

Memo

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Date: 31 August 2010

To: Nesan Thevanesan – Home Ownership Team Manager (Homes for Haringey)

Cc: Anne Woods – Head of Audit & Risk Management
Kevin Bartle – Lead Finance Officer
Paul Hughes – Grant Thornton

From: Ibrahim Khatib – Senior Manager, Deloitte and Touche Public Sector Internal Audit Limited

Subject: Follow-up of recommendations from External Auditor's Review of Leasehold Service Charges

Dear Nesan,

Following the Council's Audit Committee meeting on 24 June 2010 where the External Auditor's Leasehold Service Charge audit report dated June 2010 was presented, we were requested to complete a follow-up of the three recommendations raised in the report which were not agreed by the Home Ownership Team (HOT).

As part of the follow-up work we held discussions with relevant officers, examined supporting documentation and performed audit testing in order to confirm the actions taken by management to address the issues identified in the three recommendations.

The table in Appendix A sets out the results of our follow-up work.

If you have any queries regarding the above please do not hesitate to contact either Alan Mulvey – Principal Auditor or myself.

With regards to the contents of this memo, reference should be made to our Statement of Responsibility which is attached to this memo.

Regards,

Ibrahim Khatib
Senior Audit Manager
Deloitte and Touche Public Sector Internal Audit Limited

Appendix A – Follow-up Table

Original Recommendation	Management Response	Responsibility/ Deadline	Findings	Further action Required	Management Response/ Deadline
<p>Estate and Block Costs</p> <p>The allocation of repairs and orders is a manual process and as such is potentially prone to subjectivity and error. In the short term, HfH should consider how to improve repairs job descriptions within TASK to allow more robust identification of chargeable works.</p> <p>(Grant Thornton Rec. No. 2)</p>	<p>Not agreed</p> <p>This process would need to take place when calls are logged. However, we believe it will make it susceptible to more mistakes due to the volume of repairs being handled by staff who do not necessarily understand the recharge implications. It must be noted that this manual process is not unique to HfH since the allocation of block and estate repairs can only be done by verifying the description of each repair item manually. There is more risk involved if this process is automated since it is extremely difficult to differentiate between estate and block repairs without actually looking at the detail of the repair.</p> <p>We believe that we have adequately reduced the risk of errors by:</p>	N/A	<p>Issue Addressed</p> <p>We were informed by the HOT Manager that the original recommendation would not be practical to implement. Customer Services staff currently have an extensive list of items which they can select from when booking repairs and it is considered that adding more to this list may make the process very cumbersome.</p> <p>The Team Leaders also complete regular checks on the information, once the repair jobs have been sorted on the ACCESS database. This was confirmed by Audit sampling. The Team Leaders are then able to check this information to decide whether the works are chargeable and whether they relate to estates or block costs. We were informed that the Team Leaders also have access to any amendments made at the time that the repairs are completed.</p> <p>Details of the checks completed by the Team Leaders, including supporting evidence, are</p>	NO	N/A

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	<ul style="list-style-type: none"> • Subjecting all work to further review/checks by the Team Leaders; and • We have introduced a scheme (Key Leaseholders) whereby leaseholders can receive their repairs report well in advance of the billing so that they can check for any errors. Several other boroughs have expressed an interest in following our lead in this area. 		<p>retained on file. Evidence of one of the checks completed was obtained and found to be satisfactory. Audit also observed records held on file, which covered different estates/blocks and different team leaders.</p> <p>We were also informed that the Council has recently set up a 'Key Leaseholders Scheme', which is planned to be rolled out to more members. These Key Leaseholders receive their bills prior to the actual invoices being sent and any issues or queries on the bills are sent to the HOT to be resolved prior to the costs being finalised. Letters are sent to the Key Leaseholders, examples of which were obtained by Audit. In addition, a copy of the bill sent to the leaseholders also contains relevant information regarding the breakdown of the costs and charges by both block and estates (evidence of this obtained by Audit). We checked a sample of bills to the underlying information from the database and found that the totals agreed.</p>		

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<p>Leaseholder Consultation on Qualifying Long Term Agreements</p> <p>HfH have carried out the required leaseholder consultation for Qualifying Long Term Agreements. The HOT regularly reminds procuring officers of the required procedures and carries out training. Whilst this approach has been effective, we recommend that a written guide to leaseholder consultation procedures is included in HfH and Council procurement procedures.</p> <p>(Grant Thornton Rec. No. 7)</p>	<p>Not agreed</p> <p>This is a very complex area and the advice is that the HOT should be notified of any procurement involving Council property. We believe that this is adequate.</p> <p>Since the introduction of CLARA 2002, from time to time, a reminder is sent to all those who are responsible for procurement. HOT, in liaison with the Council's legal services, takes a lead on this matter. Since the QLTA is quite a complex area, current procedure is that the section 20s are not issued without Legal Service approval. In some cases, LVT (Leaseholder Valuation Tribunal) dispensation will be required in advance since full compliance with section 20 regulations is not always possible because of the nature of the procurements, especially work carried out under a long term agreement).</p>	N/A	<p>Issue Addressed</p> <p>Examination of the 24 June 2010 Audit Committee meeting minutes where this recommendation was discussed identified that the alternative procedure to resolve the issue, in response to advice from Homes for Haringey, would be to notify staff of the need to consult the HOT with any queries regarding the QLTA (the notification was made by email to all relevant staff, evidence of which was obtained by Audit). This was because it was felt that publication of the guidelines may result in other staff within the Council, who may not have the necessary expertise, providing conflicting information/ advice to stakeholders.</p> <p>The HOT Manager advised that updated procedures covering the leasehold consultation process would be presented to the Homes for Haringey Board for approval. This is expected to be done at the next meeting. The procedures would be for the benefit of individual teams to be included within their procedures.</p>	<p>YES</p> <p>Updated procedures covering the leasehold consultation process to be presented to the next Homes for Haringey Board meeting for approval. The procedures will be for the benefit of individual teams to be included within their procedures.</p>	

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			<p>The HOT also liaises with the Legal Services Team, evidence of which was obtained by Audit.</p> <p>A 'Notice of Intention to enter into a Qualifying Long Term Agreement' is sent to the Leaseholders prior to the agreement being signed. Audit obtained evidence of letters sent to the leaseholders for two of the blocks and estates.</p>		
<p>Service Quality</p> <p>The relatively low level of pre and post inspections (10% in most cases) entails a risk that jobs, which have been incorrectly specified or priced, are not identified and leaseholders are incorrectly charged. The outcomes of the pre and post inspection checks should be reviewed to identify any common issues or trends. HfH should consider the use of independent surveyors to carry out sample checking of orders to check the nature and rate of errors.</p> <p>(Grant Thornton Rec. No. 8)</p>	<p>Not agreed</p> <p>We believe that the introduction of the Key Leaseholder scheme adequately addresses this issue. Repair lists are now forwarded to all Key Leaseholders in advance, which will give them the opportunity to query any costs and the HfH IT team is currently working to provide a list of repairs as soon as they are allocated to each block. This will give them an opportunity to inspect works as soon as the job has been carried out.</p> <p>Inspections are carried out by both the contractor and client side of the</p>	N/A	<p>Issue Addressed</p> <p>As part of the repairs service, a Surveyor has been appointed by the Service, whose duties also include inspection of the Council's blocks and estates. These are planned for the calendar year and evidence of this was observed in the Surveyor's diary for inspections over a period of time. Furthermore, Estates Services Officers (ESOs) complete weekly visits whilst Tenancy Management Officers (TMOs) also complete monthly visits of estates and blocks. Some of the Surveyor's visits are planned to coincide with the visits conducted by the TMOs and ESOs. These visits also cover repairs, which have been</p>	NO	N/A

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	<p>organisation and trend are already discussed as part of monthly contract meetings.</p>		<p>completed and the general state of the estates. Residents and Councillors are invited to accompany the TMOs and ESOs on these planned visits.</p> <p>Evidence of inspections was obtained by Audit.</p> <p>Following the visits, the TMOs complete reports, which are distributed to all officers and Councillors present at the visits. Where a repairs order is required, this is also included in the reports. In addition, documentation is maintained of any key monitoring issues arising from the visits.</p> <p>The Leaseholder Service has also set up the 'Key Leaseholders' Scheme' (see above) and regular reports are now sent to members of the Scheme, evidence of which was obtained by Audit. We viewed the calendar for minutes booked and examples of meeting minutes prepared.</p> <p>We were informed that the ALMO has recently implemented a new charging system for repairs (Repairs Ordering System - ROS), which aims to identify the average cost for specific repairs in order to</p>		

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			streamline the efficiency of the Service. This has reduced the number of tasks/repair types on the system significantly, resulting in a reduction in the actual cost chargeable by the contractors. This negates the need for an independent review of the works completed to determine whether the actual costs of the repairs are met.		

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
August 2010

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