



**Finance Services
Director of Finance**

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Memo from Internal Audit Section

Our ref: 10/005/IS

To: Corporate Director Housing and Adult Social Services

Date: 1 September 2010

cc. Service Director – Housing, Head of Social Housing Partnerships, Head of Performance, Homes for Islington, Director of Performance and Service Development, Homes for Islington.

Re: Review of Leaseholder Major Works Contract – Partners for Improvement in Islington and United House - 10/005/IS

Following the audit of the above, I enclose for your attention a copy of the final internal audit report.

If you wish to discuss the report or the recommendations further, or require assistance to complete the action plan, I should be happy to arrange a meeting with the auditor who carried out the project so that any outstanding issues are resolved.

Finally, I would like to thank you and your staff for your assistance and co-operation in the completion of this audit.

Head of Internal Audit and Investigations

London Borough of Islington – FINAL - Internal Audit Report

2010/11 – Review of Leaseholder Major Works Contract – 10/005/IS

1. Executive Summary

<p>Department: Housing and Adult Social Services</p> <p>Date of last review: n/a</p>	<p>Overall Opinion</p> <p>Substantial Assurance <input type="radio"/></p> <p>Reasonable Assurance <input type="radio"/></p> <p>Limited Assurance <input checked="" type="radio"/></p> <p>No Assurance <input type="radio"/></p>	<p>Direction of Travel</p> <p>N/A - this is the first time this review has been carried out in this area.</p>	<p>System control issues identified</p> <p>0 High</p> <p>0 Medium</p> <p>0 Low</p>	<p>Non-compliance with controls identified</p> <p>2 High</p> <p>3 Medium</p> <p>2 Low</p>
<p>Background:</p>	<p>Two housing Private Finance Initiative (PFI) schemes are currently operating in the London Borough of Islington (LBI); PFI1 and PFI2. Partners for Improvement in Islington Limited (PFII) were set up in relation to PFI1, and Partners for Improvement in Islington 2 Limited were set up in relation to PFI2. Both companies are a consortium between Hyde Housing Association Ltd, United House Solutions Ltd and Uberior Infrastructure Investments Ltd. Under the schemes PFII are required to bring all properties up to the council's "availability standard", and LBI pays PFII an increased level of unitary charge for each property that has been brought up to the standard. PFII pay United House a fixed contract price for the entire refurbishment works allocated to them, which is not directly derived from the actual costs spent on works by United House. Leaseholders, in accordance with their leases, are billed for the proportionate cost of works to their property based on the specific direct cost of works carried out to the building in which their property is situated.</p> <p>Following some concerns from the Homes for Islington (HFI) team which client the PFII relationship on behalf of the Council, and a number of complaints raised by leaseholders, LBI management requested that internal audit carry out an audit into the systems and controls in place for managing the two housing PFII schemes. The leaseholders' complaints largely relate to the cost of works and to the quality of works undertaken by contractors. There have also been allegations of fraud relating to alleged corruption by United House Ltd staff. The internal audit review therefore focused on evaluating the root causes of leaseholder complaints and considered the themes arising from the allegations made.</p> <p>It should be noted that all parties to this audit review fully co-operated with internal audit and where possible provided us with all information requested.</p>			
<p>Scope of the Review</p>	<p>This audit has focused on works undertaken by Partners for Improvement in Islington (PFII) under the Private Finance Initiative schemes (PFI). The audit has reviewed the PFII related systems and controls for managing consultation, delivery of works, inspection of works, charging of leaseholders for works and responding to leaseholder challenges. To test the systems and controls a sample of 30 leaseholder accounts across PFI1 and PFI2 were reviewed. This sample intentionally included 9 accounts that have been the subject of complaints by leaseholders, 1 account that was amended following an internal investigation by United House Ltd in 2009 and 20 randomly selected accounts.</p>			

Key Messages

The work carried out by internal audit did not identify any cases of fraud (as defined in the Fraud Act 2006) perpetrated by PFII or its subcontractors against the council or its leaseholders.

However the work has identified a number of control weaknesses, 2 of which are high in priority, as follows:

- Two out of the 20 leaseholder properties randomly selected for testing (10% of the sample) appear to have been incorrectly certified as having met the full availability standard. This could have resulted in overpayments from HFI to PFII of £4,861.60.
- In one case a final account had been revised following a leaseholder challenge but revisions had not yet been applied to the accounts of other leaseholders in the building affected by the same issues

Medium priority issues were identified relating to the failure to pass on sub-contractor discounts to leaseholders, work items being removed from final accounts following leaseholder challenge on the basis of works not done and the length of time taken to formally resolve one leaseholder challenge.



Each of the objectives for this review are shown as segments of the wheel. The key to the colours on the wheel are as follows:

- No controls Issues identified
- Low priority controls or non-compliance issues identified
- Medium priority controls or non-compliance issues identified
- High priority controls or non-compliance issues identified

Risk Register Updates:








A copy of this report has been issued to the Departmental Risk Champion for updating the risk registers where appropriate.

Recommendations made and agreed for implementation


High	Medium	Low	Total	Agreed (final report)
2	3	2	7	


Unregistered Risks Identified & Audited		Included in the Risk Registers	Risk Managed
1	Building and / or planning regulations may not have been considered or complied with.	No	●
2	There may not be an appropriate basis to apportion the costs incurred to the leaseholders.	No	●
3	The basis of apportionment may not be in accordance with the leases.	No	●
4	Errors in leases, with regarded to laterally converted properties, may not be identified, or the leaseholder may not be contacted so that the lease can be corrected.	No	●
5	Partners may not have arrangements in place to ensure leaseholder consultation is in accordance with the relevant legislation.	No	●
6	The leaseholder consultation procedures may not have been followed for the proposed works and costs.	No	●
7	Works to be recharged to leaseholders may not be certified by the independent surveyor.	No	●
8	Charges may not have been calculated in accordance with the agreed basis of apportionment.	No	●
9	The leaseholder's final bill may not have been issued within the required timescale.	No	●
10	The leaseholder's final bill may not be accurate, or may not include explanations for variations from the estimate.	No	●
11	The £10,000 5 year cap may not be applied to the leaseholder's account.	No	●
12	Leaseholder accounts may have been revised following correspondence from a leaseholder without appropriate checks having been made of the issues raised by the leaseholder.	No	●
13	Issues raised by one leaseholder may not have resulted in revisions to the charges for all leaseholders affected by that issue.	No	●
14	Actions identified in the investigation by Hill International into alleged internal fraud within United House Ltd may not have been fully implemented.	No	●

2. Basis of our opinion and assurance statement


Risk rating	Assessment rationale
High 	Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. This weakness may have a significant impact on the achievement of the overall organisational objectives.
Medium 	Control weakness that has a low impact on the achievement of the key system, function or process objectives; or This weakness has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.
Low 	Control weakness that does not impact upon the achievement of key system, function or process objectives; however implementation of the recommendation would improve overall control.
Level of assurance	Description
Substantial 	Our review did not identify any weaknesses that would impact on the achievement of the key system, function or process objectives. Therefore we can conclude that key controls have been adequately designed and are operating effectively to deliver the key objectives of the system, function or process. As a result, a high level of assurance can be given on the adequacy and operating effectiveness of controls in place at the time of our audit.
Reasonable 	There are some weaknesses in the design and/or operation of controls; however the likely impact of these weaknesses on the achievement of the key system, function or process objectives is not expected to be significant. Furthermore, these weaknesses are unlikely to impact upon the achievement of organisational objectives. As a result, moderate assurance can be given on the adequacy and operating effectiveness of controls in place at the time of our audit.
Limited 	There are weaknesses in the design and / or operation of controls which could have a significant impact on the achievement of the key system, function or process objectives which may also have a significant impact on the achievement of organisational objectives. We are therefore able to give limited assurance on the adequacy and operating effectiveness of controls in place.
No Assurance 	There are weaknesses in the design and/or operation of controls which not only have a significant impact on the achievement of key system, function or process objectives but may put at risk the achievement of organisational objectives. As a result, no assurance can be given on the adequacy and operating effectiveness of controls in place.


3. Detailed Findings Recommendations and Action Plan


Matters Arising Risk / Process	Potential Risk Implications	Recommendations	Priority	Management Response and agreed actions
<p>1.1 Lateral Conversions</p> <p>A lateral conversion is defined as a flat that spans across more than one street property horizontally, rather than the usual arrangement of individual houses converted into flats on different floors. Leases for flats within buildings containing lateral conversions may contain errors regarding the description of the 'building' in which the flat is contained or incorrectly drawn plans. In these cases the leases may not accurately reflect the proportion of the property occupied by the leaseholder. This may result in the leaseholder being over or under charged when compared to what they would have been charged if their lease was correct.</p> <p>The Council does not have a comprehensive database of lateral conversion properties, and lateral conversions which are not correctly reflected in the lease may only be identified when PFII initiate works. When errors in leases are identified, the leaseholder is contacted to provide the opportunity to correct the lease. It is both the council's and the leaseholders' responsibility to resolve incorrect leases.</p> <p>The council, with HFI and PFII, have devised and agreed a strategy for dealing with incorrect leases and have agreed to target those most likely to result in correction and consequent over or under charging. Those most at risk are those leasehold flats that are contained within a single street property and also within a building containing a lateral conversion. Once all leaseholders affected by this type of incorrect lease have been informed, those who are less likely to be disadvantaged will be contacted.</p> <p>In our overall sample of 30 properties, we were made aware that 8 are lateral conversions. In 4 of these cases, the leaseholder has not yet been contacted regarding the possible error to determine whether the lease requires amending.</p> <p>These 4 properties are in the PFI2 contract, and PFII advised that they intend to write to the affected leaseholders. We note that for one of these properties, PFII are dealing with a challenge from the leaseholder regarding the apportionment.</p>	<p>Leases for lateral conversion properties may be inaccurate leading to over or under recoveries of works charges from the leaseholder.</p>	<p>The Council should agree with PFII a timescale for affected leaseholders to be formally contacted to confirm their property details, and monitor progress against that timescale.</p>	<p>Low</p> 	<p>PFII response: PFII identified a problem with the leases. Following Council instruction a way forward was agreed LBI. All identified leaseholders have been contacted as agreed.</p> <p>Responsible Officer: MD Partners</p> <p>Target Date: Ongoing as and when leases require amendment.</p> <p>LBI response: The Council has worked with PFII since 2007 to deal with the lease issue and has an agreed process to identify and contact all affected leaseholders. The Council will pay the legal costs of the leaseholder to amend the leases but can only amend leases with the agreement of the leaseholder. Leases will be amended as and when leaseholders confirm their willingness to do so. When leasehold properties are sold the Council will seek to amend the lease for the new owner.</p> <p>Responsible Officer: HFI Head of Performance</p> <p>Target Date: Ongoing as and when leases require amendment.</p>


<p>1.2 Certification</p> <p>Under the PF11 and PF12 schemes, PFII are required to bring all properties covered in the schemes up to the council's "availability standard" through undertaking required works and then certifying that the standard has been met. Leasehold properties are required to meet the "full availability standard", however tenanted properties may meet either "interim availability standard" or "full availability standard".</p> <p>The PF11 contract allowed United House to inspect and self-certify whether properties had met the availability standard. The PFII method statement stated that an independent surveyor, Faithorn Farrell Timms (FFT), would inspect a percentage of self-certified properties to certify that the availability standard had been met, which PFII decided would be 20% of all properties improved. However in early 2005 PFII increased the amount of properties to be inspected and certified by FFT to 100%. Under both PF11 and PF12 contracts, the council pays PFII a daily rate for each leasehold property from the date on which it has been certified as meeting the "full availability standard". Under PF12 the council also pays PFII a fixed amount of £9,394 for each completed property, which is split into three stage payments at certain points of the refurbishment.</p> <p>Findings from Original Audit Sample</p> <p>From our randomly selected sample of 20 leaseholder properties, we found that two properties (10% of the random sample) appear to have been incorrectly certified as having met the full availability standard.</p> <p>The first property was from PF11 and according to HFI records was self-certified by United House as having met the full availability standard on 24 March 2006. We note that according to inspection records, a "leasehold" inspection undertaken on 2 February 2006 had "failed", and no evidence of a re-inspection could be located. In addition the final account was later reduced following a challenge by the leaseholder. The challenge report produced by the PFII Senior Quantity Surveyor showed that following re-survey, 4 items were removed from the final account on the basis that the works appeared not to have been done. For two of these items, the leaseholder had refused to allow access for the works to be undertaken. It is understood however that removal of items from a leaseholder's bill does not automatically mean that a property will no longer meet the availability standard. This is because not all works are directly linked to the availability standard and alternative approaches to works that provide a similar outcome can be identified during the works stage.</p> <p>The second property was from PF12 and according to HFI records was certified as having met the full availability standard on 31 October 2008. We note that according to PFII inspection documentation the property was certified as an "interim pass" on 31 October 2008 but had been certified as having met the full availability standard through "Auto Pass". No evidence of an FFT "full pass" availability certificate could be located. Furthermore no evidence of an inspection of the property's internal</p>	<p>The council may be making unitary payments to PFII for properties at the 'full' availability standard rate, when the properties may not have been formally certified as meeting the full availability standard or works required to bring the property up to the availability standard may not have been completed.</p>	<p>The council should formally request that PFII provide evidence that the 9 properties have been correctly certified as having met the 'full' availability standard. Such evidence should be in the form of a full availability certificate supported by evidence of all required inspections being passed.</p> <p>In cases where such evidence cannot be provided, the council should request that PFII arrange an FFT inspection of the property and request that any unitary payments made in respect of the property is refunded.</p> <p><i>More work is recommended in regards to the total population to give a more accurate extrapolation of potential over payments. The existing sample size is for use in determining whether a control is operating or not, and cannot be relied upon to determine accurate detailed error rates across an entire population or samples.</i></p>	<p>High</p> 	<p>PFII response:</p> <p>We do not believe this is a high risk area given that only 6 properties remain to be checked.</p> <p>Property under PF11</p> <p>Although we cannot evidence that a re-inspection of the internal works was carried out, we believe that we claimed the full unitary charge uplift on this dwelling in line with the PF11 Project Agreement and do not accept that any repayment is due to the Council.</p> <p>In order to provide reassurance, we have instructed FFT to carry out another full inspection of the dwelling, and will implement any actions resulting from their findings.</p> <p>Property under PF12</p> <p>We agree that this dwelling was incorrectly recorded as meeting the full availability standard on 31 October 2008 as the certification process had not been correctly followed. Full repayment of £2,533.09 was made in June 2010.</p> <p>Auto-Passes</p> <p>The "Auto Pass" system has not been used on PFI 2 since March 2009. It was not used at all for PF11 refurbishment works.</p> <p>FFT have been instructed to carry out a full inspection of the 7 properties certified through Auto Pass where documentation is not available. While drafting this</p>
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<p>works by FFT could be located. We were informed by the PFII Senior Performance Analyst that "Auto Pass" is a term from the United House in-house computerized database, Flag, and is not defined in the PFI contracts. We were informed that the property had been certified through 'auto-pass' as meeting the full availability standard in error, and that FFT would need to re-inspect the property and re-issue a certificate of full availability if the standard has been met. We were also advised that PFII would refund the relevant unitary charge to the council on the basis that the full availability standard has not been met for this property.</p> <p>Information provided by HFI's Contract Monitoring Officer showed that if the initial two properties identified had been incorrectly certified as having met the full availability standard and the certifications were revoked on 29 June 2010, HFI are likely to have made the following overpayments to PFII in respect of the 2 properties:</p> <ul style="list-style-type: none"> Property under PF11 - £2,246.21 (based on the agreed daily rate since the date of certification) Property under PF12 - £2,615.39 (based on the agreed daily rate since the date of certification) <p>Findings from Additional Work</p> <p>PFII have undertaken a review of all properties certified through auto-pass. We were informed by the PFII Senior Performance Analyst that auto-pass was only used in PF12 and the database used in PF11 did not have an auto-pass function. We were also informed that the auto-pass function in the PF12 database had been disabled as of 19 August 2010. PFII have provided internal audit with a listing of all properties certified using the auto-pass. We have reviewed the listing and note the following:</p> <ul style="list-style-type: none"> The list contains 51 properties, in addition to the property identified above that had been certified as having met the availability standard through auto-pass. Of these 41 were leasehold properties, 6 tenanted properties and 4 were blocks. <p>Internal Audit sought to verify the review undertaken of auto-pass properties by PFII and our findings were as follows:</p> <ul style="list-style-type: none"> In relation to 40 properties we found evidence of the independent surveyor's (FFT) availability certificate and all required inspections to evidence that the availability standard had been correctly claimed. Two of the properties were duplicates of another property, and had been certified using the auto-pass mechanism to cleanse the system- but had appropriate FFT certificates For 2 of the properties the works had not yet been completed and had not yet been claimed as having met the full availability standard by PFII. PFII found during their review that 5 of the properties had been incorrectly 			<p>response one property has been Certified.</p> <p>Given that only 6 properties remain to be inspected and the auto pass system has not been used since March 2009 we do not consider this to be a high risk</p> <p>The estimate of a potential £129k overpayment is unrealistic. The audit findings relate to 1 property only and an extrapolation on this basis is unsound.</p> <p>We do not believe that there is a potential overpayment of £25k in relation to the 7 dwellings (now 6) on PF12. If the re-inspection findings demonstrate that properties are not at full availability we will repay any monies incorrectly claimed on this basis.</p> <p>Responsible Officer: MD Partners</p> <p>Target Date: December 2010</p> <p>LBI response: The Council will work to ensure that the nine properties identified in the audit are correctly certified and any overpayment is reclaimed from PFII.</p> <p>The Council accepts the finding that the issue relating to the autopass system in PFI 2 is limited to 8 properties and will seek repayment of the unitary charge.</p> <p>Further audit investigations will be done to establish whether the</p>
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	<p>claimed as having met the availability standard and that a re-inspection is required along with a refund of the relevant monies to the council. Internal Audit concurs with this conclusion.</p> <ul style="list-style-type: none"> From our review we also noted a that for a further 2 properties we could not find evidence of either the FFT availability certificate or all required inspections to evidence that the availability standard had been correctly claimed. <p>Information provided by HFI's Contract Monitoring Officer showed that up to 29 June 2010, the council is likely to have made a total overpayment of £22,773.33 to PFII in respect of the above 7 properties.</p> <p>Overall Findings</p> <p>We reviewed a randomly selected sample of 20 properties comprising 11 PF11 and 9 PF12 properties. We then reviewed a further 51 properties from PF12 that had been certified through auto-pass. Our overall findings from the audit work performed show that potentially up to 9 properties have not been correctly certified as having met the availability standard as follows:</p> <ul style="list-style-type: none"> 1 from PF11 and 8 from PF12 (properties certified through auto-pass) <p>According to information provided by HFI, 632 leaseholder properties have been certified to date as having met the full availability standard under PF11.</p> <p>Based on a rough extrapolation of the error rate found in our PF11 randomly selected sample across this population, there is a potential total overpayment by HFI to PFII on PF11 properties of up to £129,042.07.</p> <p>It is recognised that the auto-pass issue affecting the certification of properties in PF12 is limited to 8 properties and cannot be extrapolated across the whole population. Information provided by HFI's Contract Monitoring Officer showed that the potential total overpayment by HFI to PFII on PF12 properties is up to £25,388.72.</p>				<p>certification issue identified at the property under PF11 is representative and will seek repayment of unitary charges wherever possible.</p> <p>Responsible Officer: HFI Head of Performance</p> <p>Target Date: March 2011</p>
1.3	<p>No Access for Certification</p> <p>In order for FFT to certify a property as having met the full availability standard, inspections are required of the internal communal areas, the external areas and the inside of the property. Under the PF12 contract in cases where the surveyor needs to inspect internal works for a leasehold property, but cannot gain access to the property, they are required to follow a No Access Protocol (NAP).</p> <p>This requires the surveyor to contact the leaseholder by post and then by phone. If access cannot be gained after following the protocol, the surveyor may certify the property as having met the availability standard. From our sample of 15 properties examined from PF12, 7 properties had been certified through following NAP. We note that from these 7, 2 final accounts have been later reduced, and a further 2 have challenges in progress. We reviewed the certification and inspections together</p>	<p>Properties may have been erroneously certified as having met the availability standard on the grounds of no access when no inspection had taken place.</p>	<p>PFII should review the number of properties certified through the No Access Protocol (NAP) and assess whether there is a need to do more to encourage leaseholders to provide access to their properties for inspection in order to reduce the number of NAPs.</p>	<p>Low</p> 	<p>PFII response:</p> <p>Over the last 6 months (Feb-July 10), 67 out of 1,027 inspections have been certified following the NAP (6.5%). These are internal inspections requiring access. External inspections have been completed. In all cases, we have followed the agreed process to gain access.</p>

	<p>with the explanations for the revised final accounts for these 2 properties and have not identified any grounds for suspecting that the properties were not correctly certified as having met the availability standard by FFT.</p> <p>The PFI1 contract did not contain a No Access Protocol (NAP) for certification, as this was only introduced as part of the PFI2 contract due to the need to manage the issue of leaseholders not providing access to properties for inspections on a timely basis. However from our sample of 15 properties examined from PFI1 we note that according to the 'leaseholder' inspection sheets 6 properties were certified by the surveyors as available through following the No Access Protocol (NAP). We note that one of these has a leaseholder challenge in progress. We were advised by PFII that the inspections for these 6 properties were likely to have followed the same process as outlined in the No Access Protocol (NAP) that was introduced in the PFI2 contract, and we have seen evidence of the leaseholders for the 6 properties being contacted by post by the Partners Asset Management Team.</p>		<p>Possibilities may include improving communication with leaseholders about the process, enhancing the inspection visits to give the leaseholder an opportunity to provide direct feedback to the surveyor regarding the completed works, and introducing evening and weekend inspections.</p>	<p>We agree that leaseholders should be encouraged to grant access for inspection work.</p> <p>Responsible Officer: MD Partners</p> <p>Target Date: December 2010</p> <p>LBI response: The Council will monitor the use of the No Access Protocol to ensure it is correctly and appropriately used.</p> <p>Responsible Officer: HFI Head of Performance</p> <p>Target Date: Ongoing to end of refurbishment in March 2012</p>
1.4	<p>Leaseholder Charges</p> <p>We note that leaseholder final accounts are based on the actual expenditure incurred on work items, plus an additional fixed percentage of works costs for preliminary costs and contract management overheads. We examined a complete set of subcontractor invoices for one leaseholder property in our sample. We found that three of the subcontractor invoices that were used as source documentation for the leaseholder's final account contained discounts (for example, prompt payment discounts) that had not been passed on to the leaseholder. These discounts ranged from 2.5% to 3%. The total value of these discounts was £155.70, and related to 2 properties.</p> <p>Based on the apportionment system, the final account in our sample could have potentially been reduced by £77.85 if the discounts given by the subcontractors had been passed on to the leaseholder.</p> <p>We were advised by the PFII Managing Surveyor that United House have agreed preferential payment terms with some subcontractors, which includes discounts for general prompt payment, but these are not passed onto the leaseholders.</p> <p>We note that the leases state that the service charge will consist of "a proportion of the expenses and outgoings and incurred by or to be incurred by the council" in respect of "the repair maintenance renewal and improvement of the building". We</p>	<p>Failure to pass subcontractor discounts onto leaseholders may result in leaseholder final accounts not reflecting the true costs of the works incurred, which may inflict reputational damage on the council and PFII.</p>	<p>PFII should be asked to clarify their policy and practice regarding whether discounts negotiated with subcontractors should be passed on to leaseholders.</p> <p>The council should assess whether the policy is in accordance with relevant legislation and is appropriate in the context of the commercial arrangements with PFII.</p>	<p>Medium</p> <p></p> <p>PFII response: We consider we have followed the standard process. Prompt payment is a discount deducted from the net value of the payment and gives certainty that the payment will be made on time or early. This gives the sub contractor positive cash flow. UHL obviously have to fund this early payment. Prompt payment discounts are an industry norm supply chain arrangement for cashflow purposes which is normal practice in construction.</p> <p>Our understanding is that these discounts should not pass on to leaseholders as it is a cash management arrangement between UHL and its sub-</p>

	<p>note that under the PFI contracts, PFII are required to notify to the council the actual costs of the leaseholder works which will be recoverable from the leaseholders having regard to the leases and sections 19 and 20 of the Landlord and Tenant Act 1985 (the 'Recoverable Leaseholder Costs'). The actual cost of the leaseholder works will be the cost that PFII has incurred in having the works undertaken by its refurbishment contractor, United House, and its sub-contractors.</p>				<p>contractors. Therefore we believe that the leaseholder accounts are correct.</p> <p>Responsible Officer: MD Partners</p> <p>Target Date: December 2010</p> <p>LBI response: The Council acknowledges that there is a case for passing on the prompt payment discount to leaseholders but there are arguments both for and against and there do not appear to be any clear precedents. The Council will look at referring the issue to the Leasehold Valuation Tribunal for a determination.</p> <p>The Council offers leaseholders prompt payment discounts of 2.5% and also a range of interest free payment plans to spread payments up to five years.</p> <p>Responsible Officer: HFI Head of Performance</p> <p>Target Date: March 2011</p>
1.5	<p>Leaseholder Final Account Challenges</p> <p>There is a formal dispute process for leaseholders to challenge or query the costs they are charged. In the first instance they are required to contact PFII Leasehold Team in writing.</p> <p>We selected 9 final accounts that had been the subject of complaints by the leaseholder and 1 account that was amended following an internal investigation by United House Ltd, and randomly selected a further 20 final accounts. Of those 9 final accounts selected subject to leaseholder complaints, we found that 7 had been the subject of a formal challenge. Three of these final accounts had been reduced following the challenge, 1 had resulted in snagging being undertaken but no amendments to the final account, and the remaining 3 challenges are in progress.</p>	<p>Leaseholders may be charged by PFII for works not completed, which could leave final accounts open to challenge and inflict reputational damage on PFII and the council.</p>	<p>Adequate checks on sub-contractor delivery of works should be established by PFII.</p> <p>PFII should be requested to provide statistics in order monitor the amount of items removed from final accounts due to leaseholder challenges to determine the</p>	<p>Medium</p> 	<p>PFII response:</p> <p>There is a formal process for leaseholders to challenge their final accounts. We agree the level of upheld challenges (i.e. where accounts are adjusted following investigation of the challenge) needs to be monitored and have introduced a new process to review all challenges ,</p>

	<p>From the 20 final accounts that had been randomly selected, we found that 5 had been the subject of a formal challenge. Three of these final accounts had been reduced following the challenge, 1 had resulted in snagging being undertaken but no amendments to the final account, and the remaining challenge is in progress.</p> <p>We found that the reductions applied to the 6 final accounts as a result of challenges ranged from £218.02 to £3,521.95, when the £10,000 mandatory cap applied to leaseholder accounts is disregarded.</p> <p>Where we have had sight of challenge reports for final accounts that have been reduced and have been able to query these with the PFII Works Team, we note that most reductions have occurred due to items being removed from the accounts on challenge. In most of these cases these items had been billed for by a sub-contractor, however PFII had not been able to verify that the works had been carried out following a re-survey. It is noted that defending a challenge from a leaseholder can be difficult if a long period of time has elapsed since the works were carried out, as it would be difficult to determine whether certain works had been carried out. In such cases the benefit of the doubt would usually be given to the leaseholder.</p> <p>PFII have identified that their systems and procedures for checking sub-contractors works and invoices have required improvement following an internal investigation into a sub-contractor's invoicing. We were informed by the PFII Quantity Surveyor that a number of new controls have been introduced in 2010 in order to strengthen procedures, for example inspections by the Works Team of all items billed for by sub-contractors.</p>		<p>effectiveness of the new controls introduced in 2010.</p> <p>If the rate of successful leaseholder challenges does not improve, PFII should be requested to introduce further checks on sub-contractors' invoices.</p>		<p>PFII have provided a full analysis of challenges made on PFII2, The PFI will monitor the information monthly and undertake a formal review of progress and actions by February 2011.</p> <p>Responsible Officer: MD Partners</p> <p>Target Date: February 2011</p> <p>LBI response:</p> <p>The Council will monitor PFII to ensure that they follow their procedures, reduce the number of challenges and process them in a timely manner.</p> <p>Responsible Officer: HFI Head of Performance</p> <p>Target Date: Ongoing to end of refurbishment in March 2012</p>
1.6	<p>Final Account Adjustments Following Challenges</p> <p>As noted above we found that from our sample of 30 final accounts, 6 final accounts were reduced on challenge.</p> <p>On 4 occasions there was only one leaseholder in the building, and on 1 occasion the challenge had come from 2 leaseholders in the building and PFII confirmed that they are in the process of preparing the revised final accounts for the leaseholders.</p> <p>In the other case, we note that the leaseholders of the property who had made the challenge had been issued with a revised final account on 3 September 2009. However PFII advised that there are another 3 leaseholders within the block and only one has been issued with a revised final account to date.</p>	<p>Leaseholders within a building affected by a single issue may not all be issued with a revised final account on a timely basis, which may inflict reputational damage on PFII and the council.</p>	<p>PFII should be requested to confirm that, for all resolved challenges that have resulted in a reduction to a final account, a revised final account has been issued to other leaseholders in the same building affected by the same issue.</p> <p>In cases where that has not yet occurred, PFII should be requested to confirm the timescale for doing so. PFII should also</p>	<p>High</p> 	<p>PFII response:</p> <p>We do not accept this is a high risk area. Processes are in place and working.</p> <p>Where a leaseholder challenge has been upheld and there are other leasehold dwellings in the same block, the PFII Leasehold Team do have a procedure to review all other leasehold final accounts issued in that block to ensure that any adjustments relevant to all leaseholders in the block are applied.</p> <p>We will review all upheld</p>

			<p>be requested to monitor this area going forward.</p>	<p>leasehold challenges to ensure that no accounts that should have been adjusted, have been missed. This will be completed by the end of September 2010.</p> <p>All leaseholder accounts for the property have been reviewed and revised accounts have been sent to all leaseholders as appropriate.</p> <p>Responsible Officer: MD Partners</p> <p>Target Date: 1 October 2010</p> <p>LBI Response</p> <p>Where one leaseholder has achieved a reduction in service charge, all other leaseholders in the same building must have their service charge bills reassessed and adjusted promptly. The Council will monitor the performance of PFII to ensure that all relevant bills already issued are re-assessed by the end of September 2010 and the process for future bills is strictly followed with reassessments carried within one month of identifying a service charge reduction that could affect other leaseholders.</p> <p>Responsible Officer: HFI Head of Performance</p> <p>Target Date: Monitoring of re-assessment of bills by October 2010. Ongoing monitoring of process until final account billing completed.</p>
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1.7	<p>Monitoring of Leaseholder Challenges</p> <p>We were provided with a spreadsheet of all PFI2 leaseholder final accounts and identified those in our sample that had been challenged by the leaseholder. The process for responding to challenges have been improved under PFI2, and a surveyor will hold a meeting with the leaseholder, review all aspects of the challenge, and produce a challenge report, which will inform any revised final account.</p> <p>However in relation to the 12 challenges in our sample, the PFI2 Managing Quantity Surveyor advised that for one of the properties there was no record of any challenge. The PFI2 Leaseholder Officer advised that this challenge dated from October 2008, related to snagging and has since contacted the leaseholder and confirmed that all snagging has been resolved.</p>	<p>Challenges received from leaseholders received may not be reviewed and progressed on a timely basis.</p>	<p>PFI2 should be requested to undertake a check of all outstanding challenges to confirm that appropriate action is being taken for each.</p>	<p>Medium</p> 	<p>PFI2 response: PFI2 set up an internal Challenge Review Group in June 2010 which monitors progress on all outstanding challenges as well as reviewing causes and trends. We have introduced many process improvements with the aim of reducing the number of challenges and enabling faster resolution of challenges. Responsible Officer: MD Partners</p> <p>Target Date: In progress</p> <p>LBI Response The Council will monitor PFI2 to ensure that they follow their procedures, reduce the number of challenges and process them in a timely manner. Responsible Officer: HFI Head of Performance Target Date: Ongoing to end of refurbishment in March 2012</p>
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