

Final Internal Audit Report 2015/16

Homes For Haringey Repairs Stock Control August 2016

This report has been prepared on the basis of the limitations set out on page 10

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Introduction

As part of the 2015/16 Internal Audit Plan approved by the Audit & Risk Committee on the 3 March 2015, we have undertaken internal audit work in relation to repairs stock control.

Homes for Haringey (HfH) is the Arm's Length Management Organisation (ALMO) set up by Haringey Council, with the support of residents, to manage over 21,000 tenanted and leasehold homes. Owned and monitored by Haringey Council, their mission is to work with residents to provide quality housing services and decent homes as well as managing and improving all or part of its housing stock.

The Repairs Service (HRS) is responsible for carrying out effective and timely repairs to the expected standards. This includes emergency, responsive, planned and voids repairs in the tenanted homes, empty homes managed by the council and to buildings and other elements that HfH are responsible for.

The stores hold circa £230,000 of stock at any one time.

The team are currently piloting a van stocks module, which allows operatives to order materials via a mobile device. This enables them to order items to replace their basic stocks held in the van, which will be picked and ready for collection when they return to the stores.


The team procures via Procurement for Housing in the main using 5 suppliers for various types of items. Other suppliers are used if the item is out of stock with the main supplier.

Spend is circa £1.6m with these providers annually.

A new system is planned for 2016/17 that will enable more joined up job costing. The project to implement this is in progress currently.

The audit only constitutes a high level review of controls. No substantive testing was undertaken due to the time allowed for this review. This report sets out our findings from the internal audit and raises recommendations to address areas of control weakness and / or potential areas of improvement.

The agreed objective and scope of our work is set out in the Audit Brief issued on 10th March 2015.

Audit Opinion & Direction of Travel	None	Limited	Substantial	Full
		 N/A		

Key Findings

- There are at present no documented procedure notes for the Repairs Store activities. The personnel have been in place for over 12 years and rely largely on knowledge and experience of the operations.
- A new system was implemented to manage the repairs stock environment, and we confirmed during the audit that staff members were offered the necessary training to be able to operate the system.
- It was established that goods are received by the respective function that has orders goods, thereafter inspection the goods will be receipted on the system. It is only then that invoices will be paid by finance, once the goods are receipted in line with the purchase order on the system.
- Records are kept of issues from stock in a form of issue notes which are serially numbered. The issue notes are filled out by the operatives and submitted at the store, the goods are then supplied and the

operative signs for collection.

- From our first discussions with management we established that there is a lack of awareness of anti-fraud policy and whistleblowing arrangements in place at Homes for Haringey. Upon review of the policy it was established that it makes provision that variances or suspicion of fraud should be investigated.
- We performed walk-round of the compound with the Store Supervisor and confirmed stock are secured in lockable spaces covered by CCTV, except for the Mobizmo collection point entrance area, which was not covered by CCTV.
- It was established that, Agreements are in place between Homes for Haringey and Suppliers of Building Materials and Services through the Procurement for Housing (PFH) Framework. However, it was established that a contract with the supplier of the building materials had expired 07 September 2015 and the services are still effective.
- It was established that replenishment reports are run on a weekly basis and the system has re-order level set, as a result for any item below the re-order level are flagged by the system and a purchase requisition will be generated approved before orders are initiated.
- Deliveries are compared against the purchased orders, once agreed are receipted to the system before any payment could be made, this controls was tested satisfactory during the audit.
- Returns are recorded by Operative on the duplicate copy of the Issue note, the returned stock and return note are received by Store and stock returned are entered on the system. Returns to Supplier are evidenced with Collection notes and entered on system.
- Stock Controllers carry out inspections regularly and will detect any broken items of stock to be written off. The write off stock is entered directly on system by the Store Supervisor if there are large numbers of items then a form is filled out. A report is printed and filed for all write offs. We found that stock written off is not being authorised and sighted by the Manager prior to disposal and the printed report is not signed.
- Other than the annual stock take performed at year end, there is at present no periodic count of stock.
- It was established that Management Information is obtained from the system wherein the correct prices from Suppliers have been entered. We were informed that the PFH framework completed in May 2014 was to ensure approved suppliers are used and standard prices agreed. The prices entered on to the TASK system are the agreed prices, thus ensuring price and management information accuracy.
- The following monthly reports are run and sent to Management Accountant on a timely basis. The reports are:
 1. Stock Valuation
 2. Stores Issues to Job
 3. Stores issues to GL
 4. Stores returns to Job
- The CLT meets monthly to review performance and take action on any variances that needs attention. Once corrective actions are taken, the information is then provided to the Executives.

Key Numbers

- Closing stock certificated by Procurement and Transport Manager on 31/03/15: £150,096.52
- Closing stock as per report – HS03 Lordship Lane stock valuation period 11 29022016: £178,114.42

- Stock Purchases as per report – Stores Purchases 010115 to 100316: £1,522,063.67

	Adequacy of Controls	Effectiveness of Controls	Recommendations Raised		
			Priority 1	Priority 2	Priority 3
Governance	Amber	Amber	1	2	0
Procurement	Green	Amber	0	1	0
Stock Checks	Green	Amber	0	1	0
Returns and Write Offs	Green	Amber	0	0	1
Management Information	Green	Green	0	0	0
Total			1	4	1

Please refer to Appendix B for a definition of the audit opinions, direction of travel, adequacy and effectiveness assessments and recommendation priorities.

Acknowledgement	We would like to thank the management and staff of Repairs Stock Control Team for their time and co-operation during the course of the internal audit.
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Ref	Issue	Risk	Recommendation	Priority	Management Response	Responsible Officer(s)	Deadline
Governance: There should be written and approved Policies and Procedures made available to Staff							
1	From discussions with Procurement and Transport Manager, we established that there are at present no documented procedure notes. Personnel have relied largely on knowledge and experience of the operations.	Where written policies and procedures are not available, there is an increased risk that staff adopt inconsistent practices which are not in line with management's wishes.	There should be written and approved Policies and Procedures made available to Staff. Procedure notes or process maps should be written to cover the following topics, inter alia: <ul style="list-style-type: none"> • Procurement; • Returns and write-offs; • Security of Stock; • Stock Checks and Counts; • Management Reporting; and • Investigations. 	1	Acknowledge the points raised and currently HRS/Property are developing a new IT system which it targeted for completion Sept 16 and the view/target is to have processes, plans and work instructions in place and briefed to users for mobilisation.	Paul Shephard as Lead supported through Management structure.	1 st Oct 2016
Governance: Anti-fraud / Whistleblowing Policies should be communicated to staff							
2	From our first discussions with management, we established that there is a lack of awareness of anti-fraud policy and whistleblowing arrangements in place at Homes for Haringey. We obtained confirmation at our exit meeting that the policies are in place on the intranet.	Where there is a lack of awareness of anti-fraud policy and whistleblowing arrangements, there is an increased risk that the aim to deter and prevent fraud is not achieved.	The anti-fraud and whistleblowing policies should be communicated to staff and specific training provided.	2	Staff are notified via corporate Team Brief and policy/Guidelines are on intranet. Proposal to revisit briefing staff through next Team Brief and appraisals/121's. Propose including periodically in Team Briefs.	Paul Shephard	1 st Aug 2016

Ref	Issue	Risk	Recommendation	Priority	Management Response	Responsible Officer(s)	Deadline
Governance: The Mobizmo Collection Point entrance area should be covered with CCTV							
3	<p>We performed walk-round of the compound with the Store Supervisor and sighted 1. Main Store, 2. Bulk Storage Yard, 3. Flat pack Kitchen Units Store, 4. The Mill and Pre-assembled Kitchen Units Store and 5. Mobizmo Collection Point.</p> <p>We confirmed the areas were lockable or locked and covered with CCTV, except for the Mobizmo Collection Point entrance area which was not covered with CCTV.</p>	Where there is no CCTV coverage of stock locations, there is an increased risk of lack of evidence with which to investigate any incident of theft or break in.	The Mobizmo Collection Point entrance area should be covered with CCTV.	3	<p>Acknowledge point albeit that the collection point entrance is locked whilst not in use which reduces risk of theft and with 12 cameras covering the depot area it is believed we have covered the risk of loss. Management accept the risk.</p> <p>Taking all into account a price will be obtained for an additional camera to be fitted.</p>	Paul Shephard	31 st March 2017
Procurement: The Wolseley Contract should be considered for renewal							
4	Discussions with the Senior Buyer established that through the Procurement for Housing (PFH) framework, agreements are in place between Homes for Haringey and Suppliers of Building Materials and Services. We tested the 6 suppliers on list provided and found that the agreement with Wolseley had expired on 7 th September 2015 and no	Where there is no valid contract in place, there is increased risk that Homes for Haringey will not be able to seek legal redress should the supplier fail to honour the terms. Inability of supplier to deliver goods / services may affect the achievement of objectives.	The Wolseley Contract should be considered for renewal.	2	Currently reviewing our framework agreements with a view to retender.	Steve Wells Paul Shephard	1 st Jan 2017





Ref	Issue	Risk	Recommendation	Priority	Management Response	Responsible Officer(s)	Deadline
	evidence was found to show it had been renewed.						
Stock Counts: Periodic stock counts should be performed by the Store Personnel							
5	Discussions with the Procurement and Transport Manager and Store Supervisor established that annual stock take is carried out by a team of up to 20 personnel from Finance and Admin of Homes for Haringey located at the Broadwater Farm Community Centre. The stock take is posted by the finance team with Procurement and Transport Manager overseeing the counts and pressing the processing button on the system. Other than the annual count, there is at present no periodic count of stock.	Where there is no periodic count of stock entered on system, there is an increased risk that if the stock figures on system are incorrect, this will not be detected, investigated and corrected in a timely manner.	Periodic stock counts should be performed by the Store Personnel. A rolling count by the store supervisor should be considered and these could be performed quarterly by Product Category and entered on system in order to keep stockholding figures up to date	2	HRS/Property are developing a new IT system which it targeted for completion Sept 16 and automated rolling stock checks are incorporated within this system.	Daniel Williamson Paul Shephard	1 st Oct 2016
Returns and Write offs: Stock written off should be sighted and authorised for disposal by Procurement and Transport Manager							
6	Discussions with the store Supervisor established that Stock Controllers carry out inspections regularly and will detect any broken items of stock to be written off The written off stock is entered directly on system	Where stock written off is not authorised and sighted by the Manager, there is an increased risk of stock figures being susceptible to falsification.	Stock written off should be sighted and authorised for disposal by Procurement and Transport Manager who should sign the printed report to be filed.	3	HRS/Property are developing a new IT system which it targeted for completion Sept 16 which will include stock returns and breakages.	Paul Shephard	1 st Oct 2016

Ref	Issue	Risk	Recommendation	Priority	Management Response	Responsible Officer(s)	Deadline
	by the Store Supervisor; if there are large numbers of items then a form is filled out. A report is printed and filed for all write offs. We found that stock is not being authorised and sighted by the Manager prior to disposal and the printed report is not signed.						

Appendix A – Definition of Audit Opinions, Direction of Travel, Adequacy and Effectiveness Assessments, and Recommendation Priorities

Audit Opinions




We have four categories by which we classify internal audit assurance over the processes we examine, and these are defined as follows:

	Full	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
	Substantial	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk.
	Limited	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk.
	None	Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

The assurance gradings provided above are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full Assurance' does not imply that there are no risks to the stated objectives.

Direction of Travel

The Direction of Travel assessment provides a comparison between the current assurance opinion and that of any previous internal audit for which the scope and objectives of the work were the same.

	Improved since the last audit visit. Position of the arrow indicates previous status.
	Deteriorated since the last audit visit. Position of the arrow indicates previous status.
	Unchanged since the last audit report.
No arrow	Not previously visited by Internal Audit.

Adequacy and Effectiveness Assessments

Please note that adequacy and effectiveness are not connected. The adequacy assessment is made prior to the control effectiveness being tested. The controls may be adequate but not operating effectively, or they may be partly adequate / inadequate and yet those that are in place may be operating effectively.

In general, partly adequate / inadequate controls can be considered to be of greater significance than when adequate controls are in place but not operating fully effectively, i.e. control gaps are a bigger issue than controls not being fully complied with.

	Adequacy	Effectiveness
	Existing controls are adequate to manage the risks in this area	Operation of existing controls is effective
	Existing controls are partly adequate to manage the risks in this area	Operation of existing controls is partly effective
	Existing controls are inadequate to manage the risks in this area	Operation of existing controls is ineffective

Recommendation Priorities

In order to assist management in using our internal audit reports, we categorise our recommendations according to their level of priority as follows:

Priority 1	Major issues for the attention of senior management and the audit committee.
Priority 2	Important issues to be addressed by management in their areas of responsibility.
Priority 3	Minor issues resolved on site with local management.

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 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. 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 us 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. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Our 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 work and to ensure the authenticity of such material. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Mazars Public Sector Internal Audit Limited London August 2016

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