

## Final Internal Audit Report 2012/13

### London Borough of Hammersmith and Fulham Housing Capital Management Programme

February 2013


This report has been prepared on the basis of the limitations set out on page 15.

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<b>Introduction</b>	<p>As part of the 2012/13 Internal Audit Plan, agreed by the Audit and Pensions Committee on 15 March 2012, we have undertaken an internal audit of Housing Capital Management Programme.</p> <p>This report sets out our findings from the internal audit and raises recommendations to address areas of control weakness and / or potential areas of improvement.</p> <p>The agreed objective and scope of our work is set out in the Audit Brief issued on 31 July 2012.</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
Setting and Approval of the Capital Programme			2*	1	0
Capital Programme Schemes Management and Delivery			0	2	0
Capital Programme Variations			0	1	0
Capital Programme Monitoring and Reporting			0	0	1
Risk Management			0	0	0

\* Recommendations raised under Area 1 are overarching issues that relate to all areas of the audit scope.

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	Background and Key Statistics
<ul style="list-style-type: none"> <li>• The Council's Housing priorities and objectives are documented within the Housing Estates Investment Plan approved by Cabinet in April 2012;</li> <li>• The budget for the 2012/13 Housing Capital Programme was approved by Cabinet on 5 December 2011;</li> <li>• We were advised that the budget overview was based upon estimated figures from the relevant teams. Although we were provided with explanations of how the estimates were arrived at, this basis of the estimated budgets was not documented;</li> <li>• Monthly Programme budget reports are produced; however, these are not profiled and do not include committed expenditure. Therefore it was more difficult to assess through review of budget monitoring reports that the Council is on track to meet the budget set for the 12/13 Programme;</li> <li>• There is no consistent format for reports from individual schemes that feed into the overall monthly Programme budget reports;</li> <li>• We were provided with a Capitalisation Policy, however, this made reference to H&amp;F Homes whose functions became part of the Council in April 2011. We were subsequently advised that this policy was no longer in use as the Council's Corporate Capitalisation Policy is used;</li> <li>• Planned Maintenance monitoring meetings are held each month, as are Strategic Housing Capital Programme monitoring meetings. However, neither of these meetings are minuted;</li> <li>• At the time of our fieldwork, variations to individual projects within the Capital programme were not subject to formal approval;</li> <li>• Housing Capital Programme monitoring reports are provided to Business Board and Housing and Regeneration DMT on a periodic basis; and</li> </ul>	<ul style="list-style-type: none"> <li>• The 2012/13 Housing Capital Programme was approved on 5 December 2011, with a budget allocation of £35.73m;</li> <li>• As of period 5 (August 2012) the 2012/13 budget has been amended to £36.65m; and</li> <li>• The 11/12 Housing Programme was originally set at £46.7m. The final outturn was approximately £37.8m.</li> </ul>

- The Property Services Risk Register includes risks relating to the Housing Capital Programme and is discussed at monthly DMT meetings;

## Summary of Findings

### Setting and Approval of the Capital Programme

The Council's Housing Estates Investment Plan, approved by Cabinet in April 2012, states that:

"Over the past 5 years, the housing stock has benefited from a £213m investment via the Decent Homes Programme. In addition to the proposed area based improvements strategy and regeneration projects a capital maintenance investment strategy is in place to maintain and build on the benefits of the Decent Homes programme".

This Investment Plan incorporates the Council's Housing Capital Programme. The 2012/13 Housing Capital Programme was approved by Cabinet on 5 December 2011 with an allocated budget of £37.42m.

It was identified that, prior to approval, Cabinet had been provided with a high level overview of the proposed budget which had been broken down into specific areas of expenditure. We were informed by the Programme and Resources Liaison Officer that this proposal was based upon figures provided by the relevant teams. We were informed that costs are normally derived from previous expenditure on equivalent schemes and examples were provided to show that estimates were based on average unit costs adjusted to reflect the specific requirements of the project. Although the basis of the estimates could be demonstrated, this was not clearly documented.

We were informed by the Director of Asset Management and Property Services that a draft Asset Management Plan is to be put before Cabinet for approval in April 2013. It was stated that going forward this should allow for a more structured Housing Programme, where budgets are fixed (thereby assisting to even out cash flow across the year) with an allocation of contingency funds retained. It is hoped that the Strategy will also allow the Council to rationalise their assets, potentially disposing of poorly invested stock which incurs high maintenance costs.

There are essentially three types of work that are incorporated into the current Housing Capital Programme: planned maintenance, one-off projects and repair works. The Director of Asset Management and Property Services confirmed that only certain aspects of repair works can be capitalised, for example, works that extend the life or stock or upgrade an asset. We were provided with a Capitalisation Policy; however, this had not been reviewed and updated since the functions of H&F Homes became part of the Council in April 2011. We were subsequently advised by the Head of Corporate Accountancy and Capital that, since H&F Homes moved back into the Council, the Housing and Regeneration Department have been working to the Council's Corporate Capitalisation Policy. At the time of our audit fieldwork this policy was in the process of being reviewed.

Monthly budget reports are produced by the Programme and Resources Liaison Officer. We were provided with the budget report for period 5 (August 2012) which detailed actual expenditure for 2012/13 at £5.419m, just below 15% of the total revised budget of £36.652m. Budget monitoring reports are not currently profiled by month and nor is committed expenditure or expected completion date of projects recorded. Therefore it was more difficult to assess through review of budget monitoring reports that the Council is on track to meet the budget set for the 12/13 Programme.

We were provided with evidence that each 'scheme' within the Programme is allocated to a relevant cost code on OLAS. The cost codes are denoted within the monthly budget reports.

At the time of our fieldwork, no reconciliation was undertaken between the monthly Housing Capital Budget reports (produced using data from OLAS) and the monthly reports of individual schemes (produced using records of expenditure maintained by Project Managers).

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

### **Capital Programme Schemes Management and Delivery**

We were informed by the Programme and Resources Liaison Officer that two Programme monitoring meetings are held on a monthly basis: planned maintenance monitoring meetings and Housing Capital Programme strategic monitoring meetings.

Whilst we obtained a copy of minutes from the planned maintenance monitoring meeting dated 12 July 2011, we were informed that these meetings are not normally minuted. It is however acknowledged that the 'Housing Capital Works Monitoring Schedule' spreadsheet is updated as a result of the meeting. We were also informed that the Housing Capital Programme strategic meetings had not been held in recent months as many of the functions of the meetings has been subsumed into other meetings such as the Housing and Regeneration DMT meetings.

A 'Housing Capital Works Monitoring Schedule' is maintained by the Technical Support Officer in relation to Planned Maintenance Works. Each scheme within the schedule is assigned a Project Manager and the schedule is updated after each of the Planned Maintenance Monitoring meetings. As discussed under the previous area, approximately 15% of the 2012/13 Housing Capital Programme budget had been spent by the end of period 5. The monitoring schedule also identifies that the 'status' of a large number of planned maintenance works is "to be programmed" (i.e. work had not yet commenced on these projects). In addition, the full tendering process has not been completed for a number of other works. We are unable to identify from the schedule when these works are due to be undertaken.

Project Managers for individual schemes (such as planned maintenance or one-off projects) are required to provide the Programme and Resources Liaison Officer with a monthly report that provides an update on the status of the scheme. This information is then fed into the overall monthly budget report for the Housing Capital Programme. Our testing of monthly reports for schemes identified that there is no standard pro-forma or consistent format for reporting information. Furthermore, committed expenditure was not reported in any of the 10 cases tested.

The Council's two repairs contractors, Kiers and Willmott Dixon, produce and submit reports of repairs undertaken on a monthly basis. Staff review these reports to identify what works can and cannot be capitalised into the Programme Budget.

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

### Capital Programme Variations

During the Cabinet meeting where the 2012/13 Housing Capital Programme and associated budget were approved, it was also approved that:

“authority be delegated to the Cabinet Member for Housing, in conjunction with the Executive Director of Housing and Regeneration, to approve future amendments to the programme for operational reasons and where such amendments can be contained with the overall approved budget and available resources.”

It was identified that the Housing Capital Programme budget has been amended several times since it was approved at this Cabinet meeting in December 2011. The following variations in the budget were identified:

- £35.733m – Approved by Cabinet on 5th December 2011;
- £37.42m including the Jepson House Project previously in the Decent Neighbourhoods Programme – Report to Cabinet on 29th February 2012; and
- £36.65m – Quarter 1 Capital Monitor Cabinet Briefing report
- £36.7m – Quarter 2 Capital Monitor Cabinet briefing report

We were informed that the Director of Asset Management and Property Services meets with the Executive Director of Housing and Regeneration on a fortnightly basis to discuss any variations to the Programme.

It was identified that budgets for individual schemes within the Housing Capital Programme can be amended and reallocated without documented approval.

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

### Capital Programme Monitoring and Reporting

We were provided with evidence that the Housing Capital Programme is reported to Business Board on a periodic basis, often as part of the reporting on the Housing Revenue Account Programme.

In addition, we were informed by the Director of Asset Management and Property Services that details of the Housing Revenue Account are also reported to the Housing and Regeneration Departmental Management Team (DMT) on a periodic basis. We were provided with evidence that the 2011/12 Housing Capital Programme had been reported on 12 December 2011, 9 January 2012 and 12 March 2012. However, we were informed by the Executive Support Officer that, as at the end of period 5 (August 2012), the 2012/13 Housing Capital Programme had not been reported to DMT. We were advised that an overview of the Programme was due to be provided at the next meeting.

It is acknowledged that the Assistant Director of Asset Management and Property Services meets with the Executive Director of Housing and Regeneration on a regular basis to discuss the progress of the Programme and that the Director of Finance and Resources and the Executive Director of Housing both receive the Capital Monitor on a quarterly basis.

	<p>As described above, the Director of Asset Management and Property Services meets with the Executive Director of Housing and Regeneration on a regular basis to discuss the Housing Capital Programme.</p> <p><b>Risk Management</b></p> <p>We were provided with a copy of the Property Services Risk Register by the Head of Health and Safety. The register identified key risks to the Housing Capital Programme such as:</p> <ul style="list-style-type: none"> <li>• Anticipated final costs are exceeded;</li> <li>• Works are not completed;</li> <li>• Possible delays; and</li> <li>• Delays of meeting delivery timescales.</li> </ul> <p>A column for 'existing controls' is established on the Risk Register as well responsible officers.</p> <p>Within all Housing and Regeneration DMT meeting minutes examined, it was identified that risks had been discussed, including instances of those specifically relating to the Housing Capital Programme.</p> <p>No recommendations have been raised as a result of our work in this area.</p>
<b>Acknowledgement</b>	<p>We would like to thank the management and staff from the service areas contacted for their time and co-operation during the course of the internal audit.</p>



## 1. Audit trail to support the estimated Housing Capital Programme budget

Priority	Issue	Risk	Recommendation	
2	<p>The original 2012/13 Housing Capital Programme budget of £35.733m was approved by Cabinet on 5 December 2011. Cabinet had been provided with a high level overview of the Programme budget which had been broken down into four areas of expenditure:</p> <ul style="list-style-type: none"> <li>• Committed Expenditure;</li> <li>• Statutory Requirements, Health and Safety and Capitalisation;</li> <li>• Mechanical and Electrical, Building Fabric; and</li> <li>• Internal Amenity, Estate/Plot Works, Miscellaneous.</li> </ul> <p>We were informed that costs are normally based on previous expenditure on equivalent schemes and examples were provided to show that estimates were based on average unit costs, adjusted to reflect the specific requirements of the work. Although the basis of these estimates could be demonstrated, this was not clearly documented.</p>	<p>Where estimated budgets for schemes within the Housing Capital Programme are not supported by relevant documentation, there is an increased risk that an inappropriate budget will be set and approved for the Programme.</p> <p>Furthermore, where scheme budgets are based on the expenditure of prior years, there is an increased risk that inaccurate and/or inappropriate budgets will be rolled forward.</p>	<p>For the 2013/14 Housing Capital Programme budget and beyond, an audit trail should be retained to provide supporting evidence of the estimated budget for each scheme.</p>	
<b>Management Response</b>			<b>Responsible Officer</b>	<b>Deadline</b>
Agreed			Director of Asset Management and Property Services	31/03/2013

## 2. Capitalisation of repair works

Priority	Issue	Risk	Recommendation	
2	<p>The Housing Capital Programme budget includes an allocation for repair works that can be capitalised (for example, works that extend the life or stock or upgrade an asset).</p> <p>We were provided with a Capitalisation Policy; however, this had not been reviewed and updated since H&amp;F Homes became part of the Council in April 2011.</p> <p>We were subsequently advised by the Head of Corporate Accountancy and Capital that, since the functions of the ALMO moved back into the Council, the Housing and Regeneration Department have been working to the Council's Corporate Capitalisation Policy. At the time of our audit fieldwork this was in the process of being reviewed.</p>	<p>Where staff are not aware of the correct Capitalisation Policy or the Policy is out of date, there is an increased risk that staff may adopt inconsistent or inappropriate practices. This may result in works being incorrectly capitalised and misstatements in the Council's accounts.</p>	<p>The review of the Council's Capitalisation Policy should be completed to ensure it is in line with current working practices and accounting standards.</p> <p>Details of where to access the Policy, along with a reminder of the requirement to adhere to its contents, should be communicated to staff.</p>	
Management Response			Responsible Officer	Deadline
<p>Agreed. Capital Accounting and Funding Guidance has now been produced. We now have a Capital Accounting team in HRD who are working with the Corporate Accountancy team to review capitalisation on a regular basis throughout the year.</p>			<p>Head of Corporate Accountancy and Capital / Director of Asset Management and Property Services</p>	<p>31/03/2013</p>

### 3. Profiling of the Housing Capital Programme budget and monitoring of progress

Priority	Issue	Risk	Recommendation	
1	The Programme monitoring spreadsheet is not currently profiled by month, nor is committed expenditure recorded. Therefore it was more difficult to assess through review of budget monitoring reports that the Council is on track to meet the budget set for the 12/13 Programme. In addition, we were also unable to confirm when a number of the Programme's planned maintenance schemes are due to commence as the 'Housing Capital Works Monitoring Schedule' identified them as "to be programmed".	Where the Housing Capital Programme budget is not profiled by month, there is an increased risk that variations to planned expenditure will not be identified in a timely manner. This may have a detrimental effect on the ability to take prompt remedial action.	<p>The Housing Capital Programme budget monitoring records should be updated to reflect expected fluctuations in expenditure across the year. In addition, the budget should also highlight:</p> <ul style="list-style-type: none"> <li>• Actual expenditure for each of the schemes per month;</li> <li>• Committed expenditure for each scheme, allocated to the relevant month; and</li> <li>• Forecasts of when uncommitted expenditure will be spent based on the estimates of Project Managers.</li> </ul> <p>If Programme expenditure falls behind schedule or is not within budget, this should be raised with management and actions should be taken to ensure that the timely completion of individual schemes is not affected.</p> <p>Management should consider the best approach to profiling the budget for repair works. For example, this could be based upon the seasonal trend of repairs in prior years.</p>	
<b>Management Response</b>			<b>Responsible Officer</b>	<b>Deadline</b>
Agreed. It is not practical to profile the budget. Instead of monthly profiling we will include the expected completion date on our monthly monitoring reports. Projects will be RAG rated based on expected completion date and any red rated projects will be reported the DMT.			Director of Asset Management and Property Services	30/09/2013

#### 4. Monthly reporting of individual schemes and reconciliation to OLAS

Priority	Issue	Risk	Recommendation	
1	Our testing of monthly reports for individual schemes (submitted by the Project Managers to the Programme and Resources Liaison Officer) identified that there is no standard pro-forma or consistent format for reporting progress. Furthermore, expenditure committed was not reported in any of the 10 cases tested. Consequently, no reconciliation is undertaken between the monthly Housing Capital Budget reports (produced using data from OLAS) and the monthly reports of individual schemes (produced using records of expenditure maintained by Project Managers).	Where details of individual schemes are reported in an inconsistent manner, there is an increased risk that key data may be excluded and any issues relating to that scheme may not be identified promptly.  Furthermore, where reconciliations are not undertaken between individual scheme reports and data on OLAS, there is an increased risk that coding errors or inappropriate expenditure will not be identified.	<p>A standard template for consistent reporting of details of individual schemes should be developed and communicated to Project Managers.</p> <p>Furthermore, once this reporting procedure has been implemented, reconciliation should be undertaken between:</p> <ul style="list-style-type: none"> <li>• Expenditure reported by Project Managers;</li> <li>• Details of expenditure extracted from OLAS; and</li> <li>• Expenditure as per the original Programme budget.</li> </ul> <p>Any variances identified should be subject to further investigation.</p> <p>Reconciliations should be documented and subject to review by a second officer.</p>	
Management Response			Responsible Officer	Deadline
Agreed			Director of Asset Management and Property Services	31/03/2013

## 5. Records of Planned Maintenance and Housing Capital Programme meetings

Priority	Issue	Risk	Recommendation	
2	<p>We were informed that two Programme monitoring meetings are held on a monthly basis:</p> <ul style="list-style-type: none"> <li>Planned maintenance monitoring meetings; and</li> <li>Housing Capital Programme strategic monitoring meetings.</li> </ul> <p>Whilst we obtained a copy of minutes from the Planned maintenance monitoring meeting dated 12 July 2011, we were informed that these meetings are not normally minuted. However, it is acknowledged the 'Housing Capital Works Monitoring Schedule' spreadsheet is updated as a result of these meetings.</p> <p>In addition, we were informed that the Housing Capital Programme strategic meetings had not been held in recent months.</p>	<p>Where monthly meetings to discuss the progress of the Housing Capital Programme are not held and minuted, there is an increased risk that slippages to the Programme will not be identified, or that actions to address performance issues will not be communicated to the relevant parties.</p>	<p>The Planned maintenance monitoring meetings held each month should be minuted. Action points arising should be documented and assigned to a responsible officer.</p> <p>In addition, consideration should be given to whether the Housing Capital Programme strategic meetings are required or if the functions can be subsumed into DMT meetings. If strategic meetings are required, the frequency of these meetings should be established and meetings should be minuted.</p>	
Management Response			Responsible Officer	Deadline
<p>Agreed. Once the new processes have been implemented, monthly meetings will be held to discuss any variances in the planned Housing Capital Programme.</p>			<p>Director of Asset Management and Property Services</p>	<p>31/03/2013</p>

## 6. Approval of variations to the Housing Capital Programme budget

Priority	Issue	Risk	Recommendation	
2	<p>During the Cabinet meeting where the 2012/13 Housing Capital Programme and associated budget were approved, it was also approved that:</p> <p>“authority be delegated to the Cabinet Member for Housing, in conjunction with the Executive Director of Housing and Regeneration, to approve future amendments to the programme for operational reasons and where such amendments can be contained within the overall approved budget and available resources.”</p> <p>However budgets for individual schemes can be amended or reallocated without any documented approval where this is contained within the approved budget.</p>	<p>Where amendments to the projects within the Housing Capital Programme do not require formal approval, there is an increased risk of inappropriate amendments to the overall Programme being made that may not be in compliance with requirements set out by Cabinet.</p>	<p>A financial threshold should be established over which amendments to the budgets of individual schemes require formal approval.</p> <p>Any amendments to projects within the Housing Capital Programme, within the approved budget, should then be formally approved by the Cabinet Member for Housing, Executive Director of Housing and Regeneration or a delegated officer, and evidenced as such.</p>	
<b>Management Response</b>			<b>Responsible Officer</b>	<b>Deadline</b>
<p>Agreed. A summary of the overall Housing Capital Programme is already reported to Cabinet in quarterly capital monitoring reports and a process will be put in place for the approval of changes to individual project budgets.</p>			<p>Director of Asset Management and Property Services</p>	<p>31/03/2013</p>

## 7. Reporting the Housing Capital Programme to Housing and Regeneration DMT

Priority	Issue	Risk	Recommendation	
3	<p>We were informed by the Executive Support Officer that an overview of the 2012/13 Housing Capital Programme had not been presented at the Housing and Regeneration Departmental Management Team (DMT) meetings since April 2012.</p> <p>We were advised that an overview of the Programme was due to be provided to the next DMT meeting.</p> <p>It is acknowledged that the Director of Asset Management and Property Services meets with the Executive Director of Housing and Regeneration on a regular basis to discuss the progress of the Programme and that the Director of Finance and Resources and the Executive Director of Housing both receive the Capital Monitor on a quarterly basis.</p>	<p>Where details of the Housing Capital Programme are not reported to the Housing and Regeneration DMT in a timely manner, there is an increased risk that senior management will not have the required information to make well informed decisions.</p>	<p>Staff should be reminded of the need to report an overview of the Housing Capital Programme to the Housing and Regeneration DMT in a timely manner.</p> <p>Furthermore, such reports should be provided to DMT on at least a quarterly basis and evidence retained within the relevant meeting minutes.</p>	
Management Response			Responsible Officer	Deadline
Agreed. An overview of the Programme is due to be provided to the next DMT meeting.			Director of Asset Management and Property Services	31/03/2013

**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 2013**

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