Brentwood Borough Council

INTERNAL AUDIT ANNUAL REPORT

May 2016

BDO

CONTENTS

EXECUTIVE SUMMARY

Internal Audit 2015/16

This report details the work undertaken by internal audit for Brentwood Borough Council and provides an overview of the effectiveness of the controls in place for the full year.

The following work was included in our audit plan for this financial year:

Customer Services (Final report)	Local Development Plan (work in progress)
Planning (Final report)	Human Resources (Final report)
Corporate Plan and Priorities (work in progress)	Counter Fraud (No report)
Financial Systems (Draft report)	Waste Income and Contract Management (Final report)
Revenues and Benefits (Final report)	Housing Systems (Final report)
Payroll (Final report)	Localism and Building Community Capacity (work in progress)
Accounts Payable (Final report)	Affordable Housing (work in progress)
Risk Management (Final report)	Disaster Recovery and Business Continuity (Final report)
IT Security and Governance (Planning with management)	

Our internal audit work to cover the 12 month period from 1 April 2015 to 31 March 2016 was carried out in accordance with the internal audit plan approved by management and the Audit, Scrutiny and Transformation Committee. The plan was based upon discussions held with management and was constructed in such a way as to gain a level of assurance on the main financial and management systems reviewed. There were no restrictions placed upon the scope of our audit and our work complied with Public Sector Internal Audit Standards. The whole plan has been completed except for our reviews of Localism and IT security and Governance that have been deferred to June at the request of management and the Corporate Plan, Local Development Plan and Affordable Housing reviews that are in progress at the time of writing this report.

Head of Internal Audit Opinion

The role of internal audit is to provide an opinion to members, through the Audit, Scrutiny and Transformation Committee, on the adequacy and effectiveness of the internal control system to ensure the achievement of the organisation's objectives in the areas reviewed.

The annual report from internal audit provides an overall opinion on the adequacy and effectiveness of the organisation's risk management, control and governance processes, within the scope of work undertaken by our firm as outsourced providers of the internal audit service. It also summarises the activities of internal audit for the period.

Opinion

The basis for forming my opinion is as follows:

- An assessment of the design and operation of the underpinning risk management arrangements and supporting processes;
- An assessment of the range of individual opinions arising from risk-based assignments contained within internal audit risk based plans that have been reported throughout the year. The assessment has taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses; and
- Any reliance that is being placed upon third party assurances.

Overall, we are able to provide moderate assurance that there is a sound system of internal control, designed to meet the Council's objectives and that controls are being applied consistently. In forming our view we have taken into account that:

- The majority of audits provided moderate assurance, with the key financial systems receiving substantial assurance in terms of design.
- There was a small overspend against the planned budget for 2015/16, but the Council is utilising less specific reserves than was planned and the Council has plans in place to ensure that the budget gap is addressed in future years. The Council has recognised the reduction of government funding in their future financial plans.
- Some areas of weakness have been identified through our reviews, including with risk management arrangements, and the Council is working on addressing these issues.

SUMMARY OF REPORTS

Review	Level of Assurance - Design	Level of Assurance - Effectiveness	Key Findings
Customer Services	Moderate	Moderate	We found that there is strong leadership within Customer Services and the leadership team have a clear vision for the type of customer contact centre which they want to deliver to services across the Council and the technological requirements which they will require to support the new infrastructure. The Council has acted on a number of the recommendations from the previous year, including the development of a Customer Access Strategy. However there remain concerns about whether there is adequate engagement across all services and that the business model developed should be built upon and updated to meet current resources and needs.
Planning	Limited	Limited	We found that the Planning Department was implementing the 'Modern Planning Service' programme, using increased online services and alerts to increase awareness of applications to be considered. However we found that controls over S106 contributions were weak and previous recommendations had not been implemented. As there was not a single officer with clear responsibility for managing S106, there was no one with the responsibility for monitoring the agreement of contributions with developers, collection from developers and utilisation of the contributions within the Council and by third parties.
Revenues and Benefits	Moderate	Moderate	We found that the Council has an efficient application process for Housing Benefits, Local Council Tax Support and Discretionary Housing Payments. There are online application forms for these benefits and processes are in place for provision of the material in alternative languages, as well as accommodating access requirement. However we found a lack of specified procedures in place for Single Person Discount checks, instances where the compliance checks to be undertaken in response to data matches had not been fully completed, that debt reports are not produced regularly, resulting in a lack of review or analysis of historic debt to ascertain the actions required to pursue the debt and that information retention policies following the transfer of information from Northgate and Information at Work to the Civica system have not been established.
Payroll	Moderate	Moderate	We found good practice in respect of the controls in place to ensure the data provided to Midland HR is accurate and complete, the hierarchy report is circulated on a regular basis, reminding Heads of Services of the importance of positively confirming the accuracy of the employees charged to their services and changes to pay entitlement are triggered after ensuring the accuracy of the employees' pay amendment. However we found that there had been some issues with the coding of payroll expenditure from Midland HR, resulting in reconciling differences arising and causing the completion of the reconciliations to be a time consuming process and that some of these coding issues could be resolved by providing additional information to Midland HR as part of the new starter process.

SUMMARY OF REPORTS

Review	Level of Assurance - Design	Level of Assurance - Effectiveness	Key Findings
Accounts payable	Moderate	Limited	At the time of the audit in June 2015, we found that the Finance policies, new supplier form and changes to supplier details forms were in the process of being revised. The finance procedures for key financial processes have been documented and made available to all Finance staff on the accountancy drive and that the approval of invoices for payment are made via automatic controls on the Council's e-financials system. At the time of the in June 2015, we found that although a review of all supplier information has been initiated, not all suppliers have been directly contacted to ensure their details are correct and that where changes to suppliers are made, a supplier change document should be completed, authorised, and kept with the supplier notification of change. This is now standard practice. All Finance procedures should be consolidated into procedure documents for key financial processes and a fraud policy detailing what steps to undertake in an instance where fraud maybe suspected has not been documented. Supplier changes reports, run to verify any changes to suppliers, are not always evident before a payment batch is released and there is no evidence of segregation of duties in regards to checking the reports.
Risk Management	Limited	Moderate	We found that the Council makes use of a risk management consultant from Zurich who provides Council staff with comprehensive training on how to effectively engage with risk management, the Council has a comprehensive Insurance and Risk Management Strategy and Risk Management Handbook which provides staff with guidance on a wide range of the Council's risk management procedures and that the Risk and Insurance Officer engages well with risk owners and other responsible individuals within departments to facilitate engagement with the Council's risk management procedures and to assist with ongoing maintenance of the Council's risk registers. However we found that links are not being consistently made between risks in the risk registers and the Council's strategic and operational goals, risks and the Council's risk registers are not being discussed at meetings of the Senior Management Team, the risk management policies and procedures are not clear in providing guidance on when it is appropriate to escalate or de-escalate risks between the varying levels of risk registers, the training provided by the risk management consultant from Zurich should be distributed to a wider audience within the Council to ensure everyone who could benefit from this training has the opportunity to attend a session. We have followed up recommendations from the March 2015 audit and we noted that 10 out of 12 recommendations were not yet fully implemented.

SUMMARY OF REPORTS

Review	Level of Assurance - Design	Level of Assurance - Effectiveness	Key Findings
Human Resources	Limited	Limited	We found that the Council has a contract in place with an external supplier, Midland Human Resources (MHR), to provide HR services and employs an external expert to supplement the service. However we found that the measurement of MHR's performance is insufficient, which hinders the Council's contract monitoring. Service management meetings and outstanding case discussions are not as regular or effective as they could be, which slows the resolution of service issues and case issues. Human resources policies need to be brought up to date, as they currently contain inconsistent and non-relevant information, which causes problems for management and employees using them.
Waste Income and Contract Management	Moderate	Moderate	We found that for trade waste a signed contract is required before the bins are delivered, and once delivered the operations team are informed of the new bins to be collected , brown bins require the payment to be made upfront on the online form prior to service commencement, once the payment is confirmed a bin delivery is raised on the report it system, and delivered by the operations team. Efforts have been made in recent years to improve the pricing structure to reflect the true costs of delivering the services to customers and make the pricing structure more commercial for trade waste. However we also found that there is not currently a clear vision for the future of the trade waste and brown bin services, which makes it difficult for the department to articulate their requirements for the system and process improvements required to modernise the service. There are a large number of customer queries raised regarding missed collections from reports produced by the report it system. A large amount of officer time is spent dealing with customer queries and carrying out additional ad-hoc collections. There is also a lack of information around the causes of missed collections.
Housing Systems	Moderate	Moderate	We found that following the social housing rent reforms a balanced HRA budget had been prepared and reasonable actions taken to ensure the rent decreases are offset and a reasonable surplus still achieved. A new repairs recharges policy has been in place for a number of months but only a limited number of repairs had been recharged to tenants, meaning it was not easy to identify if the policy has had the desired effect of encouraging tenants to be more responsible for their property. There is an effective task force in place to attempt to minimise the effect of claimants on Universal Credit receiving direct payments for their housing rent, as opposed to the rent being paid direct to the Council, resulting in increased rent arrears. However we also found that where a benefit claimant transfers to Universal Credit there is not a formal process for this information to be communicated from the benefits team to the housing team and that there is currently minimal awareness of and procedures in place for implementation of the forthcoming 'pay to stay' policy (charging higher rents to higher earners) which the Council will be required to administer.

SUMMARY OF REPORTS

Review	Level of Assurance - Design	Level of Assurance - Effectiveness	Key Findings
Disaster Recovery and Business Continuity Plans	Limited	Limited	We found that Business impact assessments (BIA) have been carried out by all business units and most business units have formally documented this assessment in the template provided by the Council's Business Continuity Team. The Council has an over-arching Business Continuity Plan (BCP) and each of the Council's business units have developed their individual BCPs. Progress is being made to increase the resilience of the IT infrastructure to ensure availability in an emergency situation. A Gold Command Team and a Crisis Management Team has been identified to take charge in the event of a major incident. Communication plans have been documented so that the appropriate people can be contacted as and when required. Priorities in terms of staff, systems and processes have been defined as part of the over-arching and individual BCPs. A work program has been created to define timelines for completion of different activities including monitoring and testing of the plans to ensure that the Council is as prepared as can be, in the event of a major incident. However we also found that whilst BIA was conducted to prepare BCPs, not all services have formally documented their assessment. No formal assessment of Recovery Time Objectives (RTOs) and Recovery Point Objectives (RPOs) have been carried out. An IT disaster recovery plan has not been formally prepared. There has been no testing of the BCP due to management awaiting the completion of the individual business continuity plans for all the units. It was noted that some services plans did not have an updated list with all staff's contact details. We were unable to obtain the contract with the Brentwood Centre for provision of an alternative site in the event of a major incident as identified in the BCP. The contents of battle boxes are not in line with the BCP requirements.

KEY PERFORMANCE INDICATORS

Key Performance Indicators

Diagram 1 shows the current status of internal audit reports, as is also reported in the table on page 3. The total days are in line with the budget.

Diagram 2 shows the average days from the end of our fieldwork to the issue of the draft report; as well as the average amount of days for the receipt of management responses. Both are within the overall target of 3 weeks.
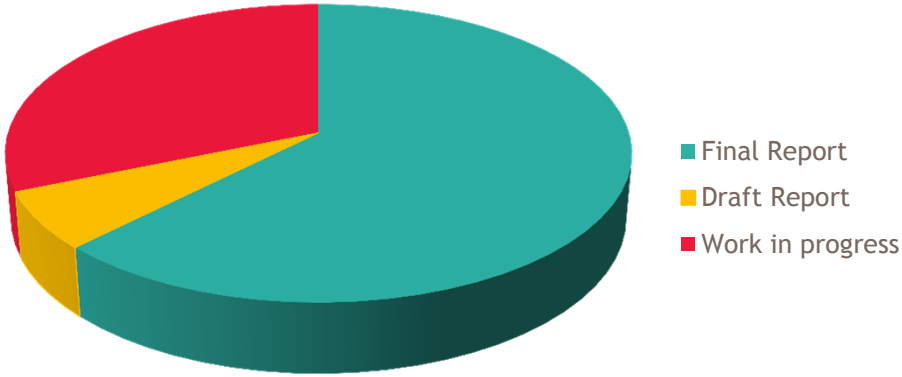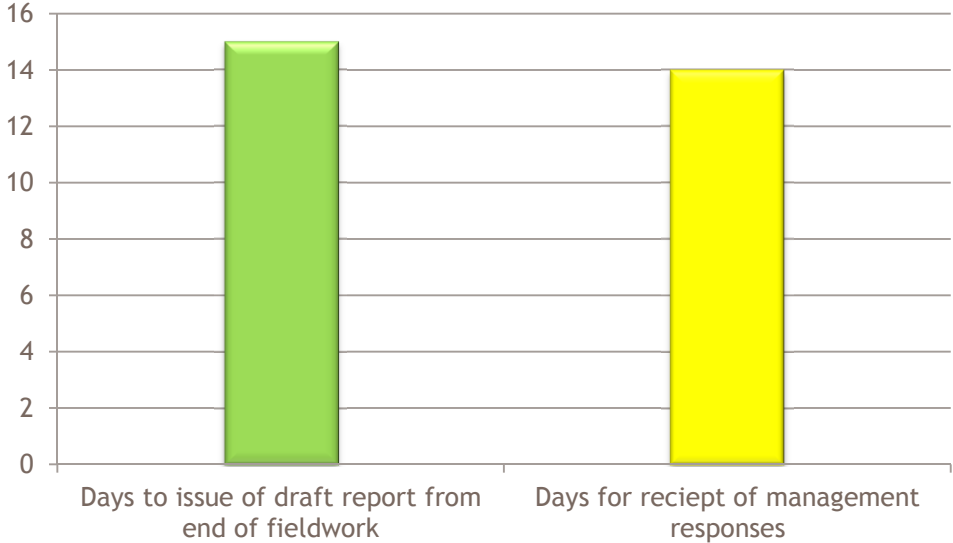
Diagram 1

- Final Report
- Draft Report
- Work in progress

Diagram 2

Days to issue of draft report from end of fieldwork	Days for reciept of management responses

CONTRACTUAL KEY PERFORMANCE INDICATORS

Quality Assurance	Detail on KPI's	RAG Rating 2015-16
• High quality documents produced by the auditor that are clear and concise and contain all the information requested.	Feedback from management indicates that the internal audit reports provide the information required and make recommendations that address the issues identified.	🟩
• Frequent communication to the customer of the latest mandatory audit standards and professional standards prescribed by the main accountancy bodies.	Sector updates are provided within the Audit Committee progress report, as appropriate.	🟩
Reporting Arrangements		
• The auditor attends the necessary, meetings as agreed between the parties at the start of the contract	All meetings attended including Audit Committee meetings, pre-meetings, individual audit meetings and contract reviews.	🟩
• Information is presented in the format requested by the customer.	BDO Progress report format updated to provide the level of detail requested by Members.	🟩
Audit Protocol		
• Audits carry out the contract in a timely, professional manner, measured by feedback from the customer.	Feedback from management indicates that audits are carried out in accordance with their expectations.	🟩
• External audit can rely on the work undertaken by internal audit (where planned)	External audit are not reviewing the work of internal audit for this financial year.	N/A

APPENDIX I - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
Substantial	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
Limited	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

Recommendation Significance	
High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.

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