



Internal Audit Report  
**Council House Delivery Programme**  
January 2020

# FINAL REPORT





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# 01 Executive Summary

This is a summary of matters arising from the audit.

Service Information
Department and Service: Regeneration
Audit Sponsor: Dan Hawthorn Director of Housing Regeneration and Planning
Date of Review: October 2019.

Overall Assurance and Direction of Travel	
	<b>N/A</b>
Rationale	
The work carried out by Internal Audit indicated that overall, we can provide <b>Limited Assurance</b> . Please see <b>Appendix A1</b> for definitions of our assurance levels, direction of travel and recommendation priority	

Priority	Number of recommendations
1 (Fundamental)	2
2 (Significant)	4
3 (Housekeeping)	0
<b>TOTAL</b>	<b>6</b>

Key Issues and Unmitigated Risks
1. The system for monitoring of project costs is still in development at the time of audit. This could mean unexpected overspends occur which are not identified and managed.
2. Housing Delivery Programme Forecasts are produced for the Council Housing Delivery Board. However, the report does not include monitoring of cost against budget, changes to the programme, any monitoring against timescales and project risks. It was stated there is a need to develop the reporting across the programme, developing milestones & costs. This could currently lead to ineffective management of costs.

Risk Areas Reviewed
Strategy and Objectives.
Project Planning.
Governance.
Monitoring.
Funding and Budget Management.
Risk Management.
Change Management.
Management Reporting.



## 02 Introduction

As part of the 2019/20 Internal Audit Plan, we have undertaken an internal audit of the Council House Delivery Programme.

We are grateful to the Interim Assistant Director of Housing, the Council House Delivery Team, and all other Haringey staff for their assistance provided to us during the course of the audit.

The report summarises the results of the internal audit work and, therefore, does not include all matters that came to our attention during the audit. Such matters have been discussed with the relevant staff.

## 03 Background

It is a stated policy objective of the Council that they aim to provide at least 1,000 new Council homes at Council rents by May 2022. This commitment has been enshrined in the new Borough Plan, adopted in February 2019, which commits the Council to “work together to deliver the new homes Haringey needs, especially new affordable homes” and, explicitly, “to deliver 1,000 new council homes at council rents by 2022”.

There are three key elements required for Councils to deliver new Council homes themselves - land, money and capacity.

A number of sites have been identified for inclusion in the programme. These sites are Council-owned and are located all across the borough. As well as building its own homes, the Council is looking to acquire new homes on commercial development for provision at affordable rents.

£60m of capital funding has been received from the GLA to build these homes and over half a million revenue funding to support the capacity building. At the same time, the lifting of the HRA borrowing cap has assisted the Councils financial capacity to deliver these homes.

A team of experienced housing delivery professionals is being recruited, with many already in place.

The 2019/20 Revenue and Capital budgets were agreed by Cabinet in February 2019 and established:

- £37 million General Fund Capital Programme for the five years from 2019/20;
- £247.476 million Housing Revenue Account (HRA) capital programme budget for the new homes building programme; and
- £433.037 million for new homes acquisition.

As at October 2019 the status of schemes under the programme was as follows:

- Estimated cost £397,679,227;
- 58 current schemes in total;
- 45 schemes at feasibility;
- Six at planning stage;
- Six at procurement stage;
- One on site; and
- Deliver 1,221 new homes, of which 1,008 will be Council homes.

As there is only the one scheme which has started on site, though works have not yet commenced and the project is a developer led with Council agreement to acquire new homes, it was not possible to confirm the arrangements for monitoring and review of such works. We were informed progress of works on site would be monitored through Site Inspections, periodic reports received from the works contractor and consultants, and contract meetings.

## 04 Areas for Further Improvement and Action Plan

Definitions for the levels of assurance and recommendations used within our reports are included in Appendix A1.

We identified areas where there is scope for improvement in the control environment. The matters arising have been discussed with management, to whom we have made recommendations. The recommendations are detailed in the management action plan below.

Ref	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
4.1	<p><b>Estimate of Final Cost and Cash Flow</b></p> <p>Sequel is a database which will be employed by the Council Housing Delivery team, to manage the finances of projects, including budgets, costs and cash flow, once contracts have been entered into, however this process is still in development.</p> <p><i>Risk:</i> Where there is no effective process for the identification of estimates of final cost on each project as it progresses, there is an increased risk of unexpected over spends on completion which may require funding from reserves, undermining the financial viability of the Council. In addition, where cash flow is not monitored there is an increased risk projects may have an adverse impact on the Council's cash flow and require additional short term borrowing.</p>	Throughout the progress of any individual project, periodic estimates of final cost should be produced and compared against original budget, along with cash flow forecasts.	1	<p>We are aware of the gap in the financial budgeting of the programme and the Finance Team have been seeking to recruit specific financial expertise. The programme is at an early stage where most projects have only just gone through the appropriate gateway process for funding, so there has been little budgeting to report. However, going forward projects will be loaded into sequel where the finance accountant will need to import the actual spend. This is a new process which will be set up and the new finance accountant will need to be trained to use sequel.</p> <p>The mitigation to the risk of unexpected overspend is that the Gateway process ensures that Council House Delivery Board approves a pre contract budget</p>	<p>By April 2020</p> <p>Finance Lead &amp; Lillie Craig</p>

Ref	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
				<p>which is monitored monthly by Finance as part of the capital monitoring process. Additionally, total scheme costs will be approved by Council House Delivery Board and Cabinet, where there will a review of spend against the initial precontract budget. The total scheme costs will be reviewed in regular capital monitoring meetings which will be supported by the Sequel process.</p> <p>It is recognised that it would have been ideal to have had all the necessary monitoring processes and systems that are being developed in place before any work began on schemes, but the administration was not willing to wait for that and progress had to be made in sites ahead of having in place all the desired delivery architecture that we would wish, Consequently, there is some degree of catch up necessary.</p>	
4.2	<p><b>Programme Highlight Report</b></p> <p>Housing Delivery Programme Forecasts are produced for the Council Housing Delivery</p>	<p>The Housing Delivery Programme Forecasts report should be developed to include reporting on estimates of cost</p>	1	<p>As in 4.1 - We are aware of the gap in the financial budgeting of the programme and have been</p>	By April 2020



Ref	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
	<p>Board. It reports on the numbers of new homes with planning permission in the projects in the programme, and the numbers of starts on site. It does not include monitoring of cost against budget, changes, monitoring against timescales and risks. It was stated there is a need to develop the reporting across the programme, developing milestones &amp; costs.</p> <p>Where there is no comprehensive monitoring of progress there is an increased risk that key issues are not identified and escalated for action.</p>	<p>against budget, progress against agreed project milestones, key project risks and proposed changes to the programme.</p>		<p>requesting specific financial expertise which is still in the process of being developed. As previously stated, the programme is at an early stage and the programme governance process (including highlight reporting) is still being developed and refined. A programme management officer will be recruited to support the Programme Mgr. build the foundations required and working closely with the new Finance Lead, will ensure that programme governance and reporting is more robust. However, it should be noted that while budget reporting will be monitored at the Council House Delivery Board – any related strategic financial decisions should be reported into the Capital Board.</p>	<p>Finance Lead &amp; Lillie Craig</p>
4.3	<p><b>Project Brief</b></p> <p>A detailed Project Brief was not prepared for the 58 schemes originally included in the programme as this was not at the time a requirement of the Development Procedures. There was a Ward Councillors’ Briefing which produced an outline of the scheme, and we were informed a detailed</p>	<p>A detailed Project Brief should be produced for all new sites proposed for inclusion in the programme. Such a brief should be in accordance with the requirements of the Development Procedures.</p>	2	<p>All new projects now have a project brief (template already sent to audit) as part of the Gateway 0 approval process. This project brief is an evolving document that will be populated as the project develops. Additionally, a detailed project brief is developed at the tender of</p>	<p>Already in place</p> <p>Anna Blandford</p>



Ref	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
	<p>brief would be prepared as and when any scheme is issued to consultants to obtain tenders.</p> <p>Where there is no detailed Project Brief, there is an increased risk such schemes are unclear in their content which could result in excessive and unexpected costs being incurred as the scheme is developed.</p>			contracts stage. Furthermore, a development strategy which sets out of why, where, what and how we will deliver our new council homes is being drafted.	
4.4	<p><b>Project Tracker</b></p> <p>A Project Tracker is maintained though examination of it identifies that 22 of 69 recorded actions were due for completion before the time of audit (October 2019) and hence overdue and for each project the individual project manager was not recorded. We were informed this is a recent innovation introduced for managing the programme, and it may be that such actions require updating.</p> <p>Where actions are identified but not implemented on time, there is an increased risk delivery of the programme is delayed, and hence the required outcomes are not achieved, or achieved in a timely manner.</p> <p>Additionally, where actions are not recorded there is an increased risk that poor decisions are taken based on inaccurate information.</p>	<p>The Action Tracker should be reviewed to identify the individual Project Manager for each project.</p> <p>The current status on all recorded actions should be promptly updated, and where such actions are overdue, there should be an assessment on the impact on the delivery of the project on the programme as a whole.</p>	2	<p>There are regular project review meetings already taking place and any arising actions are noted and actioned urgently as the accurate status of projects are crucial in feeding into a monthly report for the Leader and Lead Member.</p> <p>The action tracker was a recent process and as all actions have to be completed urgently. All actions are closed on the tracker by the end of that week or the month at the latest.</p>	<p>Already in place</p> <p>Lillee Craig</p>

Ref	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
4.5	<p><b>Strategic Risk Register</b></p> <p>The Council Housing Delivery Team holds a 1000 Homes Programme Risk Register. Examination of it identified it was last updated on 3rd January 2019.</p> <p>Where the risk register is not reviewed and updated on a regular basis, there is an increased risk such risks are no longer up to date and fully relevant, and hence the programme may become subject to unexpected factors causing delay.</p>	<p>The 1000 New Homes Programme Risk Register should be presented to each meeting of the Council Housing Delivery Board for review and update.</p>	2	<p>Strategic risks to the overall programme will be updated, however as strategic risks are unlikely to change on a monthly basis then it is suggested that strategic risks will be presented and reviewed quarterly unless there are changes where it will be presented and reviewed sooner. The CHDB meeting in January 2020 taking a substantive item in risk management to refocus the way this is done.</p>	<p>By April 2020</p> <p>Lillee Craig</p>
4.6	<p><b>Communications Plan</b></p> <p>A Draft Communications Plan has been developed which identifies the background to the programme and how it links to Corporate Priorities. It establishes a Communications Objective and the target audience (local Haringey residents, internal Council teams, Members - Ward Councillors and Cabinet Members), and means of reaching different target audiences.</p> <p>Where the Communications Plan has not been formally reviewed and approved, there is an increased risk it is not consistent with the overall aims, priorities and procedures of the programme.</p>	<p>The draft Communications Plan should be presented to the Council Housing Delivery Board for formal review and approval.</p>	2	<p>The draft communications plan was presented and formally reviewed at Council House Delivery Board in September 2019. Following this, activities are already in progress e.g. creating a dedicated webpage with information on specific sites and the Engagement Officer is developing a stakeholder engagement plan</p>	<p>Already in place</p>

We would like to take this opportunity to thank management and staff for their assistance during the audit.

## 05 Audit Observations

### Examples of good practice identified

- The July 2019 Cabinet Report identified the key gateway review points for Members with regard to the programme. The first being the report to approve the proposed sites in the programme, the second the seeking of planning permission for development for a site and the third when approval is sought to appoint a contractor for the main works. It also determined the two main methods for developing new Council homes; to build new homes on its own land and acquire homes built by a third party.
- Oversight of the programme is managed through the Housing Priority Delivery Board and its Council House Delivery Board. Documented Terms of Reference were developed in April 2019 for both these boards. Both of these boards are Chaired by the Director of Housing & Regeneration, and are required to meet once a month for the priority board, and once every month for the delivery board.
- A Master Spreadsheet is maintained by the Delivery Team to record all current schemes. It was identified there are presently 58 current schemes and all of these were as originally approved by Cabinet in July 2019. There were two further sites so approved, 500 White Hart Lane and the Ermine Road Ball Park, which have been deferred.

### Risk Management

In conducting our review, we have focused on those risks and areas outlined in Appendix A1. We have looked at the above mitigations for example the robustness of the governance, project planning and management reporting in place and procedures and found that these controls were in place and operating. In addition, it was identified there are areas where there were no monitoring controls. Given the nature of

these issues the risk associated with these is low. In testing, we have identified some opportunities for improvement in the control environment to reduce risk exposure in this area as outlined in Section 04 above.

### Value for money

Value for Money (VfM) considerations can arise in various ways and our audit process aims to include an overview of the efficiency of systems and processes in place within the auditable area.

We note that the continuity of this function relies on the maintenance of a dedicated Council House Delivery project management team and building contractors to deliver the required works. This does provide an increased risk of service disruption should they leave, and we would have an adverse effect on the cost of the service against the use of in house staff. We have made no formal recommendation on this issue, but we would hope the current review of structures and processes would address this issue.

The use of a Sequel database to manage the finances of projects, including budgets, costs and cash flow will provide vital information to ensure value for money is achieved. Sadly this system is still in development and we have raised a recommendation elsewhere on this issue.

### Sector Comparison

As the construction of new Council houses is an area in which Councils have not engaged in any major way for many years, it has not been possible to compare the findings from this audit of Haringey with other audits recently carried out regarding other Local Authority clients.



# A1 Audit Information

Audit Control Schedule	
<b>Client contacts:</b>	Alan Benson – Interim AD Housing Lille Craig – Housing Delivery Programme Manager Dave Markham – Strategic Lead Marc Lancaster – Housing Strategy & Commissioning Officer
<b>Internal Audit Team:</b>	Graeme Clarke: Director Jerry Barton: Senior Manager Alan Mulvey – Assistant Manager
<b>Finish on site and Exit meeting:</b>	12 <sup>th</sup> November 2019
<b>Last information received:</b>	13 <sup>th</sup> November 2019
<b>Draft report issued:</b>	18 December 2019
<b>Management responses received:</b>	23 January 2020
<b>Final report issued:</b>	27 January 2020

Scope and Objectives
<p>The objective of our audit was to evaluate the adequacy of key controls and the extent to which controls have been applied, with a view to providing an opinion on the extent to which risks in this area are managed. In giving this assessment, it should be noted that assurance cannot be absolute. The most an Internal Audit service can provide is reasonable assurance that there are no major weaknesses in the framework of internal control.</p> <p>The limitations to this audit were that testing was performed on a sample basis and as a result our work does not provide absolute assurance that material error, loss or fraud does not exist.</p>

Definitions of Assurance Levels	
Level	Description
<b>Substantial Assurance:</b>	Our audit finds no significant weaknesses and we feel that overall risks are being effectively managed. The issues raised tend to be minor issues or areas for improvement within an adequate control framework.
<b>Adequate Assurance:</b>	There is generally a sound control framework in place, but there are significant issues of compliance or efficiency or some specific gaps in the control framework which need to be addressed. Adequate assurance indicates that despite this, there is no indication that risks are crystallising at present.
<b>Limited Assurance:</b>	Weaknesses in the system and/or application of controls are such that the system objectives are put at risk. Significant improvements are required to the control environment.
<b>Nil Assurance:</b>	There is no framework of key controls in place to manage risks. This substantially increases the likelihood that the service will not achieve its objectives. Where key controls do exist, they are not applied.

Definitions of Recommendations	
Priority	Description
Priority 1 (Fundamental)	Recommendations represent fundamental control weaknesses, which expose the organisation to a high degree of unnecessary risk.
Priority 2 (Significant)	Recommendations represent significant control weaknesses, which expose the organisation to a moderate degree of unnecessary risk.
Priority 3 (Housekeeping)	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.

Direction	
Direction	Description
	Improved since the last audit visit.
	Deteriorated since the last audit visit.
	Unchanged since the last audit report.
No arrow	Not previously visited by Internal Audit.

### Statement of Responsibility

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

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. The matters raised in this report are only those which came to our attention during the course of our 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 our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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