

Brentwood Borough Council

INTERNAL AUDIT PROGRESS REPORT

June 2017



CONTENTS

| | |
|---|----|
| Introduction | 3 |
| Progress against 2016/17 internal audit plan since previous Committee | 4 |
| Progress against 2016/17 internal audit plan | 5 |
| Progress against 2017/18 internal audit plan | 8 |
| Appendices: | |
| I: Definitions of assurance | 10 |
| II: Executive Summary - Local Development Plan | 11 |
| III: Executive Summary - Revenues and Benefits Shared Service and Housing Benefit Subsidy | 12 |
| IV: Executive Summary - Housing | 13 |

INTRODUCTION

Internal Audit

This report is intended to inform the Audit Committee of progress made against the 2016/17 internal audit plan which was approved by the Audit, Scrutiny and Transformation 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 has been completed except where audits have been deferred at the request of management.

PROGRESS SINCE MARCH 2017 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 | | 4 | | Appendix II |
| Revenues and Benefits Shared Service and Housing Benefit Subsidy | 15 | John Chance | Limited | Limited | 2 | 1 | 1 | Appendix III |
| Housing Services | 20 | Angela Williams | Limited | Limited | 3 | 7 | 2 | Appendix IV |

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 | Draft report issued 8 June 2017 | Limited | Limited |
| | 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 | Final | Moderate | Moderate |
| 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 | Reporting to be completed June 2017 | | |
| Risk Management and Governance | 10 | Q4 | Final | Moderate | Moderate |
| Customer Services | 10 | Q3 | Deferred at request of management - planned to take place in November | | |
| 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 | Deferred at request of management - planned to take place in November | | |
| IT Security and Governance | 20 | Q3 | Deferred at request of management - planned to take place in November | | |
| Revenues and Benefits Shared Service and Housing Benefit Subsidy | 15 | Q3 | Draft report issued 6 April 2017 | Limited | Limited |
| Counter Fraud ** | 20 | Ongoing | Complete | | |
| | 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 | Ongoing follow up | | | |
| Contingency | 25 | Utilised in extra work required on Revenues and Benefits Shared Service and Housing Benefit Subsidy, Housing and Contract Management and Procurement audits | | | |
| Total | 55 | | | | |
| Total | 300 | | | | |

PROGRESS AGAINST 2017/18 PLAN

| Area | 2017/18 days | Date work to be undertaken | Progress Update | Assurance - System Design | Assurance - Operating Effectiveness |
|--|--------------|----------------------------|----------------------------------|---------------------------|-------------------------------------|
| Transformation | | | | | |
| Main Financial Systems | 40 | Q4 | | | |
| Risk Management and Governance Arrangements | 10 | Q4 | | | |
| Housing Benefits - shared service | 10 | Q3 | | | |
| Financial planning and budget monitoring | 15 | Q2 - July 2017 | | | |
| Customer service | 10 | Q4 | | | |
| Minimum Reserve Level | 10 | Q2 - August 2017 | | | |
| Insurance | 10 | Q1 - June 2017 | Fieldwork commenced 19 June 2017 | | |
| Disaster recovery, business continuity & IT Transformation | 25 | Q4 | | | |
| Counter fraud | 20 | Q3 | | | |
| | 150 | | | | |

PROGRESS AGAINST 2017/18 PLAN

| Area | 2017/18 days | Date work to be undertaken | Progress Update | Assurance - System Design | Assurance - Operating Effectiveness |
|---------------------------------------|--------------|------------------------------|-----------------|---------------------------|-------------------------------------|
| Community and Health | | | | | |
| Partnerships | 20 | Q2 - August 2017 | | | |
| Parking strategy & Payment Collection | 20 | Q4 | | | |
| Community Halls Viability | 15 | Q2 - August / September 2017 | | | |
| | 55 | | | | |

| Area | 2017/18 days | Date work to be undertaken | Progress Update | Assurance - System Design | Assurance - Operating Effectiveness |
|--------------------------------|--------------|------------------------------|-----------------|---------------------------|-------------------------------------|
| Environment and Housing | | | | | |
| Housing | 20 | Q1/Q2 - June / July 2017 | | | |
| Environment | 15 | Q2 - August / September 2017 | | | |
| | 35 | | | | |

| Area | 2017/18 days | Date work to be undertaken | Progress Update | Assurance - System Design | Assurance - Operating Effectiveness |
|-----------------------------|--------------|----------------------------|-----------------|---------------------------|-------------------------------------|
| Economic Development | | | | | |
| Capital Projects | 15 | Q3 | | | |
| | 15 | | | | |

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 VISION

| | |
|------|---|
| Risk | The Council does not have a Local Development Plan in place to manage change in the Borough for the next 15 years |
|------|---|

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

The purpose of our review was to assess the project management, planned timetable and resources in place for the preparation of the new Local Development Plan, including arrangements in place for joint strategic needs assessments and how the Local Development Plan will assist with the invigoration of the local economy, including by attracting inward investment.

Good Practice

- A number of consultations have been undertaken, with further planned, to ensure all relevant stakeholders have had an opportunity to comment on, or object to, the Draft Local Development Plan
- Through ongoing legal counsel, the Council are able to ensure best practice is undertaken with regards to issues identified by other Councils.

Key Findings

- The timetable for implementation of the Local Development Plan is not routinely discussed and monitored with members of the Planning Team
- Risks contained within the Local Development Scheme are not up-to-date, monitored or reviewed
- Documentation such as the Statement of Community Involvement is not up-to-date with further information able to be included to ensure full public awareness
- As part of our work we have followed up the recommendations on the LDP from our previous report. The deadline for implementation had not been reached at the time of our work but overall progress was satisfactory in most cases. However, little progress could be evidenced about the department restructure that is required to better allocate resources following the departure of the Head of Planning.

Overall we have raised four medium recommendations relating to the Council's management of the development of the LDP. Our review found that there is room for improving the Council's controls, but with no areas of significant concern, and that there were no major instances of non compliance with the current controls, leading to a final assessment of moderate assurance over the control design and moderate assurance over the control effectiveness.

APPENDIX III - REVENUES AND BENEFITS SHARED SERVICE AND HOUSING BENEFIT SUBSIDY

BRENTWOOD BOROUGH COUNCIL VISION

Provide more modern and effective customer services

LEVEL OF ASSURANCE (SEE APPENDIX II FOR DEFINITIONS)

Design **Limited** System of internal controls is weakened with system objectives at risk of not being achieved.

Effectiveness **Limited** Non-compliance with key procedures and controls places the system objectives at risk.

SUMMARY OF RECOMMENDATIONS

High  2

Medium  1

Low  1

Total number of recommendations: 4

OVERVIEW

A shared service arrangement between Basildon and Brentwood Borough Councils, for the provision of a Housing Benefits service, has been phased in as follows:

- February 2016 Brentwood converted to the Civica subsidy system used by Basildon
- January 2017 planned relocation date of Brentwood's back office benefits function to Basildon, including TUPE transfer of employees, although this was postponed until April 2017
- Renegotiation of employment contracts for employees within the shared service will follow the TUPE transfer to Basildon in 2017.

We have reviewed risks associated with this phased shared service implementation, against a scope agreed with the Council, as is reported in the terms of reference at Appendix III.

During the review discussions were held with the Revenues & Benefits Shared Services Manager, Billing and Benefits Shared Services Manager and the shared service's Subsidy Officer. Our discussions with the above individuals were used to obtain details on issues experienced in relation to the risks identified in the terms of reference and to obtain information about controls that may be in place to mitigate those risks.

Our review found the following underlying areas for improvement or development:

- The Council has not routinely reviewed the level of housing benefit subsidy due compared to the housing benefits paid. This reduces the Council's control over its subsidy claim, makes it more difficult to resolve issues that may have existed throughout a subsidy period and, during 2016, contributed toward the initial submission of a subsidy claim with significant overlooked calculation issues
- Governance and planning for key phases of the shared service implementation has been insufficient, has not been adequately recorded and also contributed to the need for a late postponement of the service relocation and TUPE transfer of employees
- Information regarding procedures used to transfer payment files between Basildon and Brentwood has not been provided for audit despite regular requests and agreement by management to do so. This may indicate the cause of issues experienced with file transfers during 2016, however we are unable to conclude with any certainty without having reviewed the requested information.

APPENDIX IV - HOUSING




BRENTWOOD BOROUGH COUNCIL VISION

Review the future delivery of housing services to provide the best outcomes for Brentwood residents

LEVEL OF ASSURANCE (SEE APPENDIX II FOR DEFINITIONS)

| | | |
|---------------|---------|--|
| Design | Limited | System of internal controls is weakened with system objectives at risk of not being achieved |
| Effectiveness | Limited | Non-compliance with key procedures and controls places the system objectives at risk |

SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II FOR DEFINITIONS)

| | | |
|--|---|---|
| High |  | 3 |
| Medium |  | 7 |
| Low |  | 2 |
| Total number of recommendations: 12 | | |

OVERVIEW

Council Housing stock, as at the 31 March 2016, was: 1,159 flats, 1,320 houses and bungalows, and 7 equity share properties, and the Council has recognised an increasing demand for social housing. In 2015/16 the Council spent £5.3m on Housing of which £2.9m was expenditure on repairs and maintenance. Our review considered the adequacy of arrangements relating to Housing stock (due diligence checks and fraud prevention, debt recovery and compliance checks), Right to Buy (governance, checks on qualifying criteria, valuations and tenant advice) Housing maintenance contractual arrangements and Leaseholder Service Charge accounts (apportionment and billing).

From our review, we noted the following areas of good practice:

- Pre-tenancy, home seeker and transfer applicant checklists are used to ensure required due diligence checks are made on applicants, and photographs of applicants are obtained as part of the application process and retained with the tenant files
- There is a fraud referral process, with online forms being directed to the Council's Fraud Officer
- The Housing Team maintain oversight of current tenant arrears, and have made adjustments expected to improve recovery.

However, we also noted the following areas of improvement:

- Fraud risk awareness varied amongst staff. Staff did not make best use of the information available to them to detect potential fraud and the copying of documents provided by tenants was not made with consideration of fraud risks (Finding 1 - High)
- Although Compliance checks were undertaken by the contractor providing remedial works, the Council has not had access to Compliance certificates for the majority of its housing stock. There were no protocols for ensuring the contractor ceased to provide checks on sold properties, or that these checks were recharged for leaseholder properties, and some compliance checks were reported to have not been carried out at all, or performed less frequently than required (Finding 2 - High)
- Contract management has not been effective through the life of the Housing Contracts, and contractors have not complied with key requirements (Finding 3 - High)
- Tenancy checks and audits are not regularly undertaken on all tenants (Finding 4 - Medium)
- Former tenant arrears are not subject to current recovery action, and management information for arrears and aged debts could be improved (Finding 5 - Medium)


APPENDIX IV - HOUSING

OVERVIEW

Continued:

- There were inconsistencies in records of Right to Buy applications (between a spreadsheet record and the Housing Management system) (Finding 6 - Medium)
- Evidence of appropriate checks on Right to Buy applications did not exist for all applications (Finding 7 - Medium)
- Valuations for Right to Buy sales do not include identity checks on tenants (Finding 8 - Medium)
- Tenancy agreements could not be located for some tenancies, there were discrepancies in the upload of information on charging for leaseholder properties and records did not enable reconciliation of total service charges and allocation of those charges (Finding 9 - Medium)
- Records are not maintained of details of surveys and inspections carried out to review contractor inspection reports and work requirements, or of tests conducted by Council staff and there is no system for ensuring queries are resolved (Finding 10 - Medium)

We have issued 3 High, and 7 Medium priority findings, and have issued an opinion of Limited for both the design and the effectiveness of the Housing systems, reflecting that whilst there are some areas of good practice, there were also areas of weakness and opportunities for improvement to be developed, such as fraud prevention and detection (in various areas), contract management, arrears recovery, leasehold charges and records of inspections and surveys.



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 ©2017 BDO LLP. All rights reserved.

www.bdo.co.uk

