



I
N
T
E
R
N
A
L

A
U
D
I
T

&

C
O
R
P
O
R
A
T
E

G
O
V
E
R
N
A
N
C
E

C
O
N
T
R
O
L

Ipswich Borough Council Building of Council Houses 2015/16

Report Prepared By:	Jeanette Vincent (Senior Auditor)
Date:	January 2016
Audit File Ref:	HCS001

DISTRIBUTION

- Executive Portfolio Holder Cllr Jones
Cllr Mowles
- Audit & Governance Committee
- Chief Executive R Williams
- Chief Operating Officer H Pluck
- Head of Resource Management D Field
- Section 151 Officer J Hudson
- Head of Development P Thompson
- Operations Manager C Lovell
- Head of Housing & Community Services I Blofield
- Head of Internal Audit S Martin
- External Audit T Meyer

INSIDE THIS REPORT	PAGE
• Executive Summary	2-3
• Action Plan	4
• Appendix A	7

1.0 EXECUTIVE SUMMARY

1.1 INTRODUCTION

Internal Audit & Corporate Governance Control acts in accordance with the Accounts and Audit Regulations (2015), Public Sector Internal Audit Standards and Local Government Application Note (2013). This audit has been prepared in accordance with our Audit Charter.

As part of the Audit Plan 2015/16 approved by the Audit & Governance Committee 03/03/15, we have undertaken an audit of the systems of internal control in place over the Building of Council Houses, specifically the monitoring arrangements in place in relation to the Employer's Agent and the Main Contractor.

The Council has started a house building programme with the aim to provide a further 1,000 homes in a decade. The development that this review relates to is located at Bader Close. The Bader Close properties will be funded by surplus income from the Housing Revenue Account (HRA), Right to Buy receipts, borrowing etc.

There will be a total of 108 properties available to eligible tenants. The properties were contracted to be released in two tranches. Five properties were delivered in December 2014 with the remaining 103 properties due by 8 December 2015. As at January 2016 the Council has taken possession of 78 of these, with the remaining 25 due to be released on completion.

The Council has appointed an Employer's Agent, Clerk of Works and Main Contractor on this Design and Build Contract. At the time of the review, a Consultant was contracted three days a week to fill the Principal Surveyor position acting as an interface between the Employers' Agent and the Council.

It is acknowledged that this is a new area of activity for the Council and therefore there has been an element of learning as the project has progressed.

This report sets out our findings and raises recommendations to address areas of weakness and/or non-compliance with existing controls, as set out in the action plan.

1.1.1 AUDIT SCOPE & OBJECTIVES

The scope of the audit is to provide management with reasonable assurance that the systems and controls in operation over the Employer's Agent and Contractor arrangements at Bader Close are operating as expected and that the Project Execution Plan is subject to review.

The objective of the audit is to confirm that the Employer's Agent is operating as per contracted terms and that subsequently the build is progressing as per agreed timescales, within tendered cost and to contracted specification.

1.2 ASSURANCE STATEMENT

1.2.1 Overall Assurance Level**

Good	Adequate	Limited	Unsatisfactory
		✓	

** For definitions see Appendix A

1.2.2 Positive Audit Comments

We would like to draw management attention to key controls in operation over the following processes and procedures that were operating effectively and efficiently:

- Quality checks were well documented.

1.2.3 Audit Report Follow-up

We have not previously carried out an audit of this area.

1.2.4 Control Issues

This review has identified the following control areas where we consider that key improvements to current processes and procedures are needed or where there is the potential risk of fraud and corruption:

- All future proposed development sites should be subject to risk assessment and formal survey to identify site specific issues prior to purchase or decision to construct.
- Materials used in construction should be as per the planning permission and any planning condition. Any changes should be subject to the correct authority.
- Given the lessons learnt from the Bader Close project, consideration should be given to recruiting to the Principal Surveyor role to achieve budget savings.
- The Employer's Agent should be required to renegotiate with the Principal Contractor the small cost saving on the UPVC rainwater goods.
- All variations to contract should be supported by details of officer making the request, the reason for the change, cost and quality implications.

1.2.5 Adequacy of individual control areas

Control Area (See Risks)	Adequacy assessment **	Number of recommendations raised		
		High**	Medium**	Low**
Project delivered within timescales.***	Limited	1	0	0
Project delivered within tendered cost.***	Limited	4	0	0
Project delivered to contracted specification.***	Good	0	0	0
Communication & Project Relations.***	Adequate	0	1	0
Total recommendations raised	6	5	1	0

** For definitions see Appendix A

*** Bader Close project

1.3 Acknowledgements

We would like to thank management and staff for their co-operation during the course of this audit.

2.0 ACTION PLAN

1. Control Area – Post Contract Monitoring Arrangements

REC No.	RISK	FINDING	RECOMMENDATION	REC. PRIORITY**	RESPONSIBLE OFFICER	MANAGEMENT IMPLEMENTATION DATE	MANAGEMENT RESPONSE
1	The project is not delivered in line with timescales specified in the contract potentially leading to negative press/ reputational loss.	While the expected actions as per the Scope of Services have been adequately evidenced to address the risk that the project may not be delivered in line with timescales specified in the contract; site specific issues identified at the start of the build were not addressed, this has therefore impacted on completion and has incurred extra cost, (temporary power supply required for snagging).	All proposed development sites should be subject to risk assessment and formal survey to identify site specific issues for example contamination, electrical infrastructure and capacity etc. prior to purchase or decision to construct. All issues should be actively resolved as soon as practicably possible.	H	House Building Operations Manager	30/11/15	Agreed – Surveys as appropriate are undertaken however for this project the length of time that UK Power Networks took to respond was not anticipated. This will be taken into account for future projects. The House Building Operations Manager will forward details of the surveys which will normally be completed.
2	The project is not delivered in line with timescales specified in the contract potentially leading to negative press/ reputational loss.	Keepmoat have not adopted the Homes & Communities Agency Employment and Skills Plan in line with the Contractors Proposals in the Invitation to Tender Submission. The employment and training opportunities in relation to Bader Close were announced on the Council's web page.	If the requirement to comply with the Homes & Communities Agency Employment and Skills Plan is included in future Invitation to Tender Submissions, the Employer's Agent/IBC should monitor and report the outputs.	M	House Building Operations Manager	30/11/15	Agreed – If this is included in future contracts outputs will be monitored.
3	The project is not delivered in line with tendered cost	The Planning Department indicated that using a brick approved by them was obligatory; this however was	The materials used in construction should be as per the planning permission and any planning	H	House Building Operations Manager	30/11/15	Agreed – The Planning Tracker is reviewed monthly.

REC No.	RISK	FINDING	RECOMMENDATION	REC. PRIORITY**	RESPONSIBLE OFFICER	MANAGEMENT IMPLEMENTATION DATE	MANAGEMENT RESPONSE
	leading to budget overspend.	not the case as there were no planning conditions attached in relation to brick selection other than the brick used must be as per the submitted planning application. This error has resulted in an additional cost of £122,472.	conditions. Before any changes are made in proposed material choice, the authority for that change should be verified.				Planning conditions transferred to the tracker will now be subject to secondary review. All material changes will now be approved by the House Building Operations Manager.
4	The project is not delivered in line with tendered cost leading to budget overspend.	Potter Raper Partnership were engaged on a full Employer's Agent brief so therefore have extensive responsibility for the running of the project in terms of timeliness, quality, cost etc. When Internal Audit initially started the review the officer in the Principal Surveyor role was an IBC employee; when this employee left, a consultant (Thyme Building Consultancy) was appointed predominantly because the project was not progressing as expected for a number of reasons. While we acknowledge the need for an IBC representative/interface, the use of a consultant is costly (£42,614.63 November 14 - July 15 for generally 3 days a week.	That consideration is given to recruiting to the Principal Surveyor role instead of a Consultant given the lessons learnt from the Bader Close project; this would achieve budget savings.	H	House Building Operations Manager	31/05/16	Agreed – the intention is to resource this post internally at the earliest opportunity.
5	The project is not delivered in line with tendered cost leading to	The original specification for rainwater goods was for aluminium; this was therefore tendered for in the original contract. Subsequently a	That Potter Raper is required to renegotiate with Keepmoat in relation to the variation from aluminium to UPVC rainwater goods to	H	House Building Operations Manager	31/01/16	Agreed – The House Building Operations Manager will renegotiate with

REC No.	RISK	FINDING	RECOMMENDATION	REC. PRIORITY**	RESPONSIBLE OFFICER	MANAGEMENT IMPLEMENTATION DATE	MANAGEMENT RESPONSE
	budget overspend.	decision was made to change the specification to UPVC (we have not been able to identify who made this decision and the reasoning behind it). UPVC is a significantly cheaper product than aluminium and should have represented a reasonable saving (£25,000 as per A7 Value Engineering Options). Keepmoat have agreed to a final cost reduction of £4,233.95 which in our view is not reasonable given the price differential (UPVC is approximately 25% of the cost of aluminium).	achieve the saving reflected in the Value Engineering Document.				the Contractor over the proposed cost saving in relation to the rainwater goods.
6	The project is not delivered in line with tendered cost leading to budget overspend.	Potter Raper provide a monthly Financial Review and Progress Report which details additions and omissions in summary. This document is signed by a representative of Potter Raper. There are no documents that support each entry on this summary giving reasons for changes, details of the officers who have authorised changes etc.	Potter Raper should be advised that any further variations to contract should be supported by details of the officer who has made the request with supporting documentation supplied for every variation giving clear cost data. All decisions should be subject to value for money evaluation.	H	House Building Operations Manager	31/01/16	Agreed – The House Building Operations Manager will design a variation template detailing the material change, reason and cost or saving implication etc. This will form part of the tender package for any Employer's Agent contract.

** For definitions see Appendix A

APPENDIX A

3.0 Overall Assurance Level

Control adequacy assessments

We have four categories by which we classify our overall level of assurance of the processes examined and, also, the adequacy of the individual key control areas. They are defined as follows:

Good	All controls are being applied consistently and effectively. This means that all the control areas in the audit are being properly managed and the associated risks are being mitigated.
Adequate	Controls exist but there is some inconsistency in their application. This means that a few of the risks in the audit may need attention.
Limited	Some controls do not exist. This means that a reasonable number of the risks in the audit need attention.
Unsatisfactory	A significant number of controls do not exist and/or there are major omissions in the application of controls. This means that a significant number of risks in the audit are not being properly managed.

4.0 Recommendation priorities

We have three categories by which we classify our recommendations. They are defined as follows:

HIGH	A top priority due to the absence of or non-compliance with a fundamental control process, creating the risk that significant error or malpractice could go undetected. These recommendations should normally be implemented within 1 to 3 months.
MEDIUM	An important issue, which is needed to bring the internal control system up to an adequate standard or eliminate a serious level of non-compliance with an existing control process. These recommendations should normally be implemented within 1 to 6 months.
LOW	An issue, which, if addressed, would contribute towards raising the standard of internal control to a level higher than adequate or help to reduce a less serious level of non-compliance with an existing control process. These recommendations should normally be implemented within 12 months.