

FINAL
Internal Audit Report

**Review of Utilities Management
(SRBC)
2022/2023**

Audit Assurance: Limited
Auditor: L Roberts
Date Issued: 08.09.2022



Cert No: 20128
ISO 9001



WORKING TOGETHER

Reason for the Audit & Scope	
1	<p>Utilities including electricity, gas and water are essential services and are a significant and increasing cost to the Council. It is important that utility services are purchased in accordance with Contract Procedure Rules, payments are made appropriately, usage is monitored, and costs are recovered (where appropriate).</p> <p>The scope was extended during the review to incorporate the management/monitoring of the solar power system as this is a new technology providing energy to the Council. Monitoring records produced during the course of the review identified a number of gaps and omissions within the core records. This report has been extended to provide details of this where a significant risk to the Council has been identified.</p>
2	The review is included in the 2022/23 Audit Plan approved by the Governance Committee on the 29th March 2022.

Audit Objectives	
3	The overall objective of the audit was to provide an opinion of the adequacy, application and reliability of the key internal controls put in place by management to ensure that the identified risks are being sufficiently managed.
4	The audit also assessed the effectiveness of the various other sources of assurances using the three lines of defence methodology.
5	The audit will focus on specific risks identified and agreed with management, listed in the Audit Engagement Plan. In addition, all fraud risks and performance management data will be included within our work.

Audit Assurance	
6	This is the first review of utilities management.
7	The Head of Internal Audit is required to provide the Governance Committee with an annual audit opinion on the effectiveness of the overall control environment operating within the Council and to facilitate this each individual audit is awarded a controls assurance rating. This is based upon the work undertaken during the review and considers the reliance we can place on the other sources of assurance.
8	Appendix A shows the risks agreed with management and the assurance opinion awarded to each. Our evaluation of the reliance we can place on the three lines of defence is also shown.
9	<p>This review has identified that there is a lack of overarching management of utilities, with the Council facing the following key operational risks:</p> <ul style="list-style-type: none"> • Responsibility for the administration and management of utilities has not been clearly assigned with inadequate arrangements in place to validate supplier invoices which has led to fines, threats to cut off supplies and debt collection agency action. • There is a lack of policies and procedures to provide guidance and direction for officers. An SRBC/CBC working group has recently been set-up to address the gaps. • Non-compliance with regulations to ensure that the Council's responsibilities as a landlord are met regarding gas and electrical safety checks. Whilst work is in progress to ensure the electrical safety checks are carried out and evidenced, gas checks remain outstanding. This poses a significant health and safety risk to the Council and is a known material fact and will need to be declared to the insurance company. • The property records are inadequate and does not allow for the effective management of utilities; the Council doesn't currently know whether gas supplies are present for 84 out of 130 properties.

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- It has been recognised in the Projects and Development Business Plan that the contracts for gas and electricity are due for review during 2023. However, the Service has failed to undertake a procurement exercise of water supplies since the deregulation of commercial water supplies in 2017, despite advice from the Procurement Team on several occasions. Therefore, we are unable to provide assurance that value for money has been achieved.
- A lack of routine information sharing with Exchequer Services. The review identified instances whereby the council was paying for utilities it is not responsible for that will need to be recovered from tenants.

The Council has recently invested in a solar power system, however following receipt of guidance recently issued by the Councils insurers it has been identified that insufficient maintenance arrangements are in place, and that officers have not been adequately trained to manage the system. This poses risks to health and safety/insurance cover and that the objectives of the original project may not be achieved.

For these reasons, a **limited** assurance rating has been awarded for this review.

Control Rating Key

Full – the Authority can place complete reliance on the controls. No control weaknesses exist.

Substantial - the Authority can place sufficient reliance on the controls. Only minor control weaknesses exist.

Adequate - the Authority can place only partial reliance on the controls. Some control issues need to be resolved.

Limited - the Authority cannot place sufficient reliance on the controls. Substantive control weaknesses exist

Risk and Controls	Control Evaluation
Risk 1 – The Council’s contracts in place for the supply of utilities are not compliant with Contract Procedure Rules and do not achieve value for money	
Utility procurements are undertaken in accordance with CPRs.	Action 4
Contract Transparency Register is maintained to ensure accurate utility supplier information is published.	Action 12
Business Plan key project established for the gas and electric re-tender process, to ensure progress will be monitored and timely procurement process can be completed in compliance with CPRs.	Working as intended
Contract Management System is used to help produce procurement plans and avoid missing deadlines.	Action 13
Risk 2 – There is a lack of a clear inventory/asset register, ownership/clear responsibilities for utilities, including contract management	
Utilities policy and procedural guidance	Action 1
Responsibilities for utilities and account management clearly assigned to officers	Action 2
Central asset register for properties (operational and investment) that is maintained and comprehensive. Detailing utilities that are present, meter details (number/type), responsibility for cost, recharging frequency (where applicable), utility supplier account details, occupier details etc.	Action 3
Responsibilities for utilities agreed with occupier and documented in lease/licence, signed by Council and occupier.	Action 9
Annual gas and electrical safety checks are carried out and recorded (where utilities are present) thus ensuring that all properties are tested.	Action 8
Risk 3 – Lack of monitoring of utilities usage (metering) in Council land and buildings which could lead to increased costs and impact upon the Council’s reputation.	
Record of meters and readings maintained	Action 3 & 5
Checking supplier invoices (prior to payment) to actual meter reading data to ensure the Council is charged correctly for the energy consumed.	Action 5 & 6
Monitoring consumption rates/or electricity generation levels (solar) to identify unexpected variances, such as water leaks or solar panel failures.	Action 5
Risk 4 – Failure to properly budget for utility costs	
Separate budget established for each type of utility to enable effective financial control and monitoring	Working as intended
Monthly budget monitor produced by Management Accountant and reviewed by budget holder, appropriate action taken as required	Action 6
Risk 5 – The Council becomes subject to debt recovery procedures and incurs additional fines/penalties for late payment	
To ensure prompt payment, correspondence address for all utility supplier invoices is a central Exchequer Services email account or PO Box.	Action 6
Procedure to regularly visit unoccupied premises to collect correspondence, so that any relating to utility suppliers can be dealt with promptly.	Action 6
End of tenancy checklist completed to capture utility supplier account details and final meter readings.	Working as intended
Procedure to transfer utilities account to SRBC, for instance upon termination of tenancy, includes supplier notification.	Action 6
Procedure to transfer utilities account upon commencement of tenancy, includes supplier notification that invoices must be sent to the new tenant.	Action 10
Written authority to update the Exempt List is communicated to Exchequer Services promptly following any changes that will impact utility supplier payments i.e. add /remove account details.	Action 10

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Utility supplier account monitoring process to ensure timely receipt and payment of invoices.	Action 6
Brought forward balances on utility supplier invoices are promptly investigated and appropriate action taken to clear it.	Action 6
Risk 6 – The Council is paying for utility costs where responsibility does not rest with the organisation. Failure to recover utility costs from tenants of Council properties and ongoing review of rents where the costs are included.	
Responsibilities for utilities and account management clearly assigned to officers	Action 1 & 7
Written authority to update the Exempt List is communicated to Exchequer Services promptly following any changes that will impact utility supplier payments i.e. add /remove account details.	Action 10
Utility supplier invoices are validated prior to payment and are authorised in accordance with the Council's Financial Regulations.	Action 6
Procedure to transfer utilities account upon commencement of tenancy, includes supplier notification that invoices must be sent to the new tenant.	Action 10
Lease agreement clearly sets out the responsibilities for utility accounts and payment (where tenant is recharged)	Working as intended
Tenants are billed promptly and correctly for utility costs	Action 11
Meter readings are taken to enable tenants to be accurately recharged (where applicable)	Working as intended

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AUDIT ASSURANCE

Three Lines of Defence

Audit Area	1 st Line	2 nd Line	3 rd Line	Internal Audit opinion
Review of Utilities Management	Senior Management	Financial Services/ Procurement Team	Internal Audit	Reliance cannot be placed on the first line of defence whilst overall responsibilities for utilities and account management have not been clearly assigned. Only limited reliance can be placed upon the second line of defence as advice has not been acted upon and a robust information sharing process has not been applied in all instances.

Risk and Control Evaluation

Risks Examined	Full	Substantial	Adequate	Limited
The Council's contracts in place for the supply of utilities are not compliant with Contract Procedure Rules and do not achieve value for money				✓
There is a lack of a clear inventory/asset register, ownership/clear responsibilities for utilities, including contract management				✓
Lack of monitoring of utilities usage (metering) in Council land and buildings which could lead to increased costs and impact upon the Council's reputation.				✓
Failure to properly budget for utility costs			✓	
The Council becomes subject to debt recovery procedures and incurs additional fines/penalties for late payment				✓
The Council is paying for utility costs where responsibility does not rest with the organisation. Failure to recover utility costs from tenants of Council properties and ongoing review of rents where the costs are included.				✓
OVERALL AUDIT OPINION				✓

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MANAGEMENT ACTION PLAN

NO.	FINDING	AGREED ACTION	OFFICER & DATE
	Policy, Procedures and Responsibilities		
1	<p>The review found that the Council does not have an overarching utilities management policy and responsibility for the day to day administration and management of utilities has not been formally assigned. This has led to a lack of pro-active management of the Councils utility arrangements and a lack of awareness of what is required to ensure effective administration and monitoring.</p> <p>It was acknowledged during the review that work has commenced to develop policy and procedures to formalise arrangements, this is being done jointly with Chorley Council. This exercise should be completed as soon as possible to provide direction, designate responsibility and implement immediate improvement.</p>	<p>The Interim Head of Property and Estates will ensure that an overarching utilities management policy and any associated procedures are developed, responsibilities are identified, clearly assigned, communicated, approved (as necessary) and implemented. The joint working group will draft the overarching policy by 31st December 2022, and will consult Financial Services and the Procurement Team.</p> <p>The utilities management policy and any associated procedures will incorporate roles and responsibilities, objectives and targets. Including for instance:</p> <ul style="list-style-type: none"> • Procurement • Ensure utility billing frequency is known for each property. • Ensure that up to date gas and electrical safety checks certifications are in place for each property. • Supplier bills will be correctly addressed and processed on a timely basis. • A systematic approach to taking and recording operational property meter readings will be established. Frequency to be determined by type of meter/consumption rates and included in a schedule. 	Interim Head of Property and Estates 31st March 2023

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		<ul style="list-style-type: none"> • Aspire to replace manual meters with smart meter technology. • The receipt and payment of invoices will be tracked for each property. • Pro-actively request invoices not received. • Investigate and clear account balances on a timely basis. • Invoice validation procedures will ensure rate and charge values are correct (per the contract); consumption is in line with expectation and anomalies investigated; billing dates are accurate and follow on from the previous invoice; usage volumes agrees to actual meter readings. • Pro-actively provide meter readings to the utility suppliers where invoices are based on estimates for more than one period. • Setting out specific supervisory check expectations, to provide assurance that the policy and procedures are effective and operating as expected. 	
2	<p>Employees currently undertaking aspects of utilities management do not have these responsibilities outlined within their job descriptions and lack the appropriate knowledge and training to fulfil this role. The Shared Service review should consider if sufficient resources have been allocated to this area.</p>	<p>Resources will be considered as part of the shared services review. The Interim Head of Property and Estates will ensure that utilities management and administration are included in the shared services job descriptions and procedures.</p> <p>Following the completion of the utilities management policy and the agreement of job descriptions staff training will be identified and delivered.</p>	<p>Interim Head of Property and Estates 31st March 2023</p>
	Records		

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3	<p>Audit testing identified that sufficient utilities information is documented in the tenanted property recharge spreadsheets, however, comprehensive records are not in place for all other Council property.</p> <p>Property records should be improved to ensure that a comprehensive asset record is in place including the following elements in relation to utilities:</p> <ul style="list-style-type: none"> • details of utilities present (gas/electric/other); • meter numbers, type (manual/automatic reading) and location; • account property references and utility provider account number (as appropriate); • utility payment (Council/tenant/tenant via recharge) and meter reading responsibilities (as appropriate); <p>The intention is to implement TechForge (property and asset management software) to manage properties, however it is not known when this system will be implemented. It is important to ascertain if the system can capture this information, or if it can be built into the specification.</p> <p>In the interim period the current records should be improved so that accurate data can be uploaded to Tech Forge.</p>	<p>A comprehensive property asset record will be compiled in a spreadsheet, including the following elements in relation to utilities:</p> <ul style="list-style-type: none"> • details of utilities present (gas/electric/other); • meter numbers, type (manual/automatic reading) and location; • account property references and utility provider account number (as appropriate); • utility payment (Council/tenant/tenant via recharge) and meter reading responsibilities (as appropriate). <p>The Principal Estates Surveyor will co-ordinate obtaining commercial buildings information (via email questionnaire and/or possibly by visiting the premises). The Facilities Manager will provide the information for all the operational property.</p> <p>The Facilities Manager will ascertain if the Tech Forge system can be used to record the aforementioned utilities information.</p>	<p>Interim Head of Property and Estates 31st March 2023</p>
Utility Arrangements for Council Owned and Managed Properties			
4	<p>There has been a failure to undertake a procurement exercise for water supplies, despite advice being provided by the Council's Procurement Team on several occasions (since 2017 when the commercial water supply industry became de-regulated). We are unable to provide assurance that value for money has been achieved.</p>	<p>The Interim Head of Property and Estates will ensure that a procurement exercise is undertaken for the water contract. The Procurement Team will be contacted for advice regarding the best procurement approach to take for instance, undertaking a procurement exercise utilising a public agreement framework such as YPO.</p>	<p>Interim Head of Property and Estates 31st March 2023</p>

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	We understand that a procurement exercise will be carried out jointly with Chorley Council but were provided with no indications of the timescales for this.		
5	<p>There is a lack of a systematic approach to take/record meter readings (gas/electric/water/solar) meaning that supplier bills may not reflect actual usage, and any unusual variances would not be identified on a timely basis.</p> <p>Although the Council has a mixture of smart and manual meters, meaning that some bills are based on actual consumption, the volume of each type is not known (due to lack of a central register). Understanding the type of meters will enable a process for regularly taking meter readings to be established.</p>	MA1 Refers	
6	<p>The review highlighted an overall lack of invoice monitoring and billing verification that risks the requirements of Financial Regulation 20.4 Payment of Accounts, requires that the certifying officer shall satisfy themselves that the services have been received, the prices are correct, the account is a proper liability of the Council not being satisfied. The following was observed:</p> <ul style="list-style-type: none"> • No monitoring to ensure invoices are received and paid on a timely basis; • utility supplier invoices and other correspondence are not routinely addressed to the central Exchequer Services email account or postal address and has led to fines, threats to cut off supplies and debt collection agency action; • correspondence from unoccupied premises is not routinely collected and actioned; • lack of basic invoice validation checks to ensure that the Council is not being overcharged; • balances brought forward from previous bills (credit and debit) are not routinely verified and investigated; 	<p>As part of the implementation of property shared services, responsibility for the effective management of utility accounts will be assigned to a central property technical team. This team will be responsible for invoice monitoring and billing verification.</p> <p>Also, MA1 refers.</p>	<p>Interim Head of Property and Estates 31st March 2023</p>

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	<ul style="list-style-type: none"> additional issues relating to invoicing/billing were identified during the course of the review and notified to officers for rectifying. 		
	Solar Power System		
7	<p>The review found that there has been a lack of effective handover of the solar power system following installation, including failure to ensure that appropriate training and guidance was provided to those tasked with managing the system. This was recently recognised following the receipt of risk management guidance from the Council's insurance provider. It was highlighted that insufficient maintenance arrangements are in place and a maintenance programme should be introduced.</p> <p>The Facilities Management Team are currently working to address the maintenance recommendations and put a maintenance regime in place.</p>	<p>The Interim Head of Property and Estates will ensure that prior to assuming responsibility for any future installations (arising for instance from a project), a robust handover process and receipt of relevant documentation (manuals etc.) will be required.</p> <p>Officers responsible for the solar power system will be provided with sufficient guidance and training so that the system can be effectively managed and maintained. Management Action 2 refers.</p> <p>The Facilities Manager has put in place maintenance arrangements, as recommended by the insurance company; evidence will be provided to support this point.</p>	<p>Interim Head of Property and Estates 31st March 2023</p>
	Commercial Tenant Utility Arrangements		
8	<p>The Council (as landlord) is required by law to ensure gas and electrical safety checks are carried out. The review of property records found that the Council doesn't currently know whether gas supplies are present for 84 out of 130 properties. The safety certification has not been actively pursued for several years and this poses a significant risk to the Council should an incident occur.</p> <p>Work by the Property Team is currently in progress to obtain electrical safety testing certificates from tenants. However, work is yet to commence with regards to requiring tenants to obtain and provide gas safety certificates to the Council.</p>	<p>The Interim Head of Property and Estates will ensure as a priority that gas and electrical safety checks are carried out for all properties with electrical and gas supplies, any necessary action arising is undertaken, and evidence is retained. In future these certificates will be sought systematically on a timely basis.</p> <p>Tenants will be contacted to provide a copy of the gas safety testing certificates, adopting a similar approach to that taken to seek electrical certificates. Admin support will be provided by the Facilities Team. This</p>	<p>Interim Head of Property and Estates 31st March 2023</p>

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		<p>task will be carried out concurrently with management action 3.</p> <p>There are currently 20 electrical test certificates outstanding; contractors are to be instructed to carry out these safety checks.</p>	
9	<p>The Property Team raised concerns that tenants may have disconnected gas supplies but not notified the Council. Current leases do not state that tenants must notify the Council (so that consent can be given). This could lead to additional reinstallation costs.</p> <p>Lease agreements should incorporate a clause that states that if a gas supply is not required and is to be removed notification/consent is required. Also, the supply should be reinstalled after the occupant terminates their tenancy.</p>	<p>The Interim Head of Property and Estates will update standard lease agreements to incorporate a clause stating that a gas supply shall not be removed without prior consent and should be reinstated on termination of tenancy.</p>	<p>Interim Head of Property and Estates 31st March 2023</p>
10	<p>During the review it was identified that utility bills are currently being paid for 3 properties where responsibility no longer rests with the Council despite a change of tenancy notification being issued to the utility supplier.</p> <p>The review found that an adequate change of tenant notification process is in place to notify utility suppliers, however, Exchequer Services are not routinely informed. This is an important control to prevent the Council paying utility invoices where responsibility for payment has transferred to an incoming tenant or the supply has been terminated.</p>	<p>The following improvements will be made for commercially leased properties:</p> <ul style="list-style-type: none"> • The Estates Process Map will be updated to include completion of change of tenancy form, utility supplier and Exchequer Services notification. • The change of tenancy forms will be amended to include Exchequer Services notification to update the Exempt List. <p>An exercise will be carried out by the Facilities and Estates Team to compare the list of utility accounts included in the Exempt List to property records to ensure records are up to date. Where property accounts are identified for removal the financial system will be checked to ensure invoices have not been paid in error and appropriate recovery action will be taken.</p>	<p>Interim Head of Property and Estates 31st March 2023</p>

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11	<p>Testing identified a small number of examples where tenants are not currently being charged for all utility costs that are incurred by the Council including the DUoS capacity charge and the climate change levy.</p> <p>Additionally, it is not known how the standing charge, apportioned to the tenants, is calculated. The rate charged was last updated 1.1.2020.</p>	<p>Principal Estates Surveyor will investigate:</p> <ul style="list-style-type: none"> the DUoS capacity charge and the climate change levy how the standing charge, apportioned to the tenants, is calculated. <p>Information will be provided to the Director of Commercial Services to decide on tenant recharges.</p>	<p>Interim Head of Property and Estates 31st March 2023</p>
Other Relevant Policies and Procedures			
12	<p>The Council is required to publish its contract data in the Contract Transparency Register. During the review it was identified that the register is incomplete and contract values are incorrectly recorded.</p>	<p>The Facilities Manager will ensure that the utilities information is brought up to date in the Contract Transparency Register.</p>	<p>Facilities Manager 31st October 2022</p>
13	<p>Contracts should be recorded in the corporate Contract Management System. The review found that current utility contracts are not recorded in the system.</p>	<p>The Facilities Manager will ensure that the utilities contracts are recorded in the Contract Management System.</p>	<p>Facilities Manager 31st October 2022</p>

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