

Corporate Committee

17 May 2011

URH ALMO Audit Committee Update

All Wards

Report authorised by: Executive Director of Housing, Regeneration and Environment, Sue Foster

Executive summary

The Committee have requested a report from URH via the Council's own housing client team. This is the first time URH have been asked to attend Corporate Committee and this first report and so unlike Lambeth Living they have not provided any update on previous reports and are thus not in a position to provide an update to matters discussed as part of the November 2010 corporate Committee meeting.

The purpose of URH's first report is to provide the Committee with an understanding of current URH governance arrangements and reassurance about the controls and/or assurance position within the ALMO, given this was identified as a risk area for the Council (**albeit in respect of the Council's other ALMO – Lambeth Living**).

Price WaterhouseCooper commonly referred to as PWC, is the internal auditor for URH (providing a similar type of service to LBL as well Lambeth Living) and possibly provides similar services to other parts of the Council. All reference to PWC in this report is in relation to their role as internal auditors to URH.

In the August 2010 URH requested an organisation wide Audit or Health Check URH and its four partner TMOs, as part of the organisations preparation for the Audit Commission inspection due in November 2010. The scope of the audit was determined by URH, and the feedback provided to URH by PWC identified a number of areas weaknesses or shortcomings in terms of key areas of financial management in a) URH and b) its four partner TMOs. URH have since introduced stronger arrangements to monitor more closely those areas highlighted as weak and to address, then resolve the concerns raised by its internal auditor PWC. Attached to this report are the individual TMO progress updates to PWC's recommendations (**See Appendix 3**).

You will note that the URH report attached (**see Appendix 1**) outlines for the Committee, what these arrangements are and provides some detail about the Terms of Reference of its Finance and Risk sub-committee and the interaction of that committee with the URH Board and the partner TMO boards.

Summary of financial implications

The report is for information and there are no financial implications arising.

Recommendations

That the substantive content of the report is noted.

Consultation

Name of Consultee	Department or Organisation	Date sent	Date response received	Comments appear in report para:
Christina Thompson	Divisional Director Resources (HRE)	26.04.11		
Rachel Sharpe	Divisional Director HRE	26.04.11	28.04.11	throughout
Paul Cooper	Assistant Director Strategy and Regeneration	26.04.11	26.04.11	throughout
Christina Thompson/Phil Crow	Interim Head of Housing Finance	26.04.11	27.04.11	3.1
Alison McKane/Greg Carson	Governance and Democracy – Legal Services	26.04.11	26.04.11	4.1 to 4.4
Finance Officer	Corporate Finance	26.04.11	27.04.11	

Report history

Date report drafted:	Report deadline:	Date report sent:	Report no.:
26.04.11	20.04.11	10.05.11	34/11-12
Report author and contact for queries:			
Barbara Grant, Interim Client Manager			
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Background documents

None

Appendices

- **Appendix 1** - Report from URH entitled Audit and Risk Management within URH
- **Appendix 2** - URH Audit and Risk Sub-Committee (ToR)
- **Appendix 3** - URH and partner TMO Health Check Update

URH ALMO Audit Committee Update

1. Context

URH comprises four Tenant Management Organisations commonly known as TMOs. Each of which has entered into a separate Management Agreement with the Council. The four TMOs which jointly make up URH are Loughborough, Waltham, Roupell Park and Blenheim Gardens. Governance arrangements and audit arrangements form part of the URH Management Agreement, and have been formally adopted by partner TMOs.

The URH Report indicates that the URH board has recently agreed to the formation of a Finance and Risk Sub-committee. The board will be chaired by an 'independent' board member (or the treasurer for URH's own board). This individual will be expected to demonstrate the requisite financial risk management skills. URH are currently seeking to recruit to this post. The Terms of Reference (ToR) for the Finance and Risk sub-committee have been provided by URH and are attached (**see Appendix 2**)

URH board is tasked with determining and driving forward the audit work plan according to its Terms of Reference (TOR) and it is proposed that business outcome(s) are reported by the Chair of the Audit Committee to the URH Board four times a year i.e. on a quarterly basis. Minutes of board discussions will be readily available to the URH Board and the Council's housing Client team (upon request).

In August 2010 as part of the preparation for the Audit Commission inspection and at the request of the Chief Executive of URH a Financial Health Check was carried out by PWC (in its capacity as URH's external auditors) of URH and its four partner TMOs. The 'terms of reference' for these Health Checks was determined by those areas identified as areas of weaknesses by the inspection project team (and URH's Chief Executive) during the preparation of the Audit Inspection Self Assessment Report. Thus the audit for the partner TMOs centred on the following five areas:

- Policies and procedures
- Procurement and contract management
- Governance
- Financial management
- HR processes

In respect of URH the focus was on the key clienting terms of the LBL/URH Management Agreement, as a result the six areas assessed were:

- Policies and procedures
- Capital Programme
- Leaseholder Service Charges
- Non-payroll Expenditure
- Payroll
- Financial Information

Health Check Outcomes:

Once all of the Health Checks had been completed (by the end of September 2010), and the draft report provided by PWC, it became apparent that none of the partner TMOs were able to demonstrate 'No Design of Controls or Controls Operating in Practice issues', in fact each TMO displayed 'critical or high risk issues' in at least three out of the five areas assessed. The other areas were assessed as 'medium risk issues'.

URH itself did not fare much better, in that the organisation was assessed as demonstrating 'critical or high risk issues' in five of the six areas being considered, with the remaining area being deemed a 'medium risk issue'. The identified Risk Status of each TMO is summarised in table 1 below.

Area Assessed	Loughborough	Waltham	RouPELL Park	Blenheim
Policies & Procedures	Medium	High	Medium	Medium
Procurement & Contracts	High	High	Medium	High
Governance	High	High	High	High
Financial Man	High	High	High	Medium
HR Processes	High	Medium	High	High

Table 1

The overall PWC assessment was one of 'No Assurance' in respect of URH and 'Limited Assurance' in the case of its partner TMOs.

The final outcomes of the Health Checks have been presented to the individual TMO boards, and later to the URH board as well, the finding have been accepted and endorsed individually and jointly with the URH board.

Since the publication of the PWC outcomes URH have agreed a series of actions to resolve the concerns raised by PWC, by way of individual Service Improvement Plans for each of the TMO partners and for URH as well. These plans have been discussed and agreed with the respective boards. Local progress against delivery is monitored at TMO and URH board level on a monthly basis by URH's Finance Manager. Delivery is also monitored Council side as a standard Agenda item (as part of the regular URH/HRE performance monitoring arrangements) when URH and the Council's own housing Client team meet each month.

During these meetings URH are required to provide a detailed update on progress being made by itself and partner TMOs, along with a record of these improvements, where performance has slipped URH are required to provide a recovery plan to ensure delivery will be completed within the overall programme of works. Attached to this report (see **Appendix 3**) is the update provided by URH as part of the March 2011, URH/HRE Client reporting regime.

The Council's housing Client team, will continue to track the 'completion and closure' of the PWC identified issues until all recommendations have been discharged by URH and its partner TMOs.

2. Proposals and Reasons

To provide the Committee with a general understanding of audit and risk management controls within the ALMO as this was identified as a risk area for the Council.

3. Comments from Executive Director of Finance and Resources

3.1 The report is for information purposes and there are no direct financial implications arising from the report.

4. Comments from Director of Governance and Democracy

4.1 The report is for information only and there are no legal implications arising specifically from this report.

4.2 URH's Management Agreement oblige it to maintain, at all times, accurate and up to date records of all personnel working within the organisation who are or who are likely to be involved in the provision of the Services.

4.3 Under the Management Agreement, URH has assumed those responsibilities of the Council which are set out in the management agreements made between the Council and four constituent Tenant Management Organisations, Loughborough, Waltham, Blenheim Gardens and Roupell Park.

4.4 These four Management Agreements make provision for the monitoring by the Council (URH) of each TMO's performance and set out various obligations on the TMOs in respect of financial management and audit.

5. Results of consultation:

5.1 N/A

6. Organisational implications:

N/A

6.1 Equalities impact assessment:

N/A

6.2 Community safety implications:

N/A

6.3 Environmental implications:

N/A

6.4 Staffing and accommodation implications:

N/A

6.5 Any other implications:

N/A

7. Timetable for implementation

N/A