

# INTERNAL AUDIT REPORT

## **Workshops – Follow up**

***Audit Year: 2011 / 12***

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This report is a final version.

## Powys Internal Audit Services

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# Powys Internal Audit Services

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## **Status of this report**

This report has been prepared for the internal use of the Powys County Council and the contents are confidential. The work involved in the production of this audit report complies with the principles outlined in CIPFA's Code of Audit Practice and CIPFA Local Government Internal Audit Manual 2005.

# Powys Internal Audit Services

## 1 INTRODUCTION

- 1.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion on the control environment. This is done by effectively contributing to the statutory requirement in the Accounts and Audit Regulation 2005 for the Council to maintain sound systems of Internal control.
- 1.2 During 2008/09 an Internal Audit was carried out in respect of PCC Workshops systems and procedures. At that time significant concerns were identified by Internal Audit in relation to the records maintained and operational procedures in place.
- 1.3 Since issuing the previous report the management of all PCC Workspace Units has been transferred to an external consultant for a period of two years.
- 1.4 The authority accepted a tender from GVA Grimley for Property Management of the Powys Workshop Portfolio for the two year period ending March 1012. The contract with Contractor has recently been extended for a further twelve month period.
- 1.5 Prior to awarding the initial tender a second element of the work, covering the building management services was also considered for contracting out, however at that stage it was decided that building maintenance would continue to be carried out in house by the Authority.

## 2 AUDIT APPROACH

- 2.1 With the transfer of the workshop management to External Consultants, the current audit has reviewed the issues raised from the previous audit and the extent to which the issues have been addressed, or are included in the proposals / recommendations recorded in the PCC Workspace Strategy Document.

The Workspace Strategy has been compiled by the External Consultants currently managing the workspace portfolio for the Authority, and was presented to the Authority's Cabinet in December 2011 which included the Workspace Strategy for PCC.

The Consultant's report included recommendations on the options for the future management of all Powys owned workspace and on the role, development and rationalisation of the portfolio.

- 2.2 Internal Audit have reviewed the position regarding the management of Workshops, and the addressing of issues raised in the action plan completed following the 2008 audit.

The audit opinion following the 2008/9 audit, and key findings from 2008/9 audit and current audit are included below.

## 3 SUMMARY OF KEY AUDIT FINDINGS

- 3.1 The audit opinion following the 2008/9 audit, on the systems and controls relating to the Authority's Workshops countywide, was that they were unsatisfactory.
- 3.2 The key findings noted during the audit included the following:

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- Policies and procedures were not drawn up for administering workshops on a countywide basis.
- In 2009 differing procedures were in operation in the north and south of the county.
- Several files examined did not include the initial application forms from the tenants.
- Tenant movement between units was not documented.
- In some instances in the north of the County, references were not obtained, or retained prior to offering tenancies.
- A debtor balance in excess of £41k was recorded in respect of tenancies in the south, indicating a potential weakness in recovery procedures.
- There was no defined recovery policy, and the aged debt profiles indicated a number of potentially irrecoverable debts.
- The purchase order and invoicing procedures operating in both the north and south did not fully comply with the Council's Financial Regulations.

### **Findings from the current review include to the following:**

- A number of long standing irrecoverable debts are included in the tenancy account.
- The account includes significant levels of outstanding debt.
- Pre tenancy references are not always obtained prior to awarding tenancies.
- Key performance indicators do not appear to have been established to readily identify and monitor changes in rent arrears levels, age debt profiles, debt recovery involving legal action, etc.
- Documented procedures and detailed specifications do not appear to have not been drawn up.
- Reliance has been placed on the Consultants to provide core services.

The issues raised are detailed in the action plan within section 7 of this report, together with feedback from the Regeneration Section, and proposed actions towards addressing the specific concerns where applicable.

## 4 OPINION

The previous and current audit reports have identified concerns over operating systems and procedures, and file documentation in relation to Powys Workshops. A limited number of the issues raised during the previous audit have been addressed; however generally, under the current operating arrangements, reliance has been placed on the Consultants currently managing Powys Workspace to undertake the core services on behalf of the authority.

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Management Arrangements for the Workspace Portfolio initially transferred for two years to March 2012, and have been recently extended for a further twelve month period.

Whilst acknowledging Management Arrangements have been transferred for a specified period, the Regeneration Section will need to ensure that the work carried out by the Consultants and the outcomes meet with the aims and objectives, and requirements specified by the Authority.

Given a number of issues continue to be identified in relation to procedures and controls a **Limited Assurance** is issued in respect of Workspace administration. Indicating some key controls and applications are not clearly evident, with the risk that service objectives will not be fully achieved.

As part of their contractual requirements the Consultants compiled the Workspace Strategy for Powys. The Strategy, which was presented to and approved by the Cabinet in September 2011 included:

- Lease Agreements,
- The Introduction of new leases,
- Support for Start-up businesses, and
- Rationalisation and Capital Asset returns.

The approval and introduction of a Workspace Strategy within Powys will assist towards addressing a number of audit issues raised. However, the document relates primarily to strategy issues, and not detailed procedures and controls. Consequently further involvement by the Regeneration and Development Service, in respect of Workshop operational controls and procedures, is recommended towards ensuring appropriate controls are in place, and to confirm outcomes align with the Authority's requirements.

### 5 THE WAY FORWARD

- 5.1 Internal control weakness identified current to this review are included in the action plan (Section 7 of this report).
- 5.2 As referenced above audit reports over recent years have raised concerns over the practices and procedures, and the records maintained in respect of Powys Workshops.
- 5.3 Feedback from the Economic Regeneration Manager indicates that a number of issues have been addressed, and it is anticipated that implementing recommendations included in the Consultant's strategy document will also address issues identified in the audit report.
- 5.4 However, the Regeneration Section need to ensure that the work carried out by the Consultants, and the subsequent outcomes, meet with appropriate operational controls, and the issues identified in the audit report / action plan are addressed.

## 6 ACKNOWLEDGEMENTS

- 6.1 Internal Audit wish to thank all of the officers that assisted during the review. If you would like to discuss the report or any related matters in further detail, please contact Colin Knowles, Principal Auditor on 01938 551316 or Ian Halstead, Audit Manager on 01597 826821.

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7 ACTION PLAN				
Ref	Issue raised	Consequences / Risk	Grading	Agreed Actions – Client Response Per Economic Regeneration Manager Karen Lewis (KL)
<b>7.1</b>	<b>Debtors</b>			
	A number of long standing debts relating to previous tenants, now regarded as irrecoverable, remain on tenants' accounts. Three long standing debts have recently been written off by the Section; however, the current outstanding debt includes other long standing accounts where debt recovery is highly unlikely.	Increased difficulties in recovering / managing debts. Potential total income from Workspace tenancies will be overstated.	Significant	KL met with legal on 4 October 2011 to discuss this. A list of all debt together with comments was sent to The Senior Manager Policy and Regeneration for comment / actioning.  <i>Sadly the Officer Nick Smith was suddenly taken ill last year, and died following a short illness.</i>
<b>7.2</b>	<b>Monthly Income Statements</b>			
	The income statement issued on the 2 <sup>nd</sup> September 2011 for the period up 1 <sup>st</sup> to 31 <sup>st</sup> August 2011 records rent income of £23,429 during the month. The carried forward arrears figure at the end of August 2011 was £78,109. The average monthly arrears for the period May 2010 to August 2011 were £56,000. The average monthly arrears for the year ending December 2011 were £58,500.	The tenancy rent arrears figure for the period ending December 2011 continues to be significant given the total rentals due and amounts collected.	Fundamental	Please see attached to email answers provided for Scrutiny Members whereby this is answered.  <i>A copy of the additional information provided for Scrutiny Members is included in appendix b of this report.</i>
<b>7.3</b>	<b>Aged debt profiles</b>			
	The monthly income statement compiled by the consultants does not readily identify the aged debt profile on tenancies.	The department is unable to readily assess key performance indicators e.g.: <ul style="list-style-type: none"> <li>the level of rent arrears, and</li> <li>the number of tenants subject to debt recovery action.</li> </ul> Arrears are less likely to be pursued if aged debt profiles are not readily identified for individual tenancies.	Merits attention	Please see attached to email answers provided for scrutiny members whereby this is answered.  <i>A copy of the additional information provided for Scrutiny Members is included in appendix b of this report.</i>



7.4	Tenancy files	Consequences / Risk	Grading	Agreed Actions by Client
	<p>Following the transfer of tenancy management, a checklist was provided by the consultants as part of the property management information required on handover.</p> <p>However, specifications have not been drawn up by PCC in relation to documentation to be maintained, file management etc.</p> <p>With the transfer of tenancy files to the Consultants reliance has been placed on the company in relation to file management, documentation etc.</p>	<p>In the absence of PCC detailed specifications and procedures, file maintenance by the Consultants may not align with the authority's requirements.</p>	<p>Fundamental</p>	<p>Any correspondence between GVA and the tenant is kept on their file.</p>
7.5	Individual account rent arrears.			
	<p>Monthly Income statements note a significant number of tenancies where rent arrears have accumulated from month to month with no rental income being received.</p> <p>Examples include:</p> <ul style="list-style-type: none"> <li>• [REDACTED] Caersws Village Monthly rental due September 2010 to October 2011. No payments received during that period.</li> <li>• [REDACTED] Talgarth Monthly rental due August 2010 to February 2011. No payments received during that period.</li> <li>• [REDACTED] Phase 4 Ystradgynlais. Monthly rental due December 2010 to October 2011. No payments received during that period.</li> <li>• [REDACTED] Ystradgynlais Monthly rental due May 2010 to November 2010. No payments received during that period.</li> </ul> <p>(Note the current tenant re [REDACTED] above is the same person previously holding the tenancy for [REDACTED] also above.)</p>	<p>Accumulation of outstanding debt. Increased difficulties in recovering longer term debts. Adverse impact on cash flows.</p>	<p>Fundamental</p>	<p>Please see attached to email answers provided for scrutiny members whereby this is answered.</p> <p><i>A copy of the additional information provided for Scrutiny Members is included in appendix b of this report.</i></p>

7.6	<b>Tenancy Schedule / Rent Arrears Records</b>	<b>Consequences / Risk</b>	<b>Grading</b>	<b>Agreed Actions by Client</b>
	<p>A sample review of tenancy details noted one entry where the Tenancy Schedule did not reconcile with the entries within the monthly Income Statements. i.e.</p> <ul style="list-style-type: none"> <li>The tenancy schedule report created 4/3/2011 records the tenant of Unit 3 Llangynog Village Workshops as being PCC. The Income Statement records the tenant as being an individual with current rent arrears of £1,083 on that unit dating back to March 2010.</li> </ul>	Inconsistencies within the records held.	Merits attention	This should now have been eliminated since GVA have taken over the management of the workspace portfolio.
7.7	<b>Documented procedures</b>			
	Countywide policies and procedures have not been documented by PCC.	Non-compliance with appropriate policies and procedures relating to workshops.	Fundamental	This should now have been eliminated since GVA have taken over the management of the workspace portfolio.
7.8	<b>Pre tenancy verification checks</b>			
	<p>References, historically, have not always been obtained or retained for all applicants prior to agreeing tenancies.</p> <p>Under current arrangements differing procedures apply dependent on the location of the unit, and the tenancy agreement.</p>	Tenant records will be incomplete, and there is no documented assurance that the appropriate checks have been carried out prior to drawing up tenancies.	Merits attention	Cabinet approved a report in September 2011 whereby recommendations were made from the workspace strategy produced by GVA Grimley. One of these recommendations is to produce a standard 3 year lease document which will be used for all tenants across the authority. They will also be charged service charges on top of their rental figure of 50% from April 2012 – March 2013, and 100% costs from April 2013.

**Appendix A**  
**Issues noted during the 2008/9 Internal Audit**

Ref	Control Weakness	Consequences / Risk	Current position
A.1	Different procedures are in operation in the North and South of the County. Appendices B and C of the 2008/09 Audit Report record the differing systems in operation, and the different lease and licence agreements in place.	Potential for inconsistent treatment of allocations, tenancies etc.	The Consultants Management Strategy (point 7.1 of the document) refers to standardised tenancy agreements to be adopted throughout the County. The Consultants recommend Leases of limited duration to assist in ensuring properties are occupied by “start up”, and developing enterprises. A consistent approach will be achieved with the adoption of lease agreements throughout the County.
A.2	Policies and procedures covering the administration of workshops on a countywide basis are not documented.	Non-compliance with appropriate policies and procedures relating to workshops.	With the transfer of property management to the Consultants, reliance has been placed on the company to undertake the set up of core services, and ongoing work over the range of service provision.
A.3	The 2008/9 report noted the ABSO in the North was now responsible for workshops that have been let under the terms and conditions in use in the South.	Confusion will arise if tenants wish to rent a second unit.	This issue has been acknowledged with the proposed implementation of a countywide strategy. (point 7.1 – Management Strategy)
A.4	Findings from the 2008/9 audit noted several files tested did not include the initial application forms from the tenants.	Tenant records are incomplete.	Following the transfer of management, a checklist was compiled by the consultants as part of the property management information required on handover. However, with the transfer of tenancy files to the Consultant, reliance is placed on the company in respect of file documentation and maintenance.
A.5	File reviews noted that whilst tenants have transferred between units the tenancy files do not record the details of the transfer.	Tenant records are incomplete.	Reliance has been placed on the Consultants to update and retain the appropriate documentation on file.
A.6	References, historically, have not always been obtained or retained for all applicants prior to agreeing tenancies.	Tenant records will be incomplete, and there can be no assurance that the appropriate checks have been carried out prior to agreeing tenancies.	Contacting potential clients for viewings and reference checks etc. where applicable remains dependent on the workshop is located. New tenancies south of the county are processed by the Economic Regeneration Manager. In the north of the county, reliance is placed on the Consultants to arrange viewings, carry out verification checks etc. A separate agency fee is charged for each letting arranged by the consultants.

A.7	The high debtor balance in the South during the 2008/9 period indicated a potential weakness in the recovery system.	Rents are not being collected when due. Appropriate recovery procedures are not fully implemented.	An income statement is provided each month by the Consultants detailing rentals due from individual units, the amounts paid, and arrears at the beginning and end of the period. The Consultants also advocate in the strategy document: <ul style="list-style-type: none"> <li>• the level of rent arrears, and</li> <li>• the number of tenants subject to legal action for the recovery of rents as being key performance measures of the workspace estate.</li> </ul>
A.8	Aged debt profiles indicate a number of outstanding rents dating back to 2002.	Current debt figures include significant amounts, which are now unlikely to be recoverable.	Three aged debts have been written off over recent months, however, further write offs, and the follow up of more recent outstanding debts are required.
A.9	The purchase order and invoicing procedures in use in both the North and South of the County do not fully comply with Financial Regulations.	Weaknesses in processing procedures and documentation.	With the transfer of management to the Consultants all job orders are now placed through the Consultants, with prior authorisation (via email) being required by the Economic Regeneration Manager prior to processing.
A.10	Details of the conclusion of the machinery grant scheme at the last audit could not be evidenced.	Grant provisions may not have been met resulting in a potential financial loss to the Authority.	The documentation relating to prior 2008 can not be traced within the Department; consequently the enquiry by Internal Audit raised at the previous audit remains unresolved.

## Appendix B

### Response provided by the Regeneration Section for the Scrutiny Committee re:

#### **WORKSPACE SCRUTINY – ADDITIONAL INFORMATION REQUESTED 3.11.11.**

**Q. What are the procedures regarding reclaiming rent arrears?**

A. Karen Lewis (KL) and GVA meet every 4-6 weeks to address these rent arrears. The normal procedure is that GVA will issue the tenant a reminder letter followed up by a phone call, this is then followed by a 7 day letter and if need be a change of lock letter. If the tenant hasn't been in touch at this point to pay the arrears or set up a payment plan the locks will be changed and the debt transferred over to legal. It is more difficult to change the locks on North workspace due to the wording in the lease agreements. 6 months notice needs to be given for termination of contract.

**Q. What is the position regarding debt being transferred over to PCC?**

A. There has been an issue with regards to the workspace debt with GVA being transferred over to Powys Legal team. This has now been resolved and any debt transferred over will need a one off invoice raised by Powys (KL) in order for the legal team to proceed with chasing this debt. These arrears will then be taken off the GVA system. Currently there are 8 cases to be transferred over to Powys.

**Q. Who are the BMS?**

A. Just to clarify that BMS is Powys Building Maintenance Services.

**Q. Update on direct debits.**

A. GVA's comment on direct debits - There has historically been a reluctance to use Direct Debits as they can be perceived as GVA taking money from a tenant's account as opposed to a Standing Order which gives more control to the tenant. But given D/Ds are now more prevalent, we are heading this way.

The decision was taken to trial it with one client so we could be sure it would work before we invested in changing our systems to handle transactions across all of our client base.