

Brentwood Borough Council

INTERNAL AUDIT PROGRESS REPORT

September 2017



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INTRODUCTION

Internal Audit

This report is intended to inform the Audit Committee of progress made against the approved internal audit plans for 2016/17 (now completed) and 2017/18, which was approved by the Audit and Scrutiny Committee in March 2017. 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.

Overview of work completed

In respect of 2016/17, all reports have been finalised. The executive summaries, recommendations (high and medium) and agreed management actions for the following audits are included in this report:

- Main Financial Systems
- Housing Services

The executive summary of this report was presented at the July meeting of the Audit Committee. At the request of the Committee we now also include the recommendations and action plan, the majority of actions fall due in the period from October 2017 to April 2018.

In respect of 2017/18 the plan is in progress, no amendments to the plan has been made to date. The executive summaries and agreed management actions for the following audits are included in this report:

- Insurance
- Community Halls Viability

The status of the plan for 2017/18 is summarised on pages 5 to 7.

Follow up

We are currently in the process of following up all recommendations made by BDO and the former internal auditors. A follow up report will be included in the papers presented to the Audit Committee on 13 December 2017.

Work outside of the Internal Audit Plan

No additional work has taken place.

REPORTS FINALISED SINCE JULY 2017 AUDIT 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 |
|-------------------------------------|-------------|---------------------------------------|---------------------------|-------------------------------------|--------------------------------------|--|-------------------------------------|--------------------------|
| 2016/17 - Housing Services | 20 | Angela Williams | Limited | Limited | 3 | 7 | 2 | Appendix II |
| 2016/17 - Main Financial Systems | 40 | Jacqueline Vanmellaerts | Moderate | Moderate | 0 | 6 | 1 | Appendix III |
| 2017/18 - Insurance | 10 | Sue White/ Jacqueline Vanmellaerts | Moderate | Moderate | 0 | 3 | 3 | Appendix IV |
| 2017/18 - Community Halls Viability | 15 | John Chance / Kim Anderson | Limited | Limited | 2 | 3 | 2 | Appendix V |

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 | Planning | | |
| Financial planning and budget monitoring | 15 | Q2 - July 2017 | Reporting in progress | | |
| Customer service | 10 | Q4 | | | |
| Minimum Reserve Levels | 10 | Q2 - August 2017 | Reporting in progress | | |
| Insurance | 10 | Q1 - June 2017 | FINAL REPORT | Moderate | Moderate |
| Disaster recovery, business continuity & IT Transformation | 25 | Q4 | | | |
| Cyber Security | 15 | Q3 | Planning | - | - |
| IT Security and Governance | 20 | Q3 | Planning | - | - |
| Counter fraud | 20 | Q3 | Planning | | |
| 185 | | | | | |

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 | Reporting in progress | | |
| Parking strategy & Payment Collection | 20 | Q4 | | | |
| Community Halls Viability | 15 | Q2 - August / September 2017 | FINAL REPORT | Limited | Limited |
| | 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 | Fieldwork | | |
| Environment | 15 | Q2 | Planning | | |
| | 35 | | | | |

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

PROGRESS AGAINST 2017/18 PLAN

| Area | 2017/18 days | Date work to be undertaken | Progress Update | Assurance - System Design | Assurance - Operating Effectiveness |
|--|--------------|---|-----------------|---------------------------|-------------------------------------|
| Planning, Reporting, Follow-up and Contingency | | | | | |
| Follow up work | 10 | Follow up currently in progress | | | |
| Audit Management | 20 | Ongoing arrangement of audits and liaison with management | | | |
| Contingency | 10 | Not used to date | | | |
| Total | 40 | | | | |
| | | | | | |
| Total | 330* | | | | |

* The original total approved plan was for 295 days, this revised total includes 35 days for the deferred audits of Cyber Security and IT Security and Governance

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 - HOUSING SERVICES




BRENTWOOD BOROUGH COUNCIL VISION

Work to ensure our Housing stock is managed so that it delivers comfortable and safe homes for our tenants that are efficient and sustainable

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

Background:

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)

OVERVIEW

Continued:

(Areas of improvement):

- 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)

Conclusion

We have raised 3 High, 7 Medium and 2 Low priority recommendations, 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.

RECOMMENDATIONS AND MANAGEMENT ACTIONS

| Ref. | Recommendation | Sig. | Agreed management action | Responsibility and implementation date |
|---|--|------|---|--|
| Risk: Front line staff are not trained to identify fake or forged documents, or fraud warning signs, or they do not refer potential fraud for investigation | | | | |
| 1 | <ul style="list-style-type: none"> a) Training is provided to relevant staff on Housing Fraud risk identification b) Protocols for in-tenancy audit checks on tenants are determined, to include secure tenants c) Photographs are obtained to identify all tenants d) Consideration is given to using photographs held for periodic verification of all tenants. This may require consideration of the scope of contracts and data sharing protocols (see also page 19 regarding Fair Processing Notices) e) The Housing Team and Fraud officer agree protocols for investigation which ensure potential fraud investigations are overseen by a suitably trained person f) Housing staff are reminded of the requirements of the Regulation of Investigatory Powers Act in relation to surveillance and investigation activity g) Protocols for checking and copying identity documents are established. | H | <ul style="list-style-type: none"> (a) Mandatory Fraud Identification risk training on the 26th September has been arranged for all Housing Staff and will be circulated to other front-line officers, such as the Contact Centre staff and the Council's Fraud Officer. (b) A Housing Audit working group has been created to consider options to implement to a tenancy audit protocol (c) Currently, photographs are obtained of all applicants that apply for the Housing and transfer registers & tenants, tenants that apply for mutual exchanges and apply for any other type of amendment to their existing tenancy. The Housing Audit working group will consider options to widen this to include within any regular tenancy audit. (d) As B & C (e) Mandatory Preventing and Detecting Housing Fraud training on the 19th September has been arranged for all Housing Staff and will be circulated to other front-line Officers, such as the Contact Centre staff and the Council's Fraud Officer. (f) Staff that are required to undertake investigations as part of their duties have been advised of activities that fall within RIPA and that the Council's Fraud Officer would only have the powers to undertake them. Staff are advised to request management authorisation in advance and refer to the Council's Fraud Officer. This includes the use of electronic data sources. (g) The implementation of a protocol around the checking of documentation will be agreed by the Housing Audit working group following both planned training session. | Nicola Marsh, Stuart Morris December 2017 |

RECOMMENDATIONS AND MANAGEMENT ACTIONS

| Ref. | Recommendation | Sig. | Agreed management action | Responsibility / implementation |
|---|--|------|---|---|
| Risk: Health and safety checks, such as gas compliance, electrical safety and fire safety, are not carried out as required, or evidence of checks is not maintained | | | | |
| 2 | <ul style="list-style-type: none"> a) Written procedures are prepared to define protocols and procedures for Compliance checks b) Contractual arrangements for provision of gas and electrical checks are reviewed to establish independence between provision of checks and remedial works c) In the absence of direct access to contractor systems by the Council, Contractors are required to provide copies of all current gas and electrical safety certificates d) Effective contract management is undertaken to ensure the contractors provide interfaces enabling Council access to systems and certificates as required by the contract (see also page 8) e) The housing management system is used for recording information relating to Compliance checks f) Training is provided as required to ensure officers are able to maximise use of the Housing management system g) Consideration is given to the inclusion of requirements for contractor provision of exception reporting on pending and overdue Compliance checks in future contracts h) The Council determines arrangements for notifying the contractor of any sold properties for which Compliance checks are no longer the Council's responsibility and for charging leaseholders where the Council retains any residual responsibility for these checks i) Risk assessments are carried out and recorded to ensure fire safety checks on blocks are scheduled at appropriate intervals j) Asbestos checks are carried out on all properties and records retained of the checks k) The Council ensures that water risk assessments are carried out as required and that records are maintained of these checks for all housing types. | H | <p>a) to h) We had already identified that there likely were a number of long-standing service issues within the repairs service, which included a lack of contract management, written policies/procedures which had only recently come to light following staffing changes within the repairs service. We have been proactively addressing these issues in advance of this Audit report. We are in the process of agreeing a managed service provision with Basildon Borough Council. In addition, Basildon have provided us with a Project Manager on a secondment basis to review the areas of deficiency within the Service and provide recommendations for improvement together with responsibility for the overall for all operational management on a day to day basis. Changes have been made to the repairs team, which has resulted in the replacement of the compliancy manager with a Contracts Administrator, who has a significant experience of working in Local Authorities and managing Contractors. We have also begun the re-procurement process for the existing Wates/Oakray contract which are due to expire in 2019.</p> <p>i) Risk assessments have been carried out on all high rise accommodation which is being rolled out to include all flatted accommodation. We are in the process of agreeing a rolling programme for risk assessments</p> <p>(j) Currently, asbestos surveys are carried out on void properties only, we are currently reviewing our existing processes to ensure that we can create an asbestos register by implementing the Asset management system (keystone).</p> <p>(k) Water risk assessments are currently carried out on sheltered housing as part of the main Oakray Contract. We are reviewing our existing processes to enable this to be held centrally via the Asset Management System</p> | <p>Nicola Marsh, Rob Burton</p> <p>April 2018</p> |

RECOMMENDATIONS AND MANAGEMENT ACTIONS

| Ref. | Recommendation | Sig. | Agreed management action | Responsibility / implementation |
|------|--|------|--|--|
| 3 | <p>a) Methods used to ensure contractor compliance with contract performance requirements, including completion and submission of information, should be strengthened. Such arrangements should also include penalty clauses for non-compliance</p> <p>b) Effective, robust contract management arrangements are determined for Housing contracts, to include:</p> <ul style="list-style-type: none"> Retention of documentation of contract management activity Contractor performance and provision of performance information in accordance with the contract, including records of agreed action to resolve performance issues Contractor provision of IT interfaces and other contractual requirements in accordance with the contract Where changes in contract provision are agreed by the Council, these are formally approved via the issue of Variation Orders Submission to the housing team of evidence of checks where they are required to be made by the contractor Requirements for the contractor to provide evidence of compliance with key contract requirements Contract pricing protocols applied <p>c) Payments to contractors should reflect the extent of provision of service against the agreed contract terms</p> <p>d) Benchmarking of rates and uplifts is undertaken and where appropriate consideration is given to contract options (including negotiation or termination).</p> | H | <p>We had already identified that there likely were a number of long-standing service issues within the repairs service, which included a lack of contract management, written policies/procedures which had only recently come to light following staffing changes within the repairs service.</p> <p>We have been proactively addressing these issues in advance of this Audit report. We are in the process of agreeing a managed service provision with Basildon Borough Council.</p> <p>In addition, Basildon have provided us with a Project Manager on a secondment basis to review the areas of deficiency within the Service and provide recommendations for immediate improvement together with responsibility for the overall for all operational management on a day to day basis.</p> <p>Changes have been made to the repairs team, which has resulted in the replacement of the compliancy manager with a Contracts Administrator, who has a significant experience of working in Local Authorities and managing Contractors.</p> <p>We have also begun the re-procurement process for the existing Wates/Oakray contract which are due to expire in 2019, which will address all of the recommendations.</p> | <p>Rob Burton, Nicola Marsh</p> <p>On going - April 2018</p> |

RECOMMENDATIONS AND MANAGEMENT ACTIONS

| Ref. | Recommendation | Sig. | Agreed management action | Responsibility and implementation date |
|--|---|------|--|--|
| Risk: Due diligence checks are not made on tenants prior to the commencement of the tenancy, and Due diligence checks are not undertaken periodically during the tenancy, including tenancy audits | | | | |
| 4 | a) Pre-tenancy and in-tenancy check policies are established which include protocols to address tenancy fraud risks (covering application, subletting, succession, key selling, right to buy and right to acquire fraud), and which ensure compliance with Data Protection Act requirements b) Policies are communicated to staff, tenants and any delivery partners. | M | (a) Pre-tenancy checks are already in place and has recently been revised to include additional I.D checks. These new protocols have also been incorporated into other tenancy areas. (b) Existing policies & procedures have been re-drafted and circulated to all staff | Angela Abbott, Nicola Marsh July 2017 |
| Risk: Debt collection and recovery procedures are inadequate to ensure that delays in receipt of rent payments and loss of income is minimised | | | | |
| 5 | a) Arrears reporting is developed to include the age of debts, the cases at each key stage of recovery and additional management information is provided accordingly b) Management determine recovery protocols (to recover or write off former tenant arrears). This decision should be supported by additional management information on age of debts and action already taken and consideration could also be given to checks against Council tax records or credit checks to enable tracing of former tenants. c) The impact of delays in processing benefit claims and changes in circumstances is identified and where appropriate raised with the service provider | M | (a) (b) We are currently recruiting for a full time debt recovery officer who will have responsibility for developing and implementing processes around former tenant debts. | Nicola Marsh October 2017 |
| Risk: Governance arrangements, including authorisation routes and clarity of procedures and processes for dealing with Right to Buy applications, are inadequate | | | | |
| 6 | a) Right to Buy Information is input to and managed via the Housing Management system, removing the need for duplication of input to a spreadsheet b) Access permissions to the Housing Management system are reviewed to enable appropriate staff to identify the status of applications. | M | (a) (b) Existing RTB procedures are currently being reviewed in accordance with the audit report. | Nicola Marsh October 2017 |

RECOMMENDATIONS AND MANAGEMENT ACTIONS

| Ref. | Recommendation | Sig. | Agreed management action | Responsibility and implementation date |
|---|---|------|--|---|
| Risk: Tenancy audits, including checks on identity, residency and tenancy history / qualifying period, are not carried out on applicants to ensure the applicant qualifies for Right to Buy | | | | |
| 7 | Consideration is given to performing checks on previous Right to Buy applications to verify the applicant's entitlement to the Right to Buy discount. (Any queries arising from these checks should be referred to the Council's Fraud Officer). | M | Checks in process as recommended. All RTB applications are referred to the Council's Fraud Officer when submitted in order to assist in the prevention of fraudulent applications. | Angela Abbott, Nicola Marsh October 2017 |
| Risk: Property valuations are not carried out by qualified property surveyors, who have an understanding of tenancy fraud risks, prior to the Right to Buy being agreed | | | | |
| 8 | Update the contract with the contracted surveyor visiting the property to record improvements made by the tenant, so that they undertake initial identity checks as part of this visit and report back their findings to the housing team. | M | In progress, currently in the process of appointing external surveyors to carry out RTB property surveys. | Nicola Marsh September 2017 |

RECOMMENDATIONS AND MANAGEMENT ACTIONS

| Ref. | Recommendation | Sig. | Agreed management action | Responsibility / implementation |
|--|--|------|--|---------------------------------|
| Risk: Tenants are not billed for leaseholder service charges in accordance with approved protocols | | | | |
| 9 | <ul style="list-style-type: none"> a) Leaseholder agreement storage is reviewed to ensure records including leaseholder agreements are retained for all properties b) Errors in data upload of estimated service charges to the Housing Management system are corrected and tenants reimbursed where overpayments have occurred c) Where adjustments are made to leaseholder service charges, these are identified clearly in all records to ensure transparency and enable reconciliation (see (d) below) d) The spreadsheet maintained to determine apportionment of service charges to be invoiced to leaseholders is extended to include all properties to enable confirmation that tenants and leaseholders recharges are equivalent and that recharges equate to actual costs, and these reconciliations are performed on a regular basis e) Costs relating to responsive repairs which would not be permitted to be recharged to leaseholders are removed from the calculation determining the total to be apportioned across properties f) A policy is maintained to enable determination of appropriate management service charges for apportionment g) Any adjustments required to service charges should be applied promptly to ensure accuracy of records and transparency of charging. | M | <p>We have recently taken a Service Charge Strategy to Housing Committee that highlights the Council's intentions to implement a Service Charge Policy. The Policy itself will be going for final Committee approval in September 2017 with a view to action it at the start of the new financial year 2018/2019. This Policy outlines the items which will be charged to both Tenants and leaseholders.</p> <p>As part of the final implementation process date the Council will be reviewing its processes on calculating Service Charges to ensure it is done effectively without the need for manual adjustments. We intend to have transparent calculations specific to Tenants and Leaseholders.</p> | Nicola Marsh April 2018 |

RECOMMENDATIONS AND MANAGEMENT ACTIONS

| Ref. | Recommendation | Sig. | Agreed management action | Responsibility and implementation date |
|------|--|------|--|---|
| 10 | <p>a) The Council reviews the scope of the Compliance Manager role and essential qualifications required to perform this role</p> <p>b) Clear records are maintained of all surveys and inspections carried out, and these are retained in an accessible form (such as on the Housing Management system)</p> <p>c) Where queries are raised for entries made on an EICR, a process is developed to ensure they are followed up (and either the work or alternative work is commissioned, or the item is recorded as determined to be not required).</p> <p>See also Pages 6 & 7 regarding conflicts of interest.</p> | M | <p>The BBC Contracts Administrator of the electrical contractor reviews all requests for day to day repairs works exceeding the self-authorisation level of £250, checking costs and consideration on whether to authorise the work. With regards to electrical Inspection Condition reports (ECIR's), which are undertaken by a qualified engineer. There is currently no programme to undertake these and therefore EICR's are on the main undertaken on void properties and occasionally to occasionally to occupied dwellings and landlords supplies to blocks. The relevant BBC manager questions and challenges all reports and only authorises works that are necessary to proceed. As a general rule, Code 1's (danger present) and C2's (potentially dangerous) and works to smoke and detection proceed, whilst Code 3's (improvement recommended) are considered for action by the BBC contracts administrator.</p> | <p>Rob Burton, Nicola Marsh</p> <p>April 2018</p> |

APPENDIX III - MAIN FINANCIAL SYSTEMS



BRENTWOOD BOROUGH COUNCIL STRATEGIC OBJECTIVE THIS AUDIT RELATES TO

To ensure the provision of efficient and effective services

LEVEL OF ASSURANCE (SEE APPENDIX II FOR DEFINITIONS)

| | | |
|---------------|----------|---|
| Design | Moderate | sound system of internal control designed to achieve system objectives, some exceptions |
| Effectiveness | Moderate | Non compliance with some controls, that may put some system objectives at risk. |

SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II)

| | | |
|--------|---|---|
| High | | 0 |
| Medium |  | 6 |
| Low |  | 1 |

Total number of recommendations: 7

OVERVIEW

The Council is required to operate a sound system of control over their financial processes to prevent and detect error or fraud. The purpose of our review was to ensure there were sufficient levels of control within core financial processes. We considered controls relating to the financial system reconciliations, the Collaborative Planning system, financial process procedures, debt recovery, expenditure authorisation, treasury management and previous internal audit findings.

Our review found the following areas of good practice:

- Quarterly budget challenge meetings are held quarterly between the Chief Executive, S151 Officer and significant budget holders to review income and expenditure against budget for the period
- The Finance team monitor completion and review of reconciliations
- The Treasury Management and Investment strategy is subject to formal annual approval

We also noted some areas for improvement or development:

- Recovery action for Sundry Debtor arrears was not pursued beyond the issue of final reminders (Finding 1 - Medium)
- Aged debt monitoring is not undertaken for Council Tax and NDR debts to ensure effective progression of recovery and there was potential to increase the frequency of issue of reminder notices (Finding 2 - Medium)
- Investments were not always authorised prior to completion of the deal (Finding 3 - Medium)
- Reconciliations were not always performed in the month following the reconciliation period (Finding 4 - Medium)
- Explanations for delays in completion of Purchase Orders were not always forthcoming (Finding 5 - Medium)
- There is no properly functioning Asset Management system, with records currently stored on a spreadsheet (Finding 6 - Medium)
- Procedures for the collection and retention of rent deposits had not been determined (Finding 7 - Low)

Conclusion

We have issued 6 medium and 1 low priority recommendations. The Council has a generally sound system of internal controls for the main financial systems, although there were weaknesses and risks relating to debt recovery, authorisation of investments and timely completion of reconciliations which have led us to conclude moderate assurance on both the design and effectiveness of the controls.

RECOMMENDATIONS AND MANAGEMENT ACTIONS

| Ref. | Recommendation | Sig. | Agreed management action | Responsibility and implementation date |
|--|--|------|---|---|
| Risk: Accounts Receivable are not properly monitored resulting in irrecoverable debt | | | | |
| 1 | <p>a) Legal and/or further action as appropriate should be taken with debtors who have not paid their sundry debtors invoices after the final reminder is sent. To ensure that the Council is not financially impacted, legal and any other costs should be added to the debt and ultimately claimed through appropriate Court action</p> <p>b) The Sundry Debtors procedures are updated to reflect obtaining judgement and consideration of options for recovery following judgement by a court being provided. This is to ensure that debtors are proactively pursued for payment and that debt write off is considered only as the last resort following due consideration of the anticipated costs and potential success by pursuing further methods of recovery</p> <p>c) The procedures should also reflect that write off of a debt should not lead to an assumption that the debt will not continue to be actively pursued (and that a write off may be reversed if the payment continues to be pursued and is received).</p> | M | <p>Corporate Debt has been Finance responsibility since August 2016. Prior to this date no action on debt had been taken since 2013. Finance are therefore aware of the improvements that are required in this service, and accept some of the recommendations.</p> <p>a) Accept further action should be undertaken. We have signed SLA with enforcement agency for recovery, with legal action process to follow if necessary.</p> <p>b) Accept procedures are updated as well as incorporating debt recovery.</p> <p>c) Debt is only written off at the point it is agreed that there is no realistic or legitimate prospect of the money being recovered. We therefore feel it is <i>not</i> necessary to actively pursue this debt once it has been written off, although accept it may be reversed if written off debt is received.</p> | <p>Jacqueline Van Mellaerts (Financial Service Manager) Chris Houghton (Systems Accountant)</p> <p>31 August 2017</p> |
| 2 | <p>a) Aged debt reports are produced for Council Tax and NDR which identify the cases at each stage of recovery, (including age of debt with no action)</p> <p>b) The above report is reviewed to ensure the effectiveness and appropriate progression of recovery action</p> <p>c) The schedule of reminder runs is reviewed and consideration given to increasing the frequency of reminder and final notice runs.</p> | M | <p>a) Aged debt analysis reports have been scheduled within Civica to run quarterly</p> <p>b) The Recovery Team will review these quarterly reports to ensure monitoring of debt and effectiveness of recovery processes</p> <p>c) We have increased the recovery notices issued from when the service merged with Basildon. We now have court hearings on a monthly basis, and the Recovery timetable has been updated to reflect a monthly schedule of reminders, Final Reminders, Summonses and Court Hearings.</p> | <p>Mandy Major and Kerry Pittick</p> <p>20 September 2017</p> |

RECOMMENDATIONS AND MANAGEMENT ACTIONS

| Ref. | Recommendation | Sig. | Agreed management action | Responsibility and implementation date |
|--|--|------|--|--|
| Risk: The Council's Treasury Management Policy is not complied with, resulting in inappropriate investment and mismanagement of cash | | | | |
| 3 | <p>a) An appropriate person (such as the Financial Services Manager) approves details of each new investment (including the amount, maturity date, counterparty, term and interest rate) before the investment is finalised and payment is made to the broker</p> <p>b) The Council checks credit ratings of financial institutions with which it holds investments on a regular basis to ensure they remain within ratings set out in the Treasury Management Practices and documents this check as part of the procedures associated with Treasury Management.</p> | M | <p>We agree these recommendations in principle, upon taking a review of the processes and procedures of Treasury management to make sure it is practical to do so. But accept Senior management should be involved at an earlier stage of the investment.</p> | <p>Jacqueline Van Mellaerts (Financial Services Manager)</p> <p>Alistair Greer (Principal Accountant)</p> <p>31 August 2017</p> |
| Risk: Collaborative planning controls have not been implemented resulting in inappropriate costing and efficiencies | | | | |
| 4 | Reconciliations should be completed in the month following the period of the reconciliation. | M | <p>Manager accepts there is always a delay at the beginning of the year, due to the final account process. This has already been improved upon for 2017/18.</p> <p>Where there is capacity, we will aim to complete the reconciliation in the following month, otherwise a note will be made on the monitor with a reason.</p> | <p>Jacqueline Van Mellaerts (Financial Services Manager)</p> <p>Phoebe Barnes (Principal Accountant)</p> <p>31 March 2018</p> |
| Risk: Expenditure recorded does not exist, is incomplete, fraudulent or has been inaccurately recorded; particularly in relation to the purchase orders raised within EFin | | | | |
| 5 | Officers are instructed to respond to requests for explanation of outstanding purchase orders. Details are collated for purchase orders identified to have been outstanding for an excessive time without justification and discussed by Service Accountants with Departments to pursue reasoning and resolution. | M | Manager accepts recommendation. | <p>Jacqueline Van Mellaerts (Financial Services Manager)</p> <p>Jane Mitchell (Payments & Procurement Manager)</p> <p>31 August 2017</p> |

RECOMMENDATIONS AND MANAGEMENT ACTIONS

| Ref. | Recommendation | Sig. | Agreed management action | Responsibility and implementation date |
|--|---|------|---|---|
| Risk: Asset records are not adequate to ensure that there is a full understanding of the assets held, their value and maintenance requirements | | | | |
| 6 | Officers should undertake a cost / benefit analysis of the implementation of an Asset Management systems to improve the records and management of the Council's assets. | M | <p>At present, there are at least two disparate systems; Financial Asset Register from a spreadsheet and the Argus system that Assets use, plus any other ad-hoc systems.</p> <p>We accept the recommendation which should be a joint venture between Finance & Asset Services.</p> | <p>Jacqueline Van Mellaerts (Financial Services Manager)</p> <p>31 March 2018</p> |

APPENDIX IV - INSURANCE

| CLIENT STRATEGIC RISKS | | | SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II FOR DEFINITIONS) | |
|--|---|--|--|---|
| Risk | To ensure the provision of efficient and effective services | | High | - |
| LEVEL OF ASSURANCE (SEE APPENDIX II FOR DEFINITIONS) | | | Medium | 3 |
| Design | Moderate | Generally a sound system of internal control designed to achieve system objectives with some exceptions. | Low | 3 |
| Effectiveness | Moderate | Evidence of non compliance with some controls, that may put some of the system objectives at risk. | Total number of recommendations: 6 | |

OVERVIEW

Background

Insurance at Brentwood Borough Council is managed by the Risk and Insurance Officer, who processes all claims via the ClaimControl system. In 2016-7 the Council took out insurance premiums totalling £648,576 (including Insurance Premium Tax) with Zurich Municipal. This covers risks related to property; casualty (including public and employers’ liability and professional negligence); motor vehicles; engineering; additional covers and terrorism (commercial and non-commercial). The Council also has an Injury and Travel policy with ACE Europe of £1,803.16, brokered by an intermediary (Marsh Limited).

The purpose of our review was to provide assurance that appropriate arrangements are in place and operating effectively in relation to managing the risks relating to insurance claims and to highlight any areas where the controls might be improved.

Scope and Approach

We interviewed the Risk and Insurance Officer and Corporate Health and Safety Advisor. We benchmarked the insurance provision at the Council using CIPFA’s ‘Nearest Neighbours’ tool to ascertain similar sized Local Authorities to Brentwood (East Hampshire and Hart District Councils, and Waverley Borough Council). Finally, we selected a sample of 10 claims from the past year and tested them against the conditions of their insurance policy and general best practice.

Good Practice

- During our testing we found no exceptions with regard to the timeliness of initial claim forms sent to the insurer
- The Risk and Insurance Officer works closely with the Corporate Health and Safety Advisor to identify trends in claims, and devise solutions to mitigate the risk of such claims
- The Council has thorough insurance covering all relevant areas including newer risks such as terrorism and cyber related risks
- A corporate risk register and departmental risk registers are maintained, and risks are reported quarterly to the Corporate Leadership Board.

OVERVIEW (cont)

Key Findings

- During our testing we found one claim where a Council employee had accepted liability without first checking that it related to a Council owned property, at a potential additional cost of £350. (Finding 1 - Medium)
- There had been no training given to staff in relation to the Insurance Act 2015 over the past two years (Finding 1 - Medium)
- We found some weaknesses in the use of the ClaimControl system, such as delays in reporting information (Finding 2 - Medium)
- During our testing we found two examples of a delay in providing the insurer with requested information, and one instance where no settlement letter was evidenced. (Finding 3 - Low)

Conclusion

During our review we have raised three medium and three low recommendations. The Council generally has a sound system of internal controls, derived from an Insurance Strategy, procedural flowcharts, and the ClaimControl system for recording, updating and monitoring claims. However there were some weaknesses in relation to the operational effectiveness of some of the controls in relation to record keeping and timeliness. During our review we also found indications that the Council may not be receiving the best value for money, as it is paying £230,000 per more annum in insurance premiums than its peers. However, some of this amount is recharged and some Councils do not own tenanted housing, therefore an independent actuary would be required in order to confirm whether the policy offers value for money.

RISKS REVIEWED GIVING RISE TO NO FINDINGS OF A HIGH OR MEDIUM SIGNIFICANCE

- ✓ The Council has inadequate insurance cover to meets its defined insurable risks.
- ✓ Claims information is not recorded or is inaccurate, or management information is not produced and reported to the Corporate Leadership Board, resulting in a failure to identify trends and uninformed decisions being made

LOOKING FORWARD: SUPPORTING THE COUNCIL'S JOURNEY FROM MODERATE TO SUBSTANTIAL ASSURANCE

| | | | |
|---------------|----------|-------------|---|
| Design | Moderate | Substantial | <ul style="list-style-type: none"> • Update the Insurance and Risk Management Strategy • Include fraud indicator checklist prompts in ClaimControl • Add a 'date reported to the Council' field in ClaimControl • Create a system for logging calls making insurance claims • Seek advice from an independent actuary to ensure the Council is achieving value for money |
| Effectiveness | Moderate | Substantial | <ul style="list-style-type: none"> • Implement training to ensure staff liaising with the public are aware of the importance of not admitting liability without full information • Improve the timeliness of information provided to the Risk and Insurance Officer by the departments in the event that a staff member involved in a claim is absent • Strengthening existing controls related to the identification of recurring incidents |

RECOMMENDATIONS AND MANAGEMENT ACTIONS

| Ref. | Recommendation | Sig. | Agreed management action | Responsibility and implementation date |
|--|--|------|--|--|
| Risk: The Council has inadequate processes to enable compliance with Insurance Policy Conditions | | | | |
| 1 | Annual refresher training should be implemented for all departments and induction training and guidance for new starters should be provided to ensure all staff are aware of the Conditions Insurance Act. This should include informing staff that liability should not be admitted, as this may undermine the council's defence in any claim, and awareness around any related nuances in communications that might be interpreted as an admission of liability. | M | The Risk and Insurance officer will arrange for Zurich to hold training sessions with those who work regularly with insurance claims and create a quick guide for an all-staff communications bulletin. | Sue White (Risk and Insurance Office) 31 March 2018 |
| Risk: Claims are not processed in a timely manner as a result of delays in submission of required information by Council departments | | | | |
| 2 | <p>a) There should be a distinction in ClaimControl between the date of the incident; the date actually reported to the Council; and the date the Risk and Insurance team receive the claim.</p> <p>b) The Council should log calls received relating to the making of an insurance claim.</p> <p>c) Compliance with anti-fraud checklists should be added to ClaimControl for public liability claims and there should be regular reviews of claims to check that the fraud checklists have been completed.</p> | M | <p>Management feel that the recording of too many dates could be unnecessary but will check with Zurich as to which dates are the most important to record. The Risk and Insurance Officer and Corporate Health and Safety Advisor are already in the process of developing an online incident form, which would/could be adapted to address the recommendations raised here. All incidents would be completed on an e-form, and with an interface designed by the ClaimControl developers, Alphatech, that information could be populated into ClaimControl. The Financial Services Manager is working with the new Digital Service Team -they could also help implement this.</p> <p>It should be noted that the Fraud Indicator checklist only came into force from 1/4/17 and the strategy is currently being updated to reflect this. In the interim, most claims are forwarded to Zurich and they have their own system in place for checking fraud.</p> | <p>Sue White (Risk and Insurance Officer) and Jacqueline Van Mellaerts (Financial Services Manager)</p> <ul style="list-style-type: none"> • <i>Fraud checkboxes added to the system by 31 August 2017</i> • <i>Discussion between the Financial Services Manager, Risk and Insurance Officer, Digital Service Team and Alphatech by December 2017</i> • <i>Implementation of the new system April 2018</i> |

RECOMMENDATIONS AND MANAGEMENT ACTIONS

| Ref. | Recommendation | Sig. | Agreed management action | Responsibility and implementation date |
|--|--|------|--|--|
| Risk: Claims are not processed in a timely manner as a result of delays in submission of required information by Council departments | | | | |
| 3 | <p>a) If a claim is made against a staff member while they are on holiday, the Risk and Insurance Officer should ensure that the insurer is made aware of the anticipated date of return of the employee as soon as possible. Individual departments should provide as much information as possible to the Risk and Insurance Officer as soon as reasonably possible.</p> <p>b) The Risk and Insurance Officer should investigate whether ClaimControl could produce an alert if a settlement letter or final correspondence has not been uploaded to the system after a given period of time (to be decided by the Risk and Insurance Officer).</p> <p>c) All departments should keep clear records of incidents occurring within their teams and store this on a shared drive so that it is accessible in the event of a staff member's absence.</p> | M | The online incident form as described in the previous finding would also address this, as all information would be stored online. New Council ICT systems, could embed an Insurance Group ethos into the Council. This will continue to be work in progress upon a more thorough review. | <p>Sue White (Risk and Insurance Officer) and Jacqueline Van Mellaerts (Financial Services Manager)</p> <p>See management response in Finding 2.</p> |

APPENDIX V - COMMUNITY HALLS VIABILITY

| LEVEL OF ASSURANCE (SEE APPENDIX II FOR DEFINITIONS) | | | SUMMARY OF RECOMMENDATIONS (SEE APPENDIX II FOR DEFINITIONS) | |
|--|---------|---|--|---|
| Design | Limited | System of internal controls is weakened with system objectives at risk of not being achieved. | High | 2 |
| | | | Medium | 3 |
| Effectiveness | Limited | Non-compliance with key procedures and controls places the system objectives at risk. | Low | 2 |
| | | | Total number of recommendations: 7 | |

OVERVIEW

Background

In March 2015, the Council commissioned support for the development of a Leisure Strategy for the Borough to support the Local Development Plan. A cross party Member working group was established to identify key priorities and develop a work plan. The group identified the need to establish the income streams and levels of income and expenditure of leisure facilities to inform the next stages of the strategy.

The Council is considering the adoption of the six Community Halls, currently managed by Brentwood Leisure Trust and is assessing financial viability of the halls based on income and expenditure levels. The lease with Brentwood Leisure Trust, who currently manage the running of the Community Halls, has been extended to December 2017. Our audit considered the adequacy of the financial information obtained by the Council in enabling this decision making process.

Key Areas for Improvement

- The Council needs to undertake further work to ensure that the financial information on running the Community Halls is adequate enough for members to be able to make an informed decision. Our audit found significant variances between income and expenditure totals reported in the statutory accounts, reported to the Charity Commission, and the management accounts supplied by Brentwood Leisure Trust (BLT) to the Council.
- Until a decision is made on the future management of the halls, further monitoring is required of the financial performance of BLT and ensuring that information required as part of the Service Level Agreement is received and reviewed on the agreed basis.
- The Council should Introduce more formality into the community halls project for establishing the future management of community halls including compiling a project plan to cover all aspects of the project, with clear outcomes, set deadlines and a risk register, all of which should be monitored and updated on a regular basis.
- Monitoring of the condition of the six community halls on a regular basis is necessary to ensure that BLT is meeting the requirements of its lease to ensure that the halls are maintained to a good standard.

OVERVIEW

Conclusion


We have raised seven recommendations on the design and operational effectiveness of controls in place relating to the Community Halls Viability - two high level, three medium level and two low level recommendations. Our review found that the Council does not have sufficient information to enable members to make a decision on the future management of the halls and additional work is required to confirm the current financial position of BLT , the actual running costs of the halls and potential impact on both parties dependent on the option selected. The project needs more formalisation including compiling a project plan with clearly stated objectives, time lines and project risks. Officers are aware that more work is required and commissioned our audit to provide guidance on the next steps.

RECOMMENDATIONS AND MANAGEMENT ACTIONS

| Ref. | Recommendation | Sig. | Agreed management action | Responsibility and implementation date |
|---|--|------|---|--|
| Risk: The Council has not obtained adequate financial information to enable a decision to be made on the future operation of the Community Halls. | | | | |
| 1 | The Council needs to obtain the full supporting documentation for the management accounts information it was sent. The differences between statutory accounts and management accounts should be investigated to ensure the Council has a clear picture of BLT's financial position and the full costings involved in running the community halls. This can then be used to accurately determine the impact on both parties dependent on what route the Council decides to select for the future. The Council cannot make a decision on the future of the management of the Community Halls until it has resolved the issues highlighted including whether BLT owes the Council a share of the operating profits. | H | Differences raised noted, agree the need to establish what the reasons are. BLT will be contacted and arrangements made for the interim project accountant to liaise with appropriate BLT staff to seek explanations about the information sent and potential differences found and obtain the necessary supporting documentation and additional information sought such as staff TUPE numbers. | John Chance (Director of Finance) September 2017 |
| Risk: There is a lack of clarity around the scope of Brentwood Leisure Trust (BLT) responsibility and the impact of proposed changes on both the Council and BLT (including the ongoing viability of other BLT areas of operation and the impact of Community Halls dilapidations on BLT) | | | | |
| 2 | <p>a) The Council should introduce the requirement that BLT supply monthly financial performance reports, with supporting evidence, which need to be reviewed by the responsible accountant and any variances or potential issues investigated. Dependent on the option selected the Council should ensure financial performance of the halls contract is monitored on a regular basis.</p> <p>b) As part of the current arrangements, or for the future monitoring of the halls, the Council should ensure that, as a minimum, an annual condition survey is undertaken to ensure the continual upkeep of the properties.</p> <p>c) The Council need to establish the financial position of BLT and whether they would be able to pay for the internal repairs if the halls stay under BLT management or if they are returned to the Council.</p> | H | Agree that the sections in the SLA and leases need to be monitored and controls introduced. Dependent on the future option decided upon there will be targets set on performance and financial performance which will be monitored. | John Chance (Director of Finance) Kim Anderson (Partnership, Funding and Leisure Manager) October 2017 and as part of new arrangements. |

RECOMMENDATIONS AND MANAGEMENT ACTIONS

| Ref. | Recommendation | Sig. | Agreed management action | Responsibility and implementation date |
|---|--|------|--|---|
| Risk: Failure to identify project risks and mitigating actions. | | | | |
| 3 | <p>A project plan covering the community halls should be developed covering all the steps required to enable a comprehensive report to be produced for members to make their decision on the future management of the community halls. The plan should include nominated officers and set time lines for completion.</p> <p>The plan should include the options to be considered, what information is required to support options, i.e. due diligence exercise on finances and contracts currently in place, and the risks to the Council in delays, not doing anything and any mitigating actions already in place.</p> | M | Agreed the need to record the risks already highlighted especially concerning the risk to the Council and BLT dependent on financial position. | Kim Anderson (Partnership, Funding and Leisure Manager) October 2017 |
| Risk: Failure to produce implementation plans. including financial and budgets and a timeline for implementing the project. | | | | |
| 4 | As part of the project plan the Council should include implementation plans clearly outlining the steps required and target dates. This needs to be monitored on a regular basis by the project lead and reported to the appropriate committees and management. | M | Agree an implementation plan covering the project steps to ensure all issues are covered needs to be developed. | Kim Anderson (Partnership, Funding and Leisure Manager) November 2017 |
| Risk: No development and distribution of a Leisure Strategy. | | | | |
| 5 | The Council needs to complete and seek approval through the decision making route for the Leisure Strategy which should include, once all information has been obtained, a clear plan for the future use and management of the Community Halls. | M | Leisure Strategy is currently being developed and to be complete will need to include how the community halls will be managed. Until a formal decision on Community Halls is taken the strategy will still be in draft format. | Kim Anderson (Partnership, Funding and Leisure Manager) March 2018 |



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