation of the re-procurement.
- The re-procurement approach was decided in the Cabinet Decision report dated 22 June 2017. The decision to continue with a framework approach was driven by an observed value for money and high quality services provided under the current Property Services Framework.
- We asked for but were not provided with a Predictive Equality Impact Assessment. In addition, the Cabinet Decision report did not include a statement on equality implications to consider.
- The Project Governance structure consists of a project board to oversee delivery of the framework re-procurement; a Service Review Team to review the procurement strategy and realisation of value for money and a project team to lead the procurement and act on the project board's decisions.
- Building and Property Management Senior Management Team (chaired by the Director) is acting as the Project Board. The Head of Asset Strategy & Portfolio Management is the Senior Responsible Officer for the procurement work.
- A Project Initiation Document (PID) was included as part of the business delivery plan in the Cabinet Decision report dated 22 June 2017.
- We asked for but were not provided with Project Status Reports and any project risk logs/registers. As a result, we were unable to confirm that the procurement process was on track to be completed by January 2018. There is a risk of inefficient or ineffective project management that may impact on the success of the procurement.
- A Project Plan is used to plan and monitor the progress of the re-procurement. It was noted that one activity, 'Write specs for each lot including KPI's' was only 20% completed, but should have been finished at the time of our audit fieldwork. No subsequent action plan or lessons learnt were produced as a result of this delay to the procurement.
- When considering the Contract Strategy, it was decided to reduce the number of lots by two from eight to six. The initial lots were as follows:
 1. Landlord Services – Property Management of the Commercial Property Portfolio;
 2. General Valuations; Right to Buy Valuations; transactions for the Housing Department ; Services where the Council is the Tenant; Acquisitions; and Non-Residential Sales;
 3. Asset Valuations; HRA Stock Valuations; Rating Services;

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4. Statutory Valuations; Strategic Consultancy and Property Advice; Valuation and Property Advice to the Planning Department;
 5. Sales by Auction;
 6. Dilapidations;
 7. Advertising Hoardings; and
 8. Estate Agency Services – Sales of Residential Property other than by Auction.
- The agreed re-tendered lots were decided as follows, with lot 6 being removed entirely:
 1. Commercial disposals, general capital and rental valuations
 2. Homebuy, variation of leases for loft conversion, basements, Reinstatement Cost Appraisal, and other associated transactions
 3. Housing valuation appraisals, regeneration valuation advice, development advice and housing portfolio advice
 4. Professional Consultancy: CPO: property advice (general): property advice for the Planning Department.
 5. Advertising Hoardings
 6. Telecoms and ancillary advice
 - The amendments to the Lots were discussed and decided in the Cabinet decision report dated 22 June 2017 as follows: paragraph 4.7.1 'LOT 1 was awarded to one provider in 2013, but works were not commissioned until 2015. The nature of the works on the previous LOT 1, management of the commercial portfolio, require lengthy mobilisation periods. In this case, it was one year. Thus, the nature of the work is different to that of the other LOTs as it is only practical to have one company carry out the works. A solution to the long mobilisation period and different nature of the works will be to remove this set of work from the framework and run procurements for these works separately. Additionally, LBHF will be working with Ernst Young and GVA Grimley on further income generation so a one year continuation of delivery of service by GVA or this work is required.' And paragraph 4.7.2 states that 'The change in administration in 2014 resulted in a change to the mix of asset management work has altered due to the change in focus from the new administration. The LOT for dilapidations work, for sales by auction and the residential estate agency LOTs are no longer required to be bought on a regular basis as the Council seeks to re-utilise its assets for affordable housing wherever possible'. Lot 6 was decided to be removed due to a lack of use of the lot by the Council.

4 Acknowledgements

We would like to thank the following members of staff for their time and assistance during the audit:

- Nigel Brown – Head of Asset Strategy and Portfolio Management

Appendix 1: Management Action Plan

1. Project Governance – Retention and accessibility of project documentation




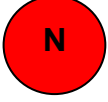
Priority	Issue	Risk	Recommendation
High	<p>Having all documents readily available allows for efficient and effective project management. Documentation was requested on four separate occasions, however no response was received. We asked for but were not provided with the following documentation :</p> <ul style="list-style-type: none"> • An updated Cabinet Decision report outlining the completion of Legal and Financial and Resources Implications assessments; • Project status reports; • Risk logs/registers relating to the project; and • An Equality Impact Assessment. 	<p>Where project documentation is not readily available, there is a risk of inefficient or ineffective project management that may impact on the success of the procurement.</p>	<p>A shared file directory should be used for all procurement documentation and be accessible to all officers involved in a procurement project's management.</p> <p>The documents that could not be provided should be located and made accessible.</p>
Management Response			
No response received.			
Responsible Officer			Deadline
Head of Asset Strategy and Portfolio Management			01/07/2018

2. Project Governance – Action Plan

Priority	Issue	Risk	Recommendation
Medium	The project plan included one activity, 'Write specs for each lot including KPI's' (Row 23) which was noted as 20% completed, but should have been finished at the time of our audit fieldwork. Discussion with the Head of Asset Strategy and Portfolio Management identified that the slow progress for confirming the service specifications is due to lack of resources. There was no evidence that this extension/overrun has been agreed or of actions having been implemented to bring the project back into time.	There is a risk that the procurement initiates without all necessary areas of the action plan being completed. This may result in an ineffective procurement taking place.	<p>Where areas of the project over-run, the Council should implement measures and form an action plan to ensure the task is completed as soon as possible and the project brought back into time.</p> <p>A lessons learnt log should be produced and all lessons recorded to it along with cause, effect and correcting actions where initiated.</p> <p>The lessons learnt should be taken to an immediate post-completion lessons learnt report.</p> <p>The lessons learnt report should be filed with the PMO (or equivalent).</p> <p>The lessons learnt should be disseminated as necessary by the PMO.</p>
Management Response			
No response received.			
Responsible Officer			Deadline
Head of Asset Strategy and Portfolio Management			01/07/2018

Appendix 2: Definition of Assurance Opinions and Recommendation Priorities

In order to help put the audit opinion and recommendation priority ratings in context the following tables detail the current ratings used by Internal Audit.

Rating	Description
	There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be substantial and no material errors or weaknesses were found.
	While there is a basically sound system, there are weaknesses and/or omissions which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
	Weaknesses and / or omissions in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
	Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

Priority	Description
High	Recommendation addresses fundamental weaknesses, which seriously compromise the effective accomplishment of the system's objectives. Risks presented by the control weaknesses could be damaging in the short term. The management action required should be implemented as soon as possible, certainly within 0-3 months.
Medium	Recommendation addresses serious weakness, which affect the reliance to be placed on the system. Risks presented by control weaknesses could be damaging in the medium term. Management action is required within 0-6 months.
Low	Recommendation addresses minor weaknesses, or suggests a desirable improvement. Risks presented by control weaknesses are unlikely and inconsequential. Management action is recommended to address concerns within 0-9 months.

Appendix 3: Audit Scope, Limitations, and Inherent Risks

This audit was a full risk based review of the arrangements for Procurement Compliance – Corporate Property Services Framework and included the following areas:

Ref	Audit Area Description	Comments on Coverage / Area Objectives
01	Strategic Assessment and Business Justification (Strategic Outline Case)	A valid business case aligned to the organisation's strategic needs exists for the expenditure of resources.
02	Project Governance	<p>Projects are managed within tolerances to maintain the cost/benefit ratio envisaged, and additional resources are only committed to pursuing benefits that are still deemed worth the additional input.</p> <p>Project outputs/outcomes/benefits meet the organisation's needs.</p> <p>Projects are planned in sufficient detail and are controlled within tolerance sufficiently to deliver to time/cost/quality and where such delivery is threatened, that adequate and commensurate action is taken to avert such threats.</p> <p>A lessons learnt review of the procurement is undertaken and the results are disseminated within the Council.</p>
03	Contract Strategy	An optimum balance is achieved between contestability and delivering the service the contracting authority needs.
04	Delivery/Procurement Strategy (Outline Business Case & Options Appraisal and Authorisation to Proceed to Procurement)	The most efficient and effective procurement option is selected to realise the greatest value to the contracting authority, and EU Public Procurement Directives as enacted into the UK are complied with.

Limitations to the Scope of the Audit

The following limitations to the scope of the audit were agreed when planning the audit:

- The work will be undertaken using a risk based approach and testing will be on a sample basis to verify compliance;
- The records maintained by third parties to the Council will not be reviewed and are outside of the scope of this audit; and
- The audit review does not provide absolute assurance that material error, loss or fraud does not exist.

The internal audit approach was developed through an assessment of risks and management controls operating within the agreed scope. The following procedures were adopted:

- Identification of the role and objectives of each area;
- Identification of risks within each area which threaten the achievement of objectives;
- Identification of controls in existence within each area to manage the risks identified;

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- Assessment of the adequacy of controls in existence to manage the risks and identification of additional proposed controls where appropriate; and
 - Testing of the effectiveness of key controls in existence within each area.

Inherent Risks

The risks listed below are potential inherent risks which are common for any system/organisation of this type:

- Failure to focus on delivery of the Council's and Service's objectives, resulting in expected benefits and value for money not being realised;
- Fraud or irregularity are perpetrated, resulting in increased contract costs and loss of best value for money, as well as reputational damage to the Council;
- Contracts do not meet the Council's needs, and provide legal comfort that, should things go wrong, it can see specific performance damages or other suitable remedies at the discretion of the court; and

Appendix 4: Timetable and Distribution List

Stage	Date
End of Fieldwork	06/11/2017
Head of Asset Strategy and Portfolio Management	01/07/2018
Responses Received	N/A
Final Report Issued	06/03/2018

Audit Team
Client Engagement Manager: James Graham
Auditor: Matthew Blackman
Auditees
Nigel Brown – Head of Asset Strategy and Portfolio Management Kate Evangeli – Service Transformation Lead
Client Sponsor
Maureen McDonald-Khan – Director for Building and Property Management

Report Distribution List
Nigel Brown – Head of Asset Strategy and Portfolio Management
Copy Recipients of Report
Maureen McDonald-Khan – Director for Building and Property Management

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Recommendations for improvements should be assessed by management for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

This report is prepared solely for the use of Audit Committee and senior management of the London Borough of Hammersmith and Fulham. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.