

Final Internal Audit Report

Open Book Accounting (AXIS Europe Plc)

June 2018

Distribution:

- Executive Director of Place (Final only)
- Director of District Centres and Regeneration
- Head of Responsive Repairs
- Head Of Partnerships and Engagement
- Repairs Policy and Commercial Manager

Assurance Level	Recommendations Made	
Substantial Assurance	Priority 1	0
	Priority 2	3
	Priority 3	0

Status of Our Reports

This report ("Report") was prepared by Mazars Public Sector Internal Audit Ltd at the request of London Borough of Croydon and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality

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1. Introduction

- 1.1 The scope of the Term Partnering Contract (2005, as amended 2008) extends to the following services: responsive repairs, voids refurbishment, mechanical three star contracts, gas servicing and door entry repairs.
- 1.2 The repairs service contract came into effect in April 2014 between the Council and AXIS Europe Plc and is funded through the Housing Revenue Account. Works completed by AXIS Europe Plc workers are sent to the Council as 'requests for payment' via a financial interface that went live in May 2017. Payments are made to AXIS Europe Plc based on either a fixed monthly amount for general repairs or variable payments made as a result of ad-hoc requests. Variable requests undergo a 10% sample check to ensure that they have been validly instructed and completed to the required standard.
- 1.3 Alongside the 10% sample check of ad-hoc work requests undertaken by the Council, AXIS Europe Plc sends mobile text questionnaires to customers in respect of all works undertaken, both general and variable. The Council also sends more detailed customer satisfaction surveys to all customers.
- 1.4 As part of the agreed 2017/18 Internal Audit Plan, an internal audit of Open Book Accounting was undertaken.

2. Key Issues

Priority 2 Issues

Three out of three contract variations tested did not have written changes signed to evidence agreement in accordance with clause 8.3 of the Partnering Term Agreement. **(Issue 1)**.

The contract start date was 1 April 2014 and to date, quarterly open book reviews have still to be undertaken despite this issue being raised in our Open Book Accounting 2015/16 Internal Audit Report. **(Issue 2)**.

The supplier continuity plan does not outline a sufficient plan of action for continued service delivery in the event of a supplier failure. **(Issue 3)**.

3. Actions and Key Findings/Rationale

Control Area 1: Contract Variations		Detailed Finding/Rational – Issue 1
Priority	Action Proposed by Management	<p>Clause 8.3 of the Partnering Term Agreement states that 'any change proposed by the Client, shall be subject to prior agreement between the Client and the Service Provider of its effects on cost and time'. Croydon Council Tenders and Contract Regulations Section 29 states 'Any extra or variation to a Contract must be specifically authorised in writing by the Director or a designated Officer, who must retain a copy of this authorisation as a document relating to the Contract.'</p> <p>All three of the contract variations tested did not have their written changes signed to evidence their agreement in accordance with clause 8.3 of the Partnering Term Agreement. We acknowledge that we were however provided with meeting notes of the Responsive Repairs Strategic Core Group, which both parties attend where the changes are noted; however, this does not evidence agreement of the variations.</p> <p>There is a risk that should any dispute arise with the Contractor, that the Council may not be able to legally enforce its position. There is also a risk of non-compliance with Croydon Council's Tenders and Contract Regulations.</p>
2	<p>Items escalated to core group. We minute these at core group and put them on contract variation register. However, we will now put at top of each agenda 'minutes to be agreed' so there is a record. We will also start printing these off and getting them signed and scanned/saved into SharePoint in a number appendices folder for reference. We will go back and carry this out to the variations we have done since start of contract.</p>	
Responsible officer	Deadline	
Head of Responsive Repairs	Immediate	

Control Area 4: Verification of Costs	
Priority	Action Proposed by Management
2	<p>My previous comment following the last Open book audit was that:</p> <p><i>With hindsight, the contractual intention to undertake a quarterly review in the first year was ambitious for a contract of this size. Although we were not able to meet this aspiration, we prioritised available resources and focussed on the manual checking of applications as well as undertaking the annual open book accounting review. Going forward we intended to focus quarterly reviews on labour costs defined in the contract and accurate use of SoRs.</i></p> <p>As part of this audit I evidenced that we had requested the information from Axis on 12/12/17 for Q1 and 2 and so this process has been started, albeit delayed due to other workload.</p> <p>This will involve:</p> <ul style="list-style-type: none"> • Review of 10% PPP exclusions invoiced in the quarter to check validity of exclusion and correct use of the SOR
	<p>Detailed Finding/Rational – Issue 2</p> <p>Clause 4.3 of the contractual Price Framework states, <i>'The Service Provider is committed to working with the Client to develop a fully functioning Open Book Review process through the mobilisation period to enable effective quarterly and annual reviews thereafter.'</i></p> <p>We were informed it has been decided to delay the first, quarterly open book review until 2018. The contract mobilisation period commenced in November 2013 and was intended to have been completed by 1 April 2014, when services formally commenced. As the contract states, quarterly reviews were expected after mobilisation, we would have expected the first quarterly review to have been undertaken at the start of July 2014. No quarterly open-book reviews had been undertaken by the end of our audit fieldwork in December 2017. A quarterly open-book review had not therefore been undertaken for 3 years and 5 months, which now represents half the initial contract period of seven years.</p> <p>This issue was also raised in the Open Book Accounting 15/16 Audit.</p> <p>There is a risk that the rationale for an Open Book Partnering Contract is not realised and that as a result, identification and exploitation of innovative changes to working practices may be missed along with changes to the supply chain and use of new building systems and materials that may reduce cost and/or increase outcomes.</p>

- Review of 10% PPP exclusions exceeding £2,000 which were invoiced in the quarter to check validity of exclusion and correct use of the SOR
- Review of 10% PPP exclusions raised to PPP dwellings which were invoiced in the quarter to check validity and identify trends
- Review of 10% PPV exclusions invoiced in the quarter to check validity of exclusion and correct use of the SOR
- Review of properties which have had 20 or more repairs in the previous 12 months- *this is already done and included in our work as part of the demand management activities.*
- Review of number of post inspection raised and completed in the quarter- we review this monthly as part of the budget monitoring meeting in terms of numbers and quality (fail/pass). Also included in quarterly summary for this review.

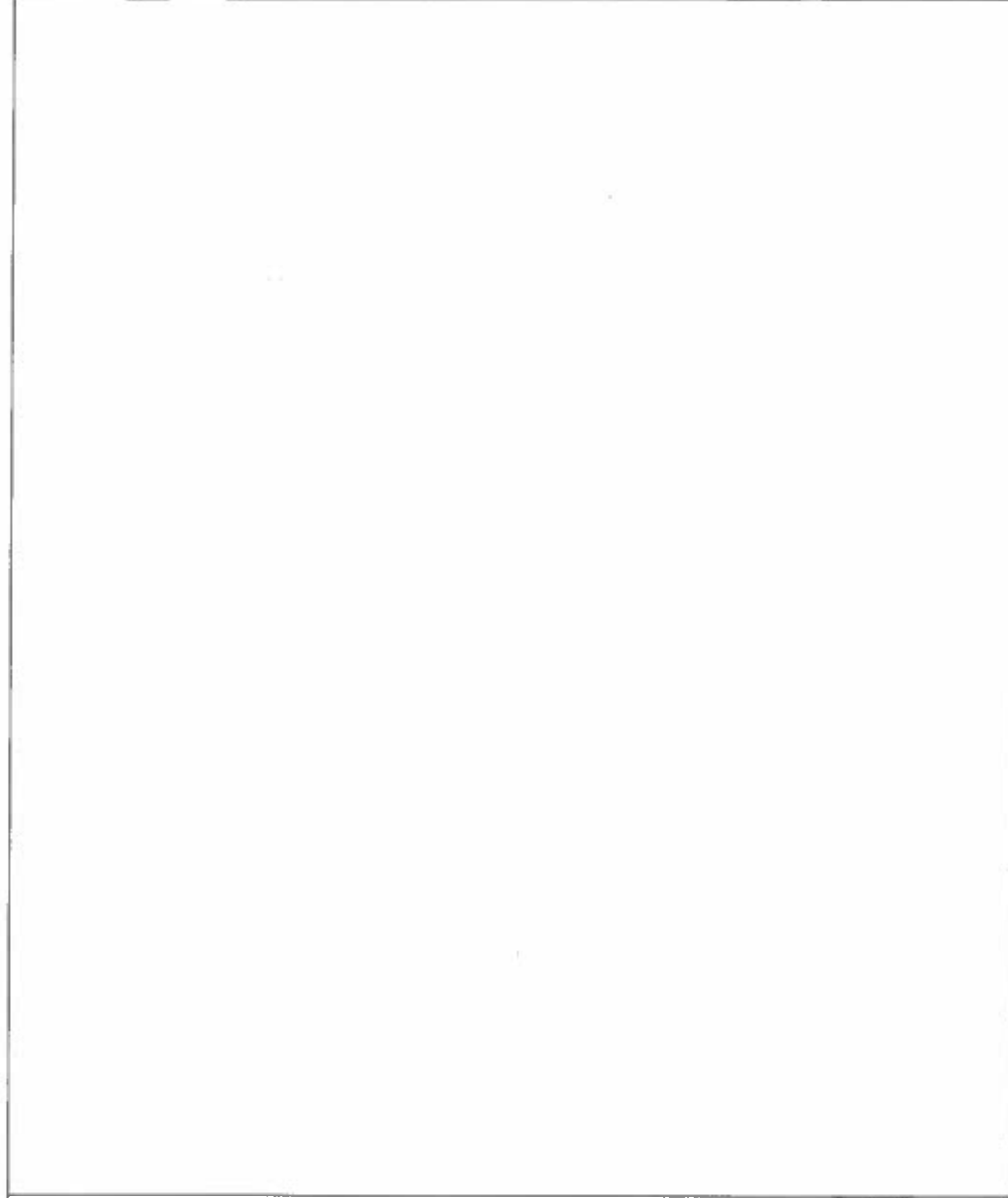
This is now in Repairs Policy Team work plan to complete Q1, 2 and 3 by end of March. Q4 will be done by end of April. Now in 2018/19 work plan to request this at end of each quarter in following month and complete by the

	<p>end of the following month – so end of Q4 request April, and complete end of May.</p> <p>Any issues would be discussed at next budget meeting. Quarter review and sign off will be on the appropriate budget meeting and at Core group for sign off.</p>	
<p>Responsible officer</p> <p>Head of Responsive Repairs / Head Of Partnerships and Engagement / Repairs Policy and Commercial Manager</p>	<p>Deadline</p> <p>End May 2018</p>	

Control Area 4: Verification of Costs	
Priority	Action Proposed by Management
2	<p>We are in the process of compiling a business continuity plan to specifically address this issue, which is evidenced in our service plan and our current work plan with our partnering advisors echelon. This is also in the DCR risk register which is reviewed quarterly at our DCR DMT that the Risk and Corporate Programme Officer attends for the review of the DCR risk register. This has management risk and controls identified to reduce risk.</p> <p>Current controls are: Contract Protection Clauses There are Clauses in the contract which protect the Council from incurring financial loss should the contract default. Specifically: Section 13 Term; Termination and Special Terms Section 13 items 13.3; 13.9A; 13.10A; 13.11; and Clause 28 and 29, Guarantee Bond. Open Book Review We carry out a yearly Open book review of supplier costs and performance via our partnering advisor. We also do a yearly health check.</p>
	<p>Detailed Finding/Rational – Issue 3</p> <p>Ensuring that Service Business Continuity Plans make provision for contract/supplier failure helps ensure that officers have a documented alternative course of action that can immediately be referred to should key contracts default or be terminated.</p> <p>The Responsive Repairs Business Continuity Plan does not detail an actual plan of action in the result of AXIS going into liquidation/being unable to uphold the Partnering Agreement. Although the contract makes provision for a bond that may be called on to recompense the financial effects of contract failure and having to transition the service, this does not constitute a recovery plan for service delivery.</p> <p>There is a risk that essential services including those of a Health & Safety and/or Welfare nature may not be re-established in a timely manner.</p>

Performance & Finance monitoring - Monthly performance and finance meetings held to ensure there is close contract management to identify any issues or failings and used as an early warning mechanism. There is almost daily scrutiny of work performance and quality. Financial Processes are in place to ensure regular monthly price per property and exclusion payments to maintain supplier cash flow. Specialist / General Building Contractors - short notice call- out. We retain a number of specialists and general building contractors on our approved list/OHMS to enable us to issue work to them at short notice and cover emergencies.

We also recently carried out a financial health check on Axis which came back as a 'Good' Rating.



Responsible officer	Deadline
Head of Responsive Repairs	Sept 2018

TERMS OF REFERENCE

Open Book Accounting

1. INTRODUCTION

- 1.1 The scope of the Term Partnering Contract (2005, as amended 2008) extends to the following services: responsive repairs, voids refurbishment, mechanical three star contracts, gas servicing and door entry repairs.
- 1.2 The service was procured through a Competitive Dialogue process, with the contract being awarded to Axis Europe plc for a guaranteed period of seven years. There is an option to extend for a further eight years in two segments. The contract therefore has a 7+4+4 structure.
- 1.3 As part of the agreed 2017/18 Internal Audit Plan, an internal audit of Open Book Accounting in respect of the Responsive Repairs contract with Axis Europe Plc has been identified to be undertaken.

2. OBJECTIVES AND METHOD

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes
- 2.2 The audit will for each controls / process being considered:
- Walkthrough the processes to consider the key controls;
 - Conduct sample testing of the identified key controls; and
 - Report on these accordingly.

3. SCOPE





- 3.1 The audit included the following areas:

Control Areas/Risks	Issues Identified		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Contract variations;	0	1	0
Governance;	0	0	0
Access to Systems;	0	0	0
Verification of costs;	0	2	0
Maximisation of Gain share;	0	0	0
Payments; and	0	0	0
Contract Performance Monitoring, Management Reporting and Performance Management.	0	0	0
Total	0	3	0

DEFINITIONS FOR AUDIT OPINIONS AND RECOMMENDATIONS

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are consistently applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage.

Priorities assigned to recommendations are based on the following criteria:

Priority 1 (High)	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
Priority 2 (Medium)	Control weakness that represent an exposure to risk and require timely action.
Priority 3 (Low)	Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice.

STATEMENT OF RESPONSIBILITY

We take responsibility to the London Borough of Croydon 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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