

Brentwood Borough Council

INTERNAL AUDIT ANNUAL REPORT

June 2017



CONTENTS

Executive Summary	3
Summary of audit reports	4
Recommendations and assurance dashboard	9
Key performance indicators	10
Appendices:	
Definitions of assurance	12

EXECUTIVE SUMMARY

Internal Audit 2016/17

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:

Contract Management and Procurement (Final report)	Revenues and Benefits Shared Service and Housing Benefit Subsidy (Draft report)
Local Development Plan (Final report)	Policy Review (Final report)
Licensing (Final report)	Housing (Draft report)
Risk Management (Final report)	Counter Fraud (Training and liaison, no report)
Commercialisation and cost savings (Final report)	Follow up of previous recommendations

We have detailed the opinions of each report and key findings on pages 4 to 9.

Our internal audit work to cover the 12 month period from 1 April 2016 to 31 March 2017 was carried out in accordance with the internal audit plan approved by management and the Audit, Scrutiny and Transformation Committee in March 2016. 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 Customer Services, Cyber Security and IT Security and Governance that have been deferred to later in the year at the request of management and the Financial systems review that is 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 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 Policy Review receiving substantial assurance in terms of design.
- There was a small underspend against the planned budget for 2016/17, the Council has increased the value of earmarked reserves and the Council has recognised the budget gap in future years and has plans in place to ensure that it is addressed. The Council has recognised the reduction of government funding in future financial plans.
- Some areas of weakness have been identified through our reviews, including within housing and revenues and benefits arrangements, and the Council is working on addressing these issues.

SUMMARY OF REPORTS

Review	Level of Assurance - Design	Level of Assurance - Effectiveness	Key Findings
Contract Management and Procurement	Moderate	Limited	<p>Good Practice</p> <ul style="list-style-type: none"> • Current processes have been improved with controls tightened since the new Procurement Officer has been in place • Developments have begun to bring more activity within the work undertaken utilising Procurement, to ensure full awareness of procurement activities across the Council • 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. <p>Key areas for improvement</p> <ul style="list-style-type: none"> • 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
Local Development Plan	Moderate	Moderate	<p>Good Practice</p> <ul style="list-style-type: none"> • 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. <p>Key areas for improvement</p> <ul style="list-style-type: none"> • 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.

SUMMARY OF REPORTS

Review	Level of Assurance - Design	Level of Assurance - Effectiveness	Key Findings
Licensing	Moderate	Moderate	<p>Good Practice</p> <ul style="list-style-type: none"> • Fee structures are in line with legislative requirements and are appropriately and fully discussed and authorised by Members • The Principal Licensing Officer maintains up to date knowledge of both legislative and case law developments within the licensing regime. <p>Key areas for improvement</p> <ul style="list-style-type: none"> • Policies and Procedures do not cover all aspects of the work completed by the Licensing Team and are not updated regularly • The Licensing Register which is required by law is not operating effectively on the Council's website • The team do not share knowledge and expertise, so are reliant on individuals • Licensing awards are not formally reviewed and authorised by a senior officer. We found small errors in the length of award and amounts quoted.
Commercialisation and Cost Savings	N/A	N/A	We reviewed management's plans to generate additional income for the Council and made some suggestions for areas of activity that could be considered by officers and then presented to members for their final decision.

SUMMARY OF REPORTS

Review	Level of Assurance - Design	Level of Assurance - Effectiveness	Key Findings
Risk Management	Moderate	Moderate	<p>Good Practice</p> <ul style="list-style-type: none"> The Council makes use of a risk management consultant from Zurich who provides those Council staff with specific risk management responsibilities 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 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. Links are now being made between risks in the risk registers and the Council's strategic and operational goals. <p>Key areas for improvement</p> <ul style="list-style-type: none"> The Strategic Risk Register summary sheet that is reported to the Audit & Scrutiny Committee could be improved to provide increased clarity to Members about what the risks are and how they are being managed 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 A number of concerns have been identified with the Council's operational risk registers including the following: <ul style="list-style-type: none"> A lack of target scores for risks to be mitigated down to Inadequately detailed descriptions of risks A lack of identified controls where risks have not been accepted at the current level Inadequately detailed descriptions of controls The risk management policies and procedures do not assign an appropriate level of responsibility for managing risks within the Council's individual departments We have followed up recommendations from the May 2016 audit and we noted that 3 out of 6 recommendations were not fully implemented as of this audit fieldwork date. These are reflected in the findings above.

SUMMARY OF REPORTS

Review	Level of Assurance - Design	Level of Assurance - Effectiveness	Key Findings
Revenues and Benefits Shared Service and Housing Benefit Subsidy	Limited	Limited	<p>Key areas for improvement</p> <ul style="list-style-type: none"> 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 been provided with the requested information.
Policy Review	Substantial	Moderate	<p>Good practice</p> <ul style="list-style-type: none"> Committee authorisation had been provided for key policies, plans and strategies that were operated by the Council The Council has policies and procedures supporting reporting of non-compliance, including a whistleblowing policy, a comments and complaints procedure, a fraud officer and fraud reporting templates The Council structure includes functions with responsibility for overseeing compliance with policies, strategies and plans, including Finance, Human Resources and Information Technology. <p>Key areas for improvement</p> <ul style="list-style-type: none"> Some strategies policies and plans identified by the Council as key for the delivery of its Vision goals and objectives were not located, appeared to be due for review, or were in the process of being prepared or updated Responsibility for the maintenance of some key strategies, policies or plans, as identified on the Council's intranet, had not been updated to reflect staff movement or structural change.

SUMMARY OF REPORTS

Review	Level of Assurance - Design	Level of Assurance - Effectiveness	Key Findings
Housing	Limited	Limited	<p>Good practice</p> <ul style="list-style-type: none"> • 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. <p>Key areas for improvement</p> <ul style="list-style-type: none"> • 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 • 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 • Contract management has not been effective through the life of the Housing Contracts, and contractors have not complied with key requirements • Tenancy checks and audits are not regularly undertaken on all tenants • Former tenant arrears are not subject to current recovery action, and management information for arrears and aged debts could be improved • There were inconsistencies in records of Right to Buy applications (between a spreadsheet record and the Housing Management system) • Evidence of appropriate checks on Right to Buy applications did not exist for all applications • Valuations for Right to Buy sales do not include identity checks on tenants • 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 • 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.

RECOMMENDATIONS AND ASSURANCE DASHBOARD

The number of recommendations raised and their significance in 2016/17 compared to 2015/16 are set out below, along with the number of overall opinion ratings on both the design and operational effectiveness of the controls operating over the areas we have reviewed.

Diagram 1 shows number of recommendations and their priority for 2015/16 and 2016/17.

Diagram 2 shows the level of assurance provided over the control design for 2015/16 and 2016/17

Diagram 3 shows the level of assurance provided over the control effectiveness for 2015/16 and 2016/17

Diagram 1: 2015/16 Recommendations

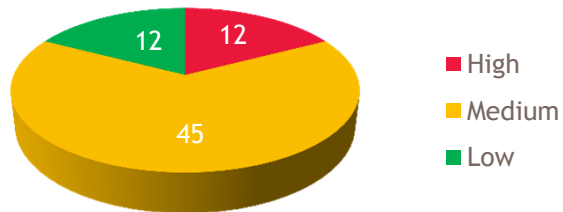


Diagram 1: 2016/17 Recommendations

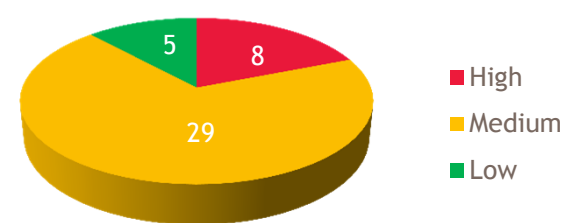


Diagram 2: 2015/16 Levels of assurance - control design

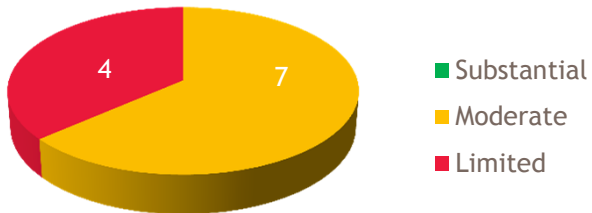


Diagram 2: 2016/17 Levels of assurance - control design

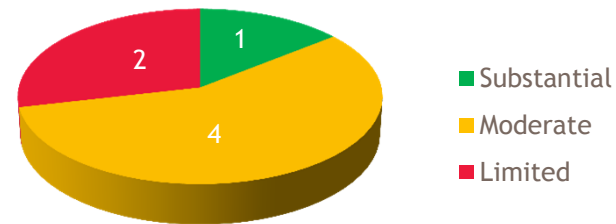


Diagram 3: 2015/16 Levels of assurance - control effectiveness

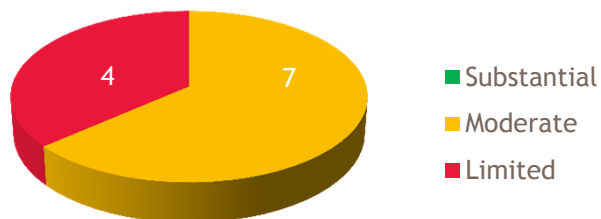
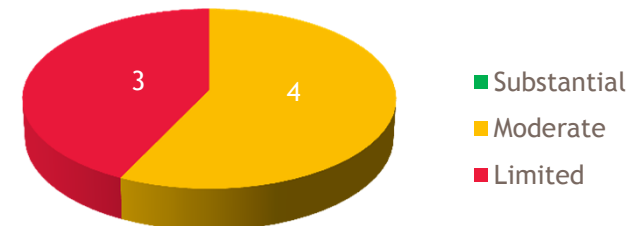


Diagram 3: 2016/17 Levels of assurance - control effectiveness



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

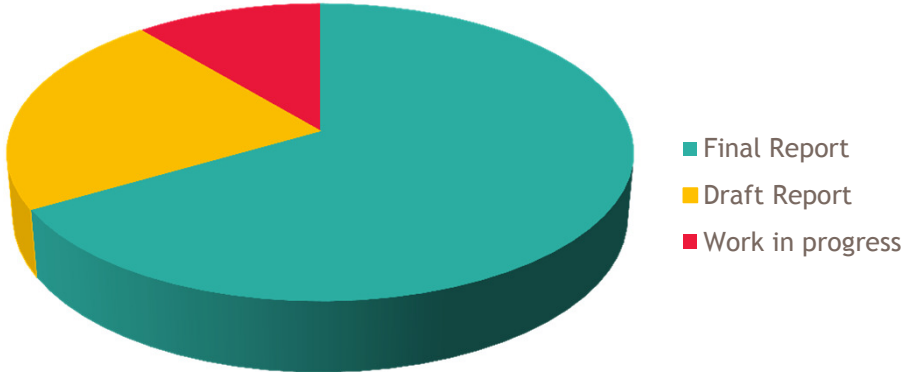
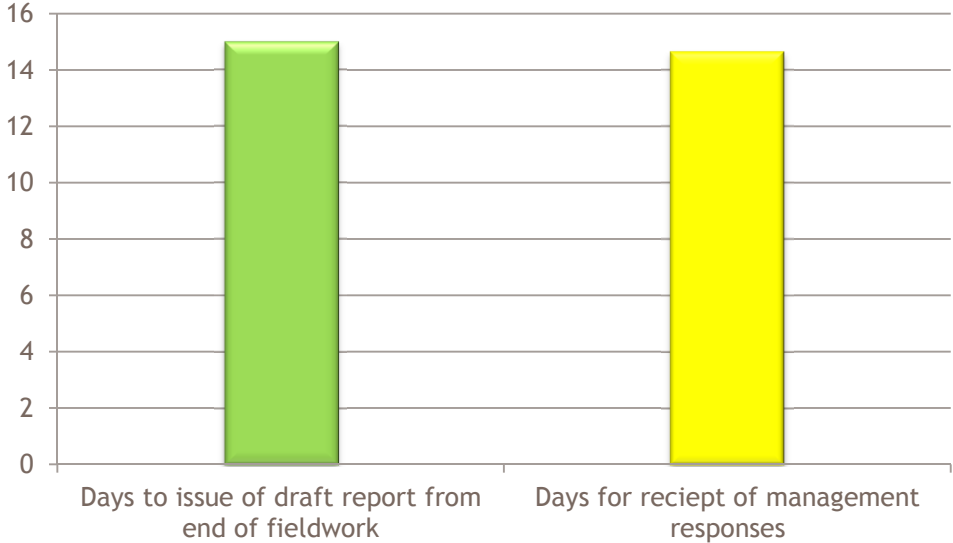







Diagram 2




CONTRACTUAL KEY PERFORMANCE INDICATORS

<i>Quality Assurance</i>	<i>Detail on KPI's</i>	<i>RAG Rating 2016-17</i>
<ul style="list-style-type: none"> 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.	
<ul style="list-style-type: none"> 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 reports, as appropriate.	
<i>Reporting Arrangements</i>		
<ul style="list-style-type: none"> 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.	
<ul style="list-style-type: none"> Information is presented in the format requested by the customer. 	BDO Progress report format updated to provide the level of detail requested by Members.	
<i>Audit Protocol</i>		
<ul style="list-style-type: none"> 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.	
<ul style="list-style-type: none"> 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.



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.

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