

## Final Internal Audit Report 2011/12

# London Borough of Hammersmith and Fulham Change Management NKA Contract March 2012


This report has been prepared on the basis of the limitations set out on page 9

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<b>Introduction</b>	<p>As part of the 2011/12 Internal Audit Plan, agreed by the Audit and Pensions Committee on 17 February 2011, and as requested by the Assistant Director of Finance, Housing and Regeneration, we have undertaken an internal audit of the NKA Change Management Contract.</p> <p>This report sets out our findings from the work and, where practical, raises recommendations to address areas of control weakness and / or potential areas of improvement. We acknowledge that the recommendations cannot be implemented as a result of the contract having been completed; however we have included these for consideration and implementation on future contracts and projects.</p> <p>The audit focuses on monitoring of progress against the Repairs and Maintenance Value for Money stream within the 'Contract Monitoring and Reporting' and 'Delivery of Benefits' areas of scope.</p> <p>The agreed objective and scope of our work is set out in the Audit Brief issued on 19 October 2011.</p>
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Audit Opinion & Direction of Travel	None	Limited	Substantial	Full
				

Area of Scope	Adequacy of Controls	Effectiveness of Controls	Recommendations Raised		
			Priority 1	Priority 2	Priority 3
Project Governance			0	1	0
Commissioning of Work			1	1	0
Contract Monitoring and Reporting			1	1	0
Delivery of Benefits	*	*	0	0	0
Lessons Learnt		**	1	0	0

\*Weaknesses identified in this area are included under Contract Monitoring and Reporting.

\*\* No evidence of lessons learnt exercises so effectiveness of controls could not be tested.

Please refer to the attached documents for a definition of the audit opinions, direction of travel, adequacy and effectiveness assessments and recommendation priorities.

Key Findings	Key Statistics
<ul style="list-style-type: none"> <li>• The Contract stipulated that the Value for Money (VFM) Board is the decision making body for the VFM Programme. No formal reporting of the programme's progress to a VFM Board could be identified. It was reported to the HF Homes Board until February 2010 and a financial update on VFM savings was reported in September 2010;</li> <li>• From examination of twelve change request notices for additional commissioned work approved by Hammersmith &amp; Fulham Homes Ltd's Director of Finance, we identified the following: <ul style="list-style-type: none"> <li>○ Two change requests (total value of £104,958) did not have clear explanations as to why additional charges have been applied. The description in the change request notice appears to be similar to services already stipulated under the contract; and</li> <li>○ There is no evidence that the additional commissioned work has been benchmarked to market prices for similar work.</li> </ul> </li> <li>• From examination of monthly progress reports monitoring performance of the Repairs and Maintenance Value for Money stream, we identified the following: <ul style="list-style-type: none"> <li>○ Payments to NKA stipulated in the contract was based only on cashable benefits and therefore any poor performance with regards to non cashable benefits was not reflected in the contract payment;</li> <li>○ Progress reports did not contain detail on non-cashable benefits identified in the business case; and</li> <li>○ The reports from October 2010 to March 2011 were all signed off in March 2011.</li> </ul> </li> <li>• There is no evidence that a lessons learnt exercise was undertaken and reported to senior management.</li> </ul>	<ul style="list-style-type: none"> <li>• The Contract with Northgate Information Services, later renamed to Northgate Kendric Ash (NKA) was presented to the Hammersmith and Fulham Homes (HFH) Board for approval on 29 April 2008;</li> <li>• Only one contractor applied for the Change Management Programme. Proposed costs were benchmarked against those for similar work in the market place prior to approval of the contract;</li> <li>• The overall contract value is £3,386,640 as stipulated in the original contract;</li> <li>• Value for Money Improvements stipulated within the Contract totalled £4,690,750 and the Value for Money potential identified was £10,342,000;</li> <li>• There were originally 12 streams where potential savings could be achieved, including Repairs Ordering Centre, Market Testing and Rehousing and Voids Team; and</li> <li>• Additional commissioned work evidenced through twelve change request notices amounts to more than £200,000.</li> </ul>

## Summary of Findings

### Project Governance

The Hammersmith and Fulham Homes (HFH) Board approved the Change Management contract in June 2008. All business cases under the Value for Money Programme were also approved by the Board in April 2009. The minutes of the HFH meetings provide evidence that the initial change management programme, including all three main streams – Leaseholder Services, Decent Homes Programme and Value for Money Programme, were approved by the Board and committees set up to monitor progress against each of the streams.

The Contract stipulates that the Value for Money (VFM) Board had overarching responsibility for managing the VFM programme and is the decision making body to which VFM projects are proposed, agreed, reported on and led by. No formal reporting of the programme's progress to a Value for Money Board could be identified. The Programme's progress was reported to the HFH Board until February 2010 and a report on savings was presented in September 2010. There is no evidence of any further updates and there was no stipulation within the contract that progress against the Programme should be reported to the HFH Board.

The HFH Director of Finance had main responsibility for managing the change management programme and approving any additional commissions. The HFH Director of Finance and the HFH Chief Executive had unlimited delegated responsibility for virements within the budget as approved by the HFH Board.

The HFH Director of Property Services was responsible for monitoring progress of the Repairs and Maintenance Value for Money stream against agreed objectives on a monthly basis.

One recommendation has been raised as a result of our work in this area.

### Commissioning of Work

Over the period of the contract there is evidence of 12 change request notices in addition to the original contracted sum. All change request notices were approved by the HFH Director of Finance in accordance with his delegated authority. From examination of the documentation available for the twelve change request notices and explanations of the work undertaken, we found that the scope of two of these appears to be similar to services already stipulated under the contract:

- Market Testing for £29,958, included in the original contract specification; and
- Voids Project - £75,000, included as a business case under the value for money.

Further discussions established that the Market Testing work was for a review instructed after it was realised that further savings would be required over and above those specified in the original contract. Additional justification or explanations of the scope of the additional work could not be obtained as the staff responsible for approving these no longer work for the Council. Therefore, it is not clear if this work should have incurred any additional cost.

Furthermore, there is no evidence that costs for additional commissioned work were benchmarked to market prices for similar work.

Two recommendations have been raised as a result of our work in this area.

**Contract Monitoring and Reporting**

This audit focused on the Repairs and Maintenance Value for Money stream and monitoring of progress against cashable and non-cashable benefits agreed in the business case.

Monthly progress reports were produced and signed off for the Repairs and Maintenance Programme between April 2009 and September 2010. All progress reports between October 2010 and March 2011 were signed off in March 2011, therefore regular and timely monitoring may not have been in place during this period.

From examination of 15 of 24 progress reports, we found that slippage was reported on in a separate section within the report in three cases between April and June 2009. The report format was amended and a separate section for slippages was no longer included in all progress reports examined from July 2010 to March 2011.

The progress made against non-cashable benefits identified in the business case was not clearly described within the content of the progress reports.

Two recommendations have been raised as a result of our work in this area.

**Delivery of Benefits**

Although the work done by Northgate on the decent homes programme (as opposed to a full review of the decent homes programme) and leaseholder charges was deemed to have delivered the expected benefits as per the report to the Finance and Audit Risk Committee (FARC) in May 2011 based on the available evidence, it is not always clear that the value for money programme delivered the planned benefits as there is no overall report comparing the benefits in the original contract specification to the deliverables.

All 15 progress reports examined for Repairs and Maintenance have orange status for the service improvement plan and this had not been reflected in the payment to the Contractor as the performance related payment mechanism stipulated in the contract was based on cashable benefits only.

The final progress report in March 2011 specifies the following overall achievements:

- Savings have been achieved and embedded;
- Processes have been codified;
- Training on new processes has either been completed or is now scheduled in diaries; and
- The Gas Team, Voids Team, and Senior Technical Team are working well.

The following concerns regarding achievement of KPIs are also identified in the report:

- Customer Satisfaction; and
- Completions to Target.

	<p>The reasons for underperformance are identified as mainly due to capability concerns around:</p> <ul style="list-style-type: none"><li>• Technical Officer Team;</li><li>• Repairs Performance Manager; and</li><li>• Complaints Technical Officer.</li></ul> <p>Issues identified in this area have been raised under Contract Monitoring and Reporting.</p> <p><b>Lessons Learnt</b></p> <p>There was no formal lessons learnt process undertaken at the end of the work. The Assistant Director of Finance and Resources presented a summary report to FARC that outlined the main areas of delivery and changes made throughout the contract; however, it was intended that identifying lessons learnt to take forward into future similar projects would be one of the outcomes of this audit work.</p> <p>One recommendation has been raised as a result of our work in this area.</p>
<b>Acknowledgement</b>	We would like to thank the management and staff of the Housing and Regeneration Department for their time and co-operation during the course of the internal audit.

## 1. Governance Structure

Priority	Issue	Risk	Recommendation
2	<p>The contract stipulates that the Value for Money Board has an overarching responsibility for the Change Management Programme and is the decision making body to which the Value for Money projects are proposed, agreed, reported on and led by. No formal reporting of the programme's progress to a Value for Money Board could be identified. The Programme's progress was reported to the HFH Board until February 2010 and a report on savings was presented in September 2010.</p> <p>There is no evidence of any further updates and there is no stipulation within the contract defining reporting arrangements to the HFH Board.</p>	<p>Where regular reporting to senior management and board members is not undertaken, there is a risk of weakened contract management and impaired management decision making. This may have an impact on the overall success of the contract.</p>	<p>Contracts should stipulate clearly defined governance structures, including reporting arrangements, at each level of the organisation.</p>

## 2. Commissioning of Work – Change Request Notices

Priority	Issue	Risk	Recommendation
1	<p>Change request notices for additional work were approved by the HFH Director of Finance or the HFH Director of Housing Services. Based on the documentation available for 12 change request notices examined, two appear to have been included in the original scope:</p> <ul style="list-style-type: none"> <li>• Market Testing for £29,958, included in the original contract specification; and</li> <li>• Voids Project - £75,000, included as a business case under Value for Money.</li> </ul> <p>Further discussions established that the market Testing work was for a review instructed after it was realised that further savings would be required over and above those specified in the original contract.</p> <p>Additional justification or explanations of the voids project could not be obtained as the staff responsible no longer work for the Council following the return of the management of the housing stock to the Council. Therefore, it is not clear if this work should have incurred any additional cost.</p>	<p>Where the change request notices are not compared to the original scope of the contract, there is a risk that the work is already included within scope and additional payment is not required. Furthermore, where justification for additional work is not clearly documented, the Council or its subsidiaries may not be able to demonstrate that value for money has been achieved.</p>	<p>Change request notices should be compared to the original scope of the Contract before sign off. Any similarities should be investigated to avoid additional unjustified charges.</p> <p>A full explanation should be documented if the scope appears to be similar to original scope of work.</p>



### 3. Commissioning of Work – Benchmarking of Costs

Priority	Issue	Risk	Recommendation
2	<p>As reported to the HFH Board in June 2008, NKA's proposed contract costs were benchmarked to similar work to confirm the daily rates provided value for money.</p> <p>There is no evidence that the rates for additional work were benchmarked against similar work within the market to confirm they offered value for money.</p>	Where rates for additional work are not compared to market rates for similar work, there is a risk that value for money will not be achieved.	The rates for additional commissioned work should be benchmarked against similar work to ensure value for money is being achieved. This exercise should be documented.

### 4. Service Improvement Plan

Priority	Issue	Risk	Recommendation
1	<p>The Repairs and Maintenance cashable and non-cashable benefits were specified in the approved business case. The business case includes both a financial improvement plan (FIP) and a service improvement plan (SIP).</p> <p>Monthly progress meetings signed off by the HFH Director of Property Services identify a RAG status against both SIP and FIP. All 24 progress meetings identify a red or orange status against the service improvement plan.</p> <p>Payments to NKA were based only on cashable benefits and therefore any poor performance with regards to non cashable benefits did not affect the contract payment.</p>	Where the payment structure is based on cashable benefits only, there is a risk that the behaviour of the contractor may be skewed towards delivering cashable benefits at the expense of non cashable benefits.	<p>Payment conditions stipulated in future similar contracts should be based on delivery of both cashable and non cashable benefits.</p> <p>These should be consistently adhered to where poor performance is identified and not appropriately addressed.</p>

## 5. Contract performance monitoring

Priority	Issue	Risk	Recommendation
2	<p>The monthly progress reports for the Repairs and Maintenance Value for Money stream from October 2010 until March 2011 were all signed off in March 2011.</p> <p>In addition, the progress against non-cashable benefits identified in the business case is not described in any detail within the progress reports.</p>	<p>Where monthly contract monitoring is not undertaken in a timely manner, there is a risk that the contractor is underperforming and this is not identified in time for corrective action to be taken.</p> <p>Where contract monitoring does not include all aspects of the contract there is a risk that poor performance will not be identified and addressed.</p>	<p>Monitoring should be undertaken on a monthly basis unless it is decided this is no longer required. Any decision to amend the frequency of monitoring should be formally agreed.</p> <p>Progress against all benefits should be detailed in progress reports.</p> <p>A governance body responsible for decision making, such as the board, should ensure that this occurs.</p>

## 6. Lessons Learnt Exercise

Priority	Issue	Risk	Recommendation
1	<p>There is no evidence that an end of project report comparing the benefits in the original contract specification to the deliverables had been prepared or that a lessons learnt exercise had been undertaken (other than a report to the Finance and Risk Committee in May 2011).</p> <p>It should be noted that identifying lessons learnt to take forward into future similar projects was one of the intended outcomes of this audit work.</p>	<p>Where end of project reports and lessons learnt exercises are not completed, there is a risk that any issues encountered may occur again in future contracts and projects.</p>	<p>End of project reviews and lessons learnt exercises should be undertaken for each stream and phase of the programme upon completion.</p>

**Statement of Responsibility**

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you 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. The assurance level awarded in our internal audit report is not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

**Deloitte & Touche Public Sector Internal Audit Limited****London****March 2012**

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