



Internal Audit Report  
Housing & Community Care  
Housing Investment Programme  
Assignment No. 15-20  
August 2015

## Final Report

Chief Executive's Service  
Finance Division  
Perth & Kinross Council  
Blackfriars Development Centre  
North Port  
Perth, PH1 5LU



### Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

On 27th March 2013, the Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

### Background and Introduction

This audit was carried out as part of the audit plan for 2015/16, which was approved by the Audit Committee on 1 April 2015.

The Council’s Strategic Housing Investment Plan (SHIP) forms that part of the Council’s capital programme of investment specific to housing. This is financed by specific Scottish Government funds, from current revenues and through prudential borrowing.

The SHIP is submitted to and monitored by the Scottish government and Housing & Health Committee. Progress towards its achievement is monitored as part of the Composite Capital Budget and Housing Investment Programme which is monitored by the Corporate Resources Group and presented for consideration to Strategic Policy and Resources (SP&R) Committee. In addition, it is monitored by the Housing and Community Care’s (HCC’s) Service Management through its Housing Revenue Account and General Fund Capital Programme Board, through the Housing Management Team Monthly monitoring meetings. Progress against the Local Housing Strategy is reported to Housing and Health Committee, annually.

Through the plan, the Council has delivered 156 new homes and made 48 purchases of ex local authority homes and was the strategic lead for the addition of 396 new Registered Social Landlords (RSL) homes.

### Scope and Limitations

The audit comprised interviews with relevant officers involved in the planning, initiation, management and completion of projects. Documents pertaining to the development of three new build and the increase in housing stock (buy-backs) projects were examined for their consistency with the Council’s Project Management Framework and to ensure that risks attached to new build projects were identified and managed.

The audit did not consider works previously examined as part of the Standard Development Plan which was the subject of the audit of the Housing Standard Development Plan in 2014. (14/397 refers).

### Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A ‘control objective’ is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective: To ensure the adequacy of the management, monitoring and reporting arrangements of the Housing Improvement Programme.

Auditor's Comments:

New Build projects for Housing within HCC are evaluated against six criteria set out in the SHIP. These criteria, which were approved by Housing and Health Committee (14/454 refers), differ from corporate criteria for capital projects in that they specifically meet Council objectives in relation to the provision of affordable housing. This ensures that the Council's programme meets national priorities and identified local needs.

The overarching Business Case for New Build Social Housing is set out in the SHIP, which documents the needs and demands of the area together with the availability of affordable housing and the plans to provide housing to meet those demands. The SHIP, the template for which is set by the Scottish Government, identifies a number of projects to be provided by both the local authority and RSLs to meet local demands for affordable housing. The Plan includes additions to existing housing stock through buying back ex-local authority housing sold through the Right to Buy.

The Project Management Framework used to manage Composite Capital Projects has not been employed by HCC for New Build projects. Consequently there were no individual Business Cases or Project Initiation Documents for any new build projects. In addition, the risk to any new build projects being delayed due to a subcontractor entering administration is not identified on any project management documents. The introduction of these documents for New Build projects has been identified as an action in the Housing Capital Investment Programme Action Plan.

Throughout the processes of new builds and buy backs there is a robust monitoring framework to ensure that the outcomes of each project are achieved, i.e. providing affordable housing to a recognised standard. Update reports are presented within the Service to ensure that progress against key milestones is managed, with Executive Summaries being highlighted to Senior Management, where appropriate. The programme is also reported to the Council's Strategic Investment Group on an 8 weekly basis. Annual reports on the progress to meet Local Housing Strategy outcomes is made to Housing and Health Committee and regular reports are made to SP&R to ensure scrutiny of the financial plans.

A number of different procurement models have been used for new build projects and advice has been sought to ensure that procurement of building projects meets the requirements of European legislation.

Strength of Internal Controls:

Moderately Strong

## Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each

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'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

### Acknowledgements

Internal Audit acknowledges with thanks the co-operation of HCC's Housing Improvements, Finance and Planning and Commissioning officers and officers from Chief Executive's Finance, Legal and Democratic Services divisions during this audit.

### Feedback

Internal Audit welcomes feedback from management, in connection with this audit or with the Internal Audit service in general.

### Distribution

This report has been distributed to:

B Malone, Chief Executive

J Walker, Executive Director (Housing & Community Care)

J Symon, Head of Finance

L Cameron, Head of Housing and Strategic Commissioning

C Mailer, Senior Manager, Housing

J Beverley, Service Manager - Housing Improvements and South

J Cruickshank, Senior Project Manager

C. Flynn, Democratic Services Manager

N Copland, Business & Resource Manager

P Dickson, Complaints and Governance Officer

G Taylor, Head of Democratic Services

External Audit

## Authorisation

The auditor for this assignment was A Gallacher. The supervising auditor was M Morrison.

This report is authorised for issue:

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Jacqueline Clark  
Chief Internal Auditor  
Date: 27 August 2015

Appendix 1: Summary of Action Points

| No. | Action Point             | Risk/Importance |
|-----|--------------------------|-----------------|
| 1   | Contractor Risks         | Medium          |
| 2   | Formal Business Cases    | Low             |
| 3   | Scheme of Administration | Medium          |





## Appendix 2: Action Plan

### Action Point 1 - Contractor Risks

Quad Reports detail the progress of the project against key milestones and budgets detail risks to the completion of the projects. The risks described in the reports for the sampled projects included unforeseen works, inclement weather, delays in the installation of services and meeting programme schedule. There is no reference to the possibility of an external contractor or sub-contractor entering administration.

In 2014, two sub-contractors for New Builds went into administration which has impacted on the scheduled completion of the New Build properties, and resulted in some adverse publicity for the Council in respect of one project.

### Management Action Plan

The risk associated with using sub-contractors for new build projects will be included on the risk profiles and summarised risks highlighted on Quad Reports.

Dunn and Bradstreet financial appraisals will be obtained and scrutinised for prospective contractors working on new-build projects.

|                                     |   |
|-------------------------------------|---|
| Importance:                         | Medium  |
| Responsible Officer:                | June Beverley, Service Manager                            |
| Lead Service:                       | Housing and Community Care                                |
| Date for Completion (Month / Year): | September 2015  |
| Required Evidence of Completion:    | Quads for new build projects/Project Initiation Documents |

### Auditor's Comments

Satisfactory

## Action Point 2 - Formal Business Cases

Business Cases have not been produced for any New Build projects undertaken as part of the Strategic Housing Investment Plan. As these projects are funded through the Housing Revenue Account, historically arrangements have not been subject to the Project Management Framework which is applied to the Composite Capital Programme.

The Housing Capital Investment Programme Action Plan has required Project Initiation Documents or Project Definition Documents for any New Build projects, of which a Business Case forms a part, from April 2015.

## Management Action Plan

New Build projects will be supported by Business Cases, Project Initiation Documents or Project Definition Documents.

The production dates of these documents will be recorded on the monthly Quad Reports.

|                                     |  |
|-------------------------------------|--|
| Importance:                         | Low  |
| Responsible Officer:                | J Beverley, Service Manager - Housing Improvements and South |
| Lead Service:                       | Housing and Community Care                                   |
| Date for Completion (Month / Year): | September 2015   |
| Required Evidence of Completion:    | Project Initiation Documents/Project Definition Documents    |

## Auditor's Comments

Satisfactory

### Action Point 3 - Scheme of Administration

The Council's Scheme of Administration explicitly excludes the approval of budgets from delegation to Committees for both revenue and capital expenditure. However, the Housing Revenue Account is annually approved by the Housing & Health Committee.

The Scheme however, does delegate responsibilities to the Housing & Health Committee to set housing rents and to carry out the functions of the Council in respect of the Housing (Scotland) 1987 Act, which requires for the operation of a distinct Housing Revenue Account.

### Management Action Plan

With Council approval, an amendment will be made to align the budget approval processes with the Scheme of Administration.

|                                     |  |
|-------------------------------------|--|
| Importance:                         | Medium                                     |
| Responsible Officer:                | C. Flynn, Democratic Services Manager      |
| Lead Service:                       | Chief Executives Service                   |
| Date for Completion (Month / Year): | October 2015                               |
| Required Evidence of Completion:    | Amendments to the Scheme of Administration |

### Auditor's Comments

Satisfactory

