

Brentwood Borough Council

INTERNAL AUDIT PROGRESS REPORT

November 2016



CONTENTS

Introduction	3
Progress against 2016/17 internal audit plan since previous Committee	4
Progress against 2016/17 internal audit plan	5
Appendices:	
I: Definitions of assurance	8
II: Executive Summary - Local Development Plan	9
III: Executive Summary - Affordable Housing	10
IV: Executive Summary - Income Generation and Commercialisation	11
V: Executive Summary - Contract Management and Procurement	13

INTRODUCTION

Internal Audit

This report is intended to inform the Audit and Scrutiny Committee of progress made against the 2016/17 internal audit plan which was approved by this Committee in March 2016. It summarises the work we have done, together with our assessment of the systems reviewed and the recommendations we have raised. Our work complies with Public Sector Internal Audit Standards. As part of our audit approach, we have agreed terms of reference for each piece of work with the risk owner, identifying the headline and sub-risks which have been covered as part of the assignment. This approach is designed to enable us to give assurance on the risk management and internal control processes in place to mitigate the risks identified.

Internal Audit Methodology

Our methodology is based on four assurance levels in respect of our overall conclusion as to the design and operational effectiveness of controls within the system reviewed. The assurance levels are set out in section 2 of this report, and are based on us giving either "substantial", "moderate", "limited" or "no". The four assurance levels are designed to ensure that the opinion given does not gravitate to a "satisfactory" or middle band grading. Under any system we are required to make a judgement when making our overall assessment.

Work outside of the Internal Audit Plan

No additional work has taken place.

Overview of 2016/17 work to date

See page 4 for details of the audits completed since the previous Audit and Scrutiny Committee.

The 2016/17 work is progressing in line with expectations.

PROGRESS SINCE SEPTEMBER 2016 AUDIT AND SCRUTINY COMMITTEE

Area	No. of days	Head of Service Responsible	Assurance - System Design	Assurance - Operating Effectiveness	No. of High priority recommendations	No. of Medium priority recommendations	No. of Low priority recommendations	Ref to Executive Summary
Local Development Plan	15	Phil Drane	Moderate	Moderate		3		Appendix II
Affordable Housing	15	Angela Williams	Moderate	Moderate		4		Appendix III
Commercialisation and Cost Saving	30	Leona Murray-Green	N/A	N/A				Appendix IV
Contract Management and Procurement	20	Jane Mitchell	Moderate	Limited	3	6		Appendix V

PROGRESS AGAINST 2016/17 PLAN

Area	2016/17 days	Date work to be undertaken	Progress Update	Assurance - System Design	Assurance - Operating Effectiveness
Environment and Housing					
Housing	20	Q4			
	20				
Community and Health					
No 2016/17 audits					
	0				
Economic Development					
Capital projects	0	Q3	Removed from plan at request of Council and replaced with Housing Benefit Subsidy review.		
	0				
Planning and Licensing					
Local Development Plan	15	Q4			
Licensing	20	Q2	Final	Moderate	Moderate
	35				

PROGRESS AGAINST 2016/17 PLAN

Area	2016/17 days	Date work to be undertaken	Progress Update	Assurance - System Design	Assurance - Operating Effectiveness
Transformation					
Financial systems	40	Q4			
Risk Management and Governance	10	Q4			
Customer Services	10	Q3			
Commercialisation and cost savings	30	Q2	Final	N/A	N/A
Policy review	10	Q1	Final	Substantial	Moderate
Contract Management and Procurement	20	Q2	Final	Moderate	Limited
Cyber Security	15	Q3			
IT Security and Governance	20	Q3			
Housing Benefit Subsidy	15	Q3	Work in progress		
Counter Fraud **	20	On-going	On-going		
	175				

** - delivery of awareness training

PROGRESS AGAINST 2016/17 PLAN

Area	2016/17 days	Date work to be undertaken	Progress Update	Assurance - System Design	Assurance - Operating Effectiveness
Planning, Reporting, Follow-up and Contingency					
Planning/ liaison/ management	20	Ongoing arrangement of audits and liaison with management			
Recommendation follow up	10	Work in progress - update report to be brought to the Audit and Scrutiny Committee meeting on 23 January 2017			
Contingency (additional audits to be agreed with the Finance Director)	25				
Total	55				
Total	300				

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.

APPENDIX II - LOCAL DEVELOPMENT PLAN

BRENTWOOD BOROUGH COUNCIL STRATEGIC OBJECTIVE THIS RELATES TO

Implement a planning framework to guide and enable infrastructure delivery
Set planning policy that supports sustainable development

LEVEL OF ASSURANCE (SEE APPENDIX I FOR DEFINITIONS)

Design	Moderate	Generally a sound system of internal control designed to achieve system objectives with some exceptions.
Effectiveness	Moderate	Evidence of non compliance with some controls, that may put some of the system objectives at risk.

SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II FOR DEFINITIONS)

High	
Medium	3
Low	

Total number of recommendations: 3

OVERVIEW

Background

The purpose of our review was to provide assurance that appropriate arrangements are in place and operating effectively in relation to the preparation of the new Local Development Plan (LDP). We reviewed the planned timetable and resource arrangements for the implementation of the LDP, and ensured the draft plan included appropriate requirements relating to the Duty to Cooperate as set out in the Planning Practice Guidance. See Appendix III for the agreed scope which provides greater detail on our approach to this review.

During the review we noted the following areas of good practice:

- The Planning team are aware of their responsibilities and have an action plan for the completion and implementation of the LDP
- The draft LDP recognises the Council's Duty to Cooperate requirements
- There is strong alignment between Corporate Objectives and the draft LDP

However we also found the following areas for improvement:

- Need to allocate work fairly across the planning team to help ease the pressure caused by the departure of the Head of Planning (Finding 1 - Medium)
- The current draft LDP uses data from an outdated version of the SHMA (Finding 2 - Medium)
- Local Development Scheme should be updated showing the latest version of the proposed timetable (Finding 3 - Medium)

Conclusion

Overall we have issued three findings and recommendations relating to the Council's arrangements for the completion of the LDP, made up of three medium priority recommendations. The Council has a generally sound system for the completion and implementation of the LDP, although weaknesses were identified in the draft not reflecting the latest statistics from the SHMA and an outdated timetable in the policies, leading to substantial assurance over the control design and moderate assurance over the control effectiveness.

APPENDIX III - AFFORDABLE HOUSING

BRENTWOOD BOROUGH COUNCIL STRATEGIC OBJECTIVE THIS RELATES TO

Implement a planning framework to guide and enable infrastructure delivery
Set planning policy that supports sustainable development

LEVEL OF ASSURANCE (SEE APPENDIX II FOR DEFINITIONS)

Design	Moderate	Generally a sound system of internal control designed to achieve system objectives with some exceptions.
Effectiveness	Moderate	Evidence of non compliance with some controls, that may put some of the system objectives at risk.

SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II FOR DEFINITIONS)

High	
Medium	4
Low	

Total number of recommendations: 4

OVERVIEW

Background

The purpose of our review was to assess how effectively the Council is managing its strategy around provision of social housing and developing the private rented sector to provide suitable and adequate affordable housing for the needs of the Borough. See appendix III for the agreed scope which provides greater detail on our approach to this review.

The Council are currently in the process of developing a new three year Housing Strategy 2017 - 2020. We conducted interviews to assess the Council's progress on development and implementation of the Housing Strategy and an Affordable Housing (AH) plan.

During the review we noted the following areas of good practice:

- There is a rents policy which covers Affordable Rents
- The Council have a Strategic Housing Needs Assessment, and also a recent Strategic Housing Market Assessment (SHMA) 2016 which quantifies the need for affordable housing in the borough, demonstrating an understanding of the need.

However we also found the following areas for improvement and have made recommendations to:

- Implement an Affordable Housing plan that is informed by the Housing Strategy (Finding 1 - Medium)
- Set achievable targets for the delivery of affordable housing informed by the assessed need (Finding 1 - Medium)
- Measure and report performance against needs and targets (Finding 1 - Medium)
- Align the Affordable Housing plans and targets with the Local Development Plan (LDP) (Finding 2 - Low)

Conclusion

Overall we have issued four recommendations relating to the Council's arrangements for the management of affordable housing, made up of three medium and one low priority recommendations. Our review found that the Council do not have an up to date Affordable Housing plan, but intend to implement one once the Housing Strategy has been finalised in December 2016.

APPENDIX IV - INCOME GENERATION

OVERVIEW

BDO recently completed a review of income generation opportunities for the Council.

Two reports were issued for the review:

- Large opportunities analysis report - evaluated the commercial potential, financial viability, investment requirement and strategic fit of income generation opportunities above an agreed threshold (gross income of £20,000);
- Small opportunities analysis report - provided a lighter touch review of smaller opportunities (below the agreed threshold) using high-level benchmarking.

Large Opportunities Analysis Report

Additional net income (compared to 2015/16 baseline) £000's

	2016/17	2017/18	2018/19	2019/20	2020/21
Garden waste (through increasing subscriptions and pricing)	0	62	38	134	230
Cemeteries (through increasing prices)	0	26	46	46	46
Community alarms (through increasing subscriptions and pricing)	0	70	91	91	91
Total	0	158	175	271	367

Furthermore, the report reviewed two opportunities which did not indicate potential to generate additional net income. These were:

- Increasing either the price or number of subscribers to the Council's trade waste service. Benchmarking indicated that both pricing and subscriber numbers were at appropriate levels and therefore investing resource in growing the income generated by this service should not be a priority (especially given the more viable opportunities listed above).
- Building a council-owned crematorium. This indicated a potential net loss of c. £26,000 per annum once capital costs are taken into account. Therefore the review does not recommend that the Council pursues this opportunity at this time.

APPENDIX IV - INCOME GENERATION

The report also highlighted the potential to increase in-year collection rates for National Non-Domestic Rates (NNDR) and convert a portion of the Brentwood multi-story car park to low-cost season ticket parking. The Council did not supply the necessary information to provide an indicative additional net income figure for each of these opportunities. However the report highlighted a series of next steps the Council should take to quantify this potential additional income.

The small opportunities report reviewed the following opportunities and allocated them a RAG (red, amber or green) rating, with red being the least viable options and green being the most viable.

Small Opportunities Analysis Report	
Opportunity	RAG rating
Increase pre-application planning fee charges	Red
Develop a commercially traded pest control service	Amber

APPENDIX V - CONTRACT MANAGEMENT AND PROCUREMENT

BRENTWOOD BC STRATEGIC OBJECTIVE THIS RELATES TO		SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II FOR DEFINITIONS)	
Explore alternative methods of service delivery, including shared services and outsourcing		High	3
LEVEL OF ASSURANCE (SEE APPENDIX II FOR DEFINITIONS)		Medium	6
Design	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	Low	
Effectiveness	Evidence of non compliance with some controls, that may put some of the system objectives at risk.	Total number of recommendations: 9	

OVERVIEW

Background

The purpose of this review was to consider the design and effectiveness of the controls in place around contract management and procurement to highlight any areas where the controls might be improved. We identified the following key findings:

Good Practice


- Current processes have been improved with controls tightened since the new Procurement Officer has been in place
- Awareness and use of the Procurement function is increasing
- A strategic consultancy service has recently been employed to help review and improve current procurement functions, leading to the development of a formal Procurement Strategy.

Key areas for improvement

- Contracts are not held in a central location with contract managers not always aware of where these are and how much the contract is worth
- Documentation involved in the procurement of contracts is not always retained to provide evidence of appropriate justification
- Contracts are not always in place for services provided, despite payments being made by the Council, in one case to a poorly performing supplier
- Determination of ongoing contract management arrangements and key performance indicators should form part of the procurement process.

Conclusion

We have raised nine recommendations relating to the procurement and management of contracts, including three high level and six medium level recommendations. Our review found that there is scope for improving the implementation of the Council's controls, leading to a final assessment of moderate assurance over control design and limited assurance over control effectiveness.



The proposal contained in this document is made by BDO LLP ("BDO") and is in all respects subject to the negotiation, agreement and signing of a specific contract. It contains information that is commercially sensitive to BDO, which is being disclosed to you in confidence and is not to be disclosed to any third party without the written consent of BDO. Client names and statistics quoted in this proposal include clients of BDO and BDO International.

BDO LLP, a UK limited liability partnership registered in England and Wales under number OC305127, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. A list of members' names is open to inspection at our registered office, 55 Baker Street, London W1U 7EU. BDO LLP is authorised and regulated by the Financial Conduct Authority to conduct investment business.

BDO is the brand name of the BDO network and for each of the BDO Member Firms.

BDO Northern Ireland, a partnership formed in and under the laws of Northern Ireland, is licensed to operate within the international BDO network of independent member firms.

Copyright ©2016 BDO LLP. All rights reserved.

www.bdo.co.uk

