

ARGYLL & BUTE COUNCIL

Internal Audit Section

INTERNAL AUDIT REPORT

CUSTOMER DEPARTMENT	CUSTOMER SERVICES
AUDIT DESCRIPTION	RISK BASED AUDIT
AUDIT TITLE	PROPERTY MAINTENANCE
AUDIT DATE	SEPTEMBER 2016

2016/2017



1. BACKGROUND

This report has been prepared as a result of the Internal Audit review of Property Maintenance within Customer Services as part of the 2016/17 Internal Audit programme.

Argyll and Bute Councils' Property Portfolio comprises of approximately 645 buildings/sites. These buildings/sites are assets which require to be maintained so that they may function effectively and efficiently in supporting the delivery of services. Any deterioration in a building's physical condition, due to a lack of maintenance, can adversely affect service delivery, and also create legal, health & safety and reputational issues for the Council.

Property Maintenance includes routine and emergency property repairs, planned repairs, and statutory repairs as well as planned and client funded work requests to council buildings through the use of internal and external contractors. Repairs are recorded on the Councils property management system "Concerto".

Property Services operate a help desk for emergency repairs that, if not attended to as a matter of urgency, could result in a health & safety or security risk, could cause significant damage to any property and/or may affect business continuity. Examples of this are burst pipes, broken glass or electrical failures. All emergency repairs are designated a code based on both the types of work and the response time required.

Property Services operate an online service request system for planned works or improvements to Council buildings that are not of an urgent nature and are client funded.

The Central Repairs budget is £2.1 M for 2016/17.

2. AUDIT SCOPE AND OBJECTIVES

The main objectives of the audit were:

- To review maintenance protocols and contract frameworks in place
- To carry out a walkthrough test of a sample of repair requests to assess adequacy of controls

- To assess performance information in respect of monitoring ,measuring and reporting

Controls will include:

- Authority – Roles and delegated responsibilities are documented in policies and procedures and are operating well in practice
- Occurrence – Sufficient documentation exists to evidence compliance with policies and procedures
- Completeness – Policies and procedures in place and all required documentation is accurately and fully maintained
- Measurement – Information data and statistics are appropriately collated
- Timeliness – Appropriate arrangements are in place to assure actions are timeous
- Regularity – Documentation is complete, accurate and not excessive; it is stored securely and made available only to appropriate members of staff.

3. RISKS CONSIDERED

- Resources are insufficient to meet demand
- Controls are not being adhered to
- Reputational damage to Council
- Repairs are not prioritised appropriately leading to inefficient resource allocations
- Repairs are not monitored, measured or reported effectively

4. AUDIT OPINION

The level of assurance given for this report is Reasonable.

Level of Assurance	Reason for the level of Assurance given
High	Internal Control, Governance and the Management of Risk are at a high standard with only marginal elements of residual risk, which are either being accepted or dealt with. A sound

	system of control is in place designed to achieve the system objectives and the controls are being consistently applied.
Substantial	Internal Control, Governance and management of risk is sound, however, there are minor areas of weakness which put some system objectives at risk and where specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal Control, Governance and management of risk are broadly reliable, however although not displaying a general trend there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk.
Limited	Internal Control, Governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal Control, Governance and management of risk is poor, significant residual risk exists and/ or significant non-compliance with basic controls leaves the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.

This framework for internal audit ratings has been developed and agreed with Council management for prioritising internal audit findings according to their relative significance depending on their impact to the process. The individual internal audit findings contained in this report have been discussed and rated with management.

A system of grading audit findings, which have resulted in an action, has been adopted in order that the significance of the findings can be ascertained. Each finding is classified as High, Medium or Low. The definitions of each classification are set out below:-

High - major observations on high level controls and other important internal controls. Significant matters relating to factors critical to the success of the objectives of the system. The weakness may therefore give rise to loss or error;

Medium - observations on less important internal controls, improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system and items which could be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified;

Low - minor recommendations to improve the efficiency and effectiveness of controls, one-off items subsequently corrected. The weakness does not appear to affect the ability of the system to meet its objectives in any significant way.

5. FINDINGS

The following findings were generated by the audit:

Per Scope: To review maintenance protocols and contract frameworks in place

- Property Maintenance have prepared a Building Maintenance protocol. The key objectives outlined in the protocol are to :
 - Specify minimum requirements for the management of maintenance;
 - Ensure that building assets are adequately maintained as resources permit;
 - Ensure that the buildings are managed in line with regulatory, statutory, and legislative compliance;
 - Ensure that the risks to the Council are effectively managed;
 - Ensure that health, safety and security objectives are met;
 - Ensure effective maintenance at operational level;
 - Ensure that the Council has necessary information for the monitoring, maintenance, condition and performance of buildings assets at an organisational level; and
 - Ensure that there is adequate information at operational level, to undertake maintenance including the ability to review new policies and strategies.

Property Services management have advised that the protocol has been agreed by SMT on 17th October 2016.

- Services are commissioned via external contractors. Term maintenance contracts are in place and are split on a geographical basis. It was noted that at present approx. 80% of these contracts, based on value, reside with one contractor.
- A review of two of the contractors maintenance framework was carried out namely for Mid Argyll and for Tiree. The frameworks reviewed were found to be adequate covering key areas such as:
 - General conditions of contract

- Agreed schedule of rates
 - List of properties covered in contract
 - Key Performance indicators (KPI's) required from contractor
 - Timescales in regard to areas including job priorities & invoicing
 - Management and monitoring of contractor by Property Maintenance
 - Requirement of contractor to have adequate resource to meet contract obligations
 - Asbestos requirements when on site
 - Contractor default where contractor fails to meet contractual obligations
 - Variations
 - Contract termination
- Testing was undertaken in respect of contractor compliance with the requirements set out in the framework and the following observations were made:
 - As per the framework the contractors had agreed that invoicing to the Council would be within 21 days of a job being completed. Testing showed that the contractors failed to achieve this target for 50% jobs reviewed.
 - The framework agreement states that the contractors must sign in as evidence of arrival and departure from the establishment and should provide photographic evidence from the sign in book. There was no evidence that the contractors had forwarded photographs to Property Services and checks carried out by Property Services showed that the contractors had failed to sign in/out in 49% of orders checked.
 - The framework covers the KPI's which contractors are required to provide on a monthly basis. A review of the information provided by the main contractor found that the detail is not being provided as per the specific framework requirements.

- The framework agreement states that 4 days prior to the Contractor/Property Services monthly meeting all agreed information should be emailed by the contractor to the Council's representative. Consultation with the Councils representative showed that the contractors had failed on all occasions to meet this deadline.

Property services acknowledge the issues as outlined above and minutes of meetings with Contractors shows that all issues relating to the poor performance of the contractor have been discussed and ultimately escalated within the contractor's organisation with a view to mitigating risks as far as possible.

Per Scope: To carry out a walkthrough test of a sample of repair requests to assess adequacy of controls

- Property Maintenance have in place both operational procedures and process mapping which sets out the tasks, checking and controls at each stage of the process; from being advised of a repair through to the final payment to the contractor. A sample of 26 orders was chosen at random from the Concerto Property Management system covering the period up until March 2016 and walkthrough testing was carried out to assess the adequacy of the controls in place.
- The following financial controls were tested :
 - Job was properly authorised
 - Job have been assigned a priority category
 - Completed contractor job sheet has been completed and agrees back to invoice
 - Invoice from contractor agrees to contractual schedule of rates
 - Invoice has been approved as per agreed approval limits
 - Job has been physically checked by a council official as having been completed as per job order

The following findings were noted:

<u>Check carried out</u>	<u>No. of transactions checked</u>	<u>Error rate volume</u>	<u>Error %</u>
Job was properly authorised	26	2	8%
Job have been assigned a priority category	26	0	0%
Completed contractor job sheet has been completed and agrees back to invoice	26	15	58%
Invoice from contractor agrees to contractual schedule of rates	26	7	27%
Invoice has been approved as per agreed approval limits	26	0	0%
One in 10 Jobs has been physically checked by a council official as having been completed as per job order	26	None checked	100%

- A further sample of 10 orders was taken, covering jobs undertaken in the period May – September 2016, as Property Services had indicated that following an internal review in April 2016 it was deemed necessary to introduce enhanced controls to reduce errors similar to those highlighted by the original sample. The results of the second sample are as follows:

<u>Check carried out covering period from 23rd May to September 2016</u>	<u>No. of transactions checked</u>	<u>Error Rate volume</u>	<u>Error %</u>
Job was properly authorised	10	0	0%
Job have been assigned a priority category	10	0	0%
Contractor job sheet has been completed and agrees back to invoice	10	2	20%
Invoice from contractor agrees to contractual schedule of rates	10	1	10%
Invoice has been approved as per agreed approval limits	10	0	0%
One in 10 Jobs has been physically checked by a council official as having been completed as per job order	10 (of which one was physically checked)	0	0%

The second sample indicate that controls introduced have resulted in an improvement from the previous sample such as checking of contractor invoice against agreed rates and job sheets. It should be noted that the sample above in regard to physical checking of completed jobs reflects the risk based approach adopted by Property services.

- It was noted that the operational procedures and process mapping have not been updated to reflect the additional controls introduced in May 2016.

Per Scope: To assess performance information in respect of monitoring, measuring and reporting

- The contractual framework states that Property Services staff will hold a monthly meeting with contractors where performance information, as laid out in the framework, will be presented. It was evidenced that the monthly meetings are held and attended by Property staff. The review found that the information presented by the contractor was found to be incomplete and difficult to interpret. It was evidenced from correspondence that Property Services have raised these issues with the contractor; however recent minutes indicate that these issues are still ongoing.
- Property Services prepare a formal monthly report which is presented at the Facility Services Management Team meeting and details spend to date, spend by department and categorises commitment into emergency, planned and statutory. The report was found to be timely and accurate.
- Performance information is provided via the score system and includes a number of performance measures.

	Actual	Target	Benchmark
Proportion of Council buildings within satisfactory condition	86.6%	80.0%	
Proportion of current buildings suitable for current use	69.1%	65%	
Maintain the completion of statutory testing	On Track	On Track	N/A

It was noted that the measures recorded in the score card are high level targets and does not include information regarding achievement of priority targets or any performance measures in respect of maintenance activity.

- The service plan states that Property Services “undertake quarterly satisfaction surveys on the maintenance programme for schools”. It was evidenced that Property Maintenance have carried out the surveys and a review of the latest survey showed that 95.9% of schools were fairly/very satisfied with performance. The survey covered the following areas:
 - Initial contact
 - Emergency Repairs
 - Planned Maintenance
 - Statutory Maintenance

The survey issued was found to be timely, consistent and transparent.

- A review of the Concerto standard reports indicated that a number of reports are available which would provide management information. Examples of such reports are:
 - Incomplete works orders
 - Orders unapproved more than 3 days
 - Orders invoiced and paid but not authorised on Concerto
 - Comparison of target date for job completion against actual date of completion

There was limited evidence that this functionality is actively used within the service

General

- It was noted that the Central Repairs Budget has decreased from £2.5m for 2015/16 to £2.1m in 2016/17 and is projected to fall to £1.9m in 2017/18 with no corresponding decline in the number of properties within the Council property portfolio.

- Management are proposing to produce an interface between Concerto and Oracle such that invoices will be authorised for payment within Concerto with invoice details being transferred into the Oracle financial system and paid accordingly. Controls within the Concerto system should be reviewed to minimise the risk of loss or error through human error.
- It was evidenced that before repairs are carried out on any Council property a check is made on current/planned works already scheduled for that property to ensure that there is no duplication of works carried out.
- It was noted that Concerto has a dashboard facility which could highlight key performance data on a real time basis to users when they log on but this facility has yet to be fully developed. For example, this dashboard could highlight how many orders are outstanding or the number of orders over priority limit.

6. CONCLUSION

This audit has provided a Reasonable level of assurance as, although not displaying a general trend, there are a number of areas of concern which have been identified where elements of residual risk or weakness with some of the controls may put some of the system objectives at risk. These areas have been acknowledged by Property Services who are working on a programme of continuous improvement. There were a number of findings identified as part of the audit and these, together with agreed management actions, are set out in the attached action plan. There were 4 actions which will be reported to the Audit Committee. Progress with implementation of actions will be monitored by Internal Audit and reported to management and the Audit Committee.

Thanks are due to the Property Maintenance staff and management for their co-operation and assistance during the Audit and the preparation of the report and action plan.

APPENDIX 1 ACTION PLAN

Findings	Risk Impact	Rating	Agreed Action	Responsible person agreed implementation date
1. Compliance with Framework				
Contractors are not adhering to framework	Failure of maintenance contractors to comply with agreed framework may lead to loss and/or misreporting resulting in ineffective decision making/ineffective use of resources.	High	On-going discussion with contractor taking place to address compliance issues and issues escalated to Contractor senior. In addition we will look to strengthen mechanisms for cost recoveries in future contracts in the event of noncompliance prior to contracts being re let in 2017.	Property Maintenance Manager/Procurement Officer. 31 March 2017
2. Additional controls				
Additional controls have been implemented however they are not formally documented.	Failure to document additional control process procedures may lead to inefficient and ineffective operations resulting in loss or error.	Medium	Controls processes will be updated and documented.	Property Maintenance Manager 31 December 2016

3. Concerto				
System functionality is not being fully utilised.	Failure to maximise use of available software may lead to ineffective use of resources resulting in missed opportunities.	Medium	Concerto system is currently under development leading towards its full implementation and as part of this process Chrystal reporting function will be reviewed.	Property Maintenance Manager 31 March 2017
4. Performance measures				
Performance measures do not provide information in respect of maintenance activity.	Failure to report performance information may lead to ineffective decision making.	Medium	Property Maintenance reporting has been reviewed and is deemed to be adequate.	Complete



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