

Brentwood Borough Council

**INTERNAL AUDIT ANNUAL REPORT AND ANNUAL
STATEMENT OF ASSURANCE**

2018/19

CONTENTS

	Page
Summary of 2018/19 Work and Head of Internal Audit Opinion	3
Review of 2018/19 Work	5
Summary of findings - dashboard	14
Common themes	15
Added value	16
Background to annual opinion	17
Key Performance Indicators	20
Appendix 1: Opinion and recommendation significance	22

SUMMARY OF 2018/19 WORK

Internal Audit 2018/19

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 reports have been issued for this financial year:

- Building Control
- Commercial Activities
- Planning
- Corporate Projects
- PCI/DSS Compliance
- Disaster Recovery and Business Continuity
- Local Development Plan
- General Data Protection Regulations
- Housing - Homelessness
- Main Financial System
- Housing Department Audit (Draft report)
- Workforce Strategy and Organisation Structure (In progress)

We have detailed the opinions of each report and key findings on pages five to 13.

Whilst we still have two reports to finalise, we do not expect them to change our audit opinion.

Our internal audit work for the 12 month period from 1 April 2018 to 31 March 2019 was carried out in accordance with the internal audit plan approved by management and the Audit and Scrutiny Committee, with the following exceptions:

- The audit of risk management was deferred to the internal audit plan for 2019/20, at the request of management. This follows implementation of the recommendations arising from the 2017/18 risk maturity audit, which were completed by the due date of the end of March 2019.
- An additional audit of the Housing Department has been undertaken at the request of management.

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.

Head of Internal Audit Opinion

The role of internal audit is to provide an opinion to the Board, through the Audit and Scrutiny 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 Council'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.

The basis for forming my opinion is as follows:

- An assessment of the design and operation of the underpinning Assurance Framework and supporting processes;
- An assessment of the range of individual opinions arising from risk based audit assignments contained within internal audit risk based plans that have been reported throughout the year;
- This assessment has taken account of the relative materiality of these areas and managements 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 Council has performed broadly in line with budget regarding financial performance. The Council has continued to demonstrate sound financial management with moderate assurance opinions provided on the design and operational effectiveness in the audits on corporate projects and key financial systems.
- In respect of the design of the controls, an opinion of moderate assurance was provided for seven out of the ten assurance audits where reports have been issued, substantial assurance was provided in three areas. These opinions are an improvement compared with 2017-18.
- In respect of the design and operational effectiveness of the controls, opinion of moderate / moderate assurance was provided for five of the ten assurance audits where reports have been issued, substantial assurance was provided in four areas, and in limited assurance in one area. These opinions are an improvement compared with 2017-18.
- The Council has specifically requested audits into known areas of risk and new areas of concern i.e. the Housing Department and PCI/DSS compliance
- Management has responded positively to reports issued and action plans have been developed to address the recommendations raised
- We have confirmed that 71% of recommendations due for implementation by the date of reporting had been completed. Management has provided assurance that a further 19 (24%) have been implemented, we are awaiting evidence to verify this.

Our annual report and head of internal audit opinion has been prepared based on the audit work undertaken during the year. We do not consider that the results of the audit of workforce strategy (for which reporting is in progress) will have an impact upon the overall opinion provided.

REVIEW OF 2018/19 WORK

Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Purpose of Audit and Summary of Key Findings / Recommendations
	H	M	L	Design	Operational Effectiveness	
Building Control	0	0	2	Substantial	Substantial	<p>The purpose of this audit was to review the Council’s compliance with the Building Control Regulations, including a response to recommendations arising from the independent review undertaken by Dame Judith Hackett.</p> <p>The findings related to:</p> <ul style="list-style-type: none"> • Inspections being monitored using hard copy documentation, meaning that it took longer to access information and made information harder to analyse. • Formal policies and procedures not being available and the absence of digital copies.
Commercial Activities	0	0	0	Substantial	Substantial	<p>The purpose of this audit was to review the extent to which the Asset Development Programme had been delivered to support the long-term sustainability of the Council, and assess the adequacy and effectiveness of governance.</p> <p>The Council had created a separate commercial arm and was entering in to a Joint Venture Partnership to be able to react to potential commercial opportunities without the previous delays in decision making process, enabling it to react on a more commercial footing. It was agreed that the Council would have an equal share and the agreement would not change without appropriate approval.</p> <p>We found that the Council had taken the requisite steps to obtain the necessary approvals, set up appropriate governance structures and identify and mitigate initial risks. However, as the Council had recognised, the establishment of these commercial operations represents a significant risk and needed to be managed carefully as the commercial activities progress.</p>

Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Purpose of Audit and Summary of Key Findings / Recommendations
	H	M	L	Design	Operational Effectiveness	
Planning	0	0	1	Substantial	Substantial	<p>The purpose of the audit was to review the Council's compliance with Planning Regulations, including a customer focus and monitoring of performance of the SLA that had been in place with Thurrock Council to support continuing high performance.</p> <p>The finding related to:</p> <ul style="list-style-type: none"> Procedural documentation between the two councils did not contain explicit time scales for each stage of the process. The procedures did not have robust version control.
Corporate Projects	0	3	2	Moderate	Moderate	<p>The purpose of this audit was to review the extent to which the Council's identified corporate projects were on track to be delivered on time and within budget, and where the projects had been completed, that the anticipated benefits were being realised.</p> <p>The Council had introduced a well-designed corporate management process since 2018/19 but we had identified some areas for improvement to embed and improve the planning and reporting process and to ensure consistency.</p> <p>The key findings were:</p> <ul style="list-style-type: none"> The new process for corporate project management had not been embedded in the organisation as reflected by non-compliance by some project managers such as the lack of project closure reports, POAP and monthly highlight reports. The project register might therefore had not been up to date and it was difficult to ascertain the full status of all projects and the extent to which there had been overruns or overspends. Project risk actions did not contain implementation dates. Governance structures in relation to the Corporate Asset Management Group had not been embedded in the new process as the Corporate Asset Management Group remained a separate governance process from the Corporate Leadership Board's Corporate Project meetings.

Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Purpose of Audit and Summary of Key Findings / Recommendations
	H	M	L	Design	Operational Effectiveness	
PCI/DSS Compliance	1	4	0	Moderate	Limited	<p>The purpose of this review was to assess whether the Council had appropriate arrangements in place to comply with the PCI DSS.</p> <p>Our review of the Council's compliance against the Payment Card Industry Data Security Standard had identified a number of areas with scope of improvement. As such, Risk F9 - Failure to attain PCI DSS compliance across all payment options - on the Council's Finance Operational Risk Register had not been adequately mitigated.</p> <p>The key findings were:</p> <ul style="list-style-type: none"> • The complete card holder data environment was neither identified nor documented for various methods that the Council processed payment card data. • The annual self-assessment questionnaires were not completed for all the Council's payment card processing activities. • There was a lack of clear ownership and responsibility for ensuring that the Council had met the requirements of the PCI DSS. • There was no policy in place for compliance with PCI DSS. • The Council did not monitor compliance assurance from third party service providers.
Disaster Recovery and Business Continuity	0	3	2	Moderate	Moderate	<p>The purpose of this review was to consider the design and effectiveness of the controls in place around Business Continuity and Disaster Recovery and to highlight any areas where controls might be improved.</p> <p>Overall, we concluded that the control framework in place for the management of disaster recovery and business continuity was generally adequately designed and operationally effective, but management was recommended to address the areas of risk identified from this review.</p> <p>The key findings were:</p>

Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Purpose of Audit and Summary of Key Findings / Recommendations
	H	M	L	Design	Operational Effectiveness	
						<ul style="list-style-type: none"> Service area BCPs had not been tested or validated since creation in March 2018. Service area BCPs had not been assessed in line with the IT BCP to ensure dependencies were accounted for Annual risk assessments were not scheduled to drive the review of service area BCPs.
Local Development Plan	0	2	1	Moderate	Moderate	<p>The purpose of the audit was to review the Council's current position in producing and adopting a Local Development Plan and how it was being monitored to ensure the proposed timetable was being met to avoid intervention by the Secretary of State.</p> <p>We found that the Council had taken the requisite steps to introduce a sound control and governance framework to ensure that the local development plan project had met the revised timetable and avoid intervention by the Secretary of State. However, further improvements were required to reduce the risk of missing the deadline, including having agreed end dates documented for reaching common ground with neighbouring Councils and building in contingency for any potential delays.</p> <p>The key findings were:</p> <ul style="list-style-type: none"> The submission of the Local Development Plan to the Secretary of State had slipped so that the submission was due in May 2019 and not March 2019. This was caused by additional work required as a result of the amendments made by Councillors at Extraordinary Council on 8 November 2018, as well as discussion with Essex County Council on the detail of infrastructure requirements. This led to delays in commencing the public consultation period and ensuring that the plan and documents for the public consultation were updated. The council was in regular contact with the Ministry of Housing, Communities and Local Government (MHCLG) regarding the programme. There were no end dates for obtaining the statement of common ground from the neighbouring councils and Essex County Council recorded on the project plan. Without a formal end target for all of these it was not possible to establish if the project was on target.

Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Purpose of Audit and Summary of Key Findings / Recommendations
	H	M	L	Design	Operational Effectiveness	
General Data Protection Regulations	0	1	0	Moderate	Substantial	<p>The purpose of the audit was to provide assurance to the Council's compliance with the requirements of the GDPR.</p> <p>We found that work had been undertaken to establish GDPR compliance which is in accordance with good practice principles. We have made recommendations relating to the completion of the information asset register that will require continued commitment from stakeholders from across the Council and Senior Management.</p> <p>The key finding was:</p> <ul style="list-style-type: none"> The Information Asset register does not record all the relevant information, e.g. the security controls over the personal data.
Housing - Homelessness	1	1	1	Moderate	Moderate	<p>The purpose of the audit was to review the Council's response to and in particular its fulfilment of its prevention duties under the Homelessness Act 2017 (HRA) from April 2018.</p> <p>We found there is a documented control framework across the majority of areas, including a homelessness strategy which incorporates the approach to rough sleeping, and timeframes for assessing those that present themselves as homeless to the Council.</p> <p>The framework could be improved through fully utilising the Locata system by recording progress made on a case and incorporating the complete list of KPIs being monitored, to enable clear and transparent reporting of performance. The housing service should provide additional training to their staff on document verification practices and ensure all documentation is held in a central location and available for future review. This will reduce the risk that the service will wrongfully accept a homeless duty towards an individual and protect the Council against any challenges of their decisions.</p> <p>The key findings were:</p> <ul style="list-style-type: none"> A number of exceptions were identified with regards to the adequacy and completeness of identification documents:

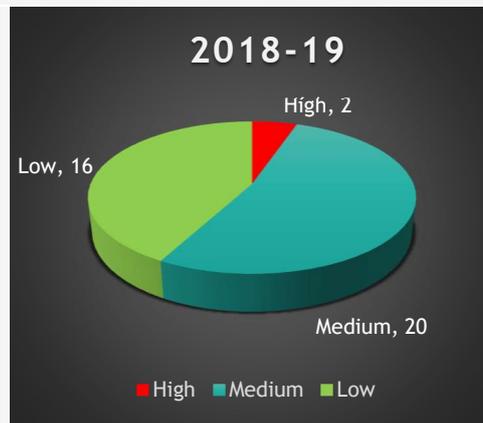
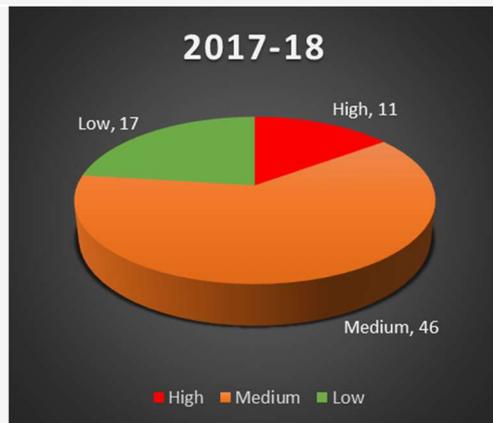
Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Purpose of Audit and Summary of Key Findings / Recommendations
	H	M	L	Design	Operational Effectiveness	
						<ul style="list-style-type: none"> - ID documents were not held on the system for all cases. - ID verification equipment was not in use. - There was no evidence to confirm that the ID documentation scanned and retained on the system had been verified by a member of staff. - ID Documents review training was not conducted regularly to detect potential instances of fraud. <ul style="list-style-type: none"> • Tasks were not marked as completed by the Case Officer on Locata, making it difficult to be confident that they had been undertaken and within required timeframes, and consequently management was unable to use Locata fully to assist in effective monitoring of cases.
Main Financial Systems	0	6	7	Moderate	Moderate	<p>The purpose of this review was to consider the design and effectiveness of the controls in place around the Main Financial Systems, this year General Ledger, Payroll, Accounts Receivable and Debtors and Treasury Management, - to highlight any areas where the controls could be improved.</p> <p>We found that the Council had a satisfactory system of controls in place over the finance processes included in this review as well as a satisfactory level of operational effectiveness of controls.</p> <p>Further improvements could be made to strengthen the controls over some of the processes and also improve the operational effectiveness of controls. Such improvements related mainly to the review of reconciliations, aged debt monitoring and reporting, and the approval of systems access.</p> <p>The key findings were:</p> <ul style="list-style-type: none"> • Reconciliations between the general ledger and feeder systems had not been carried out on a timely basis or reviewed on a timely basis, and payroll reconciliations had not been prepared and approved in line with best practice of the 15th of the following month (payroll reconciliations are approved by the end of the following month).

Report Issued	Recommendations and significance			Overall Report Conclusions (see Appendix 1)		Purpose of Audit and Summary of Key Findings / Recommendations
	H	M	L	Design	Operational Effectiveness	
						<ul style="list-style-type: none"> No process was in place to report aged debt to senior management. Reminders for debt recovery and sending debts to the enforcement agents for recovery had not been carried out in accordance with the timeframes in the policy. There was insufficient documentation to identify and confirm the account to which entries to suspense account should be/was transferred to (NB: the amounts involved were small). User access for finance system and access to payroll information was not appropriately authorised. Invoices had not been raised within a reasonable time period from the date of the service request. Inconsistencies within the three-way matching process and purchase orders not being raised in advance of an invoice being received, as well as untimely invoice payments, signaling potential inefficiencies in respect of commitment of expenditure and electronic processing of invoices. A number of exceptions in the requirement for a formal signatory set up request form signed by the employee and their manager for access and approval rights within the Authorised Signatory Databases of the finance system.
Housing Department Audit (Draft Report)				n/a	n/a	The Council commissioned this independent review to assess whether the Council is taking the right action in response to the resignation letter from the CHHC Chair. We have met with officers in the Housing Department and with the former Chair and vice Chair of CHHC, and have prepared a draft report. Further discussions with officers and Members are due to take place before the report is finalised.

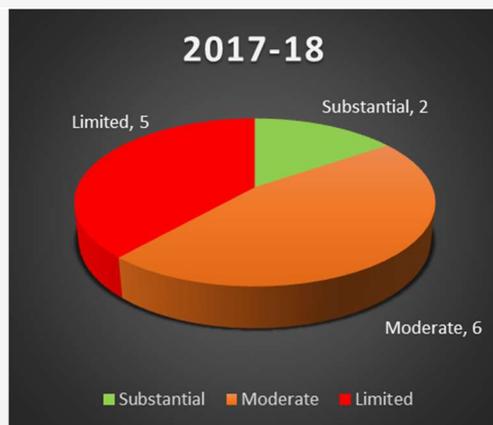
SUMMARY OF FINDINGS

RECOMMENDATIONS AND ASSURANCE DASHBOARD

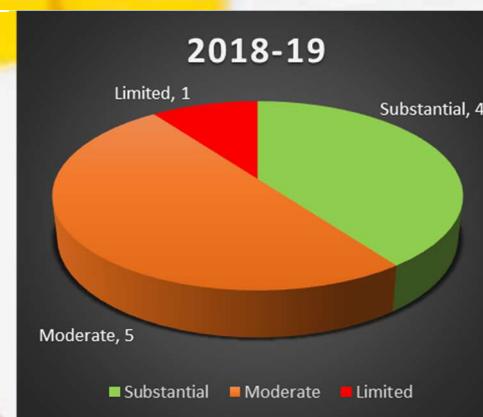
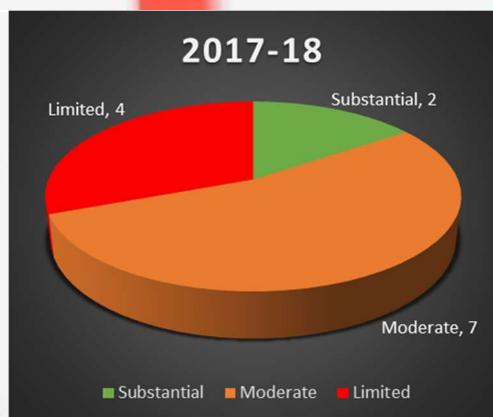
Recommendations and Significance



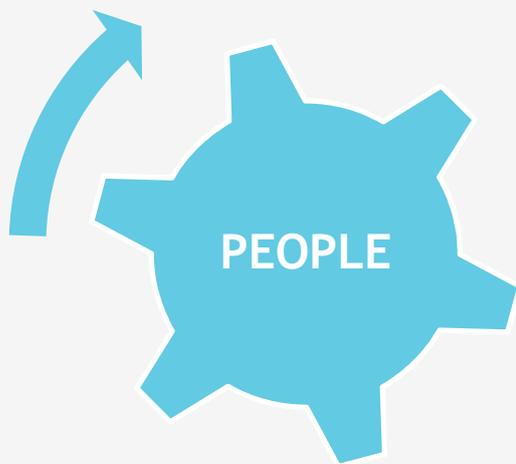
Control Design



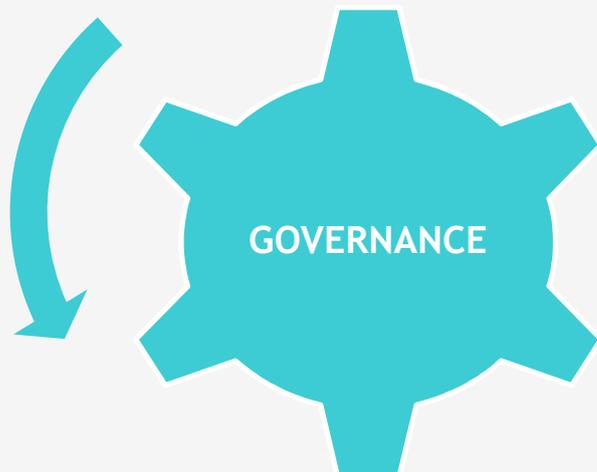
Operational Effectiveness



COMMON THEMES



- Whilst clarity of roles and responsibilities was evident in the majority of areas reviewed, policies and procedures were absent or not reflective of actual requirements and practice in some areas, e.g. Building Control, Planning and PCI DSS Compliance.
- In some areas, Council-wide ownership of processes and controls needed to be clarified and monitored for compliance, e.g. Corporate Project Management, PCI DSS Compliance.



- Governance and reporting requirements were found to be well defined and understood through our audits of Commercial Activities and Local Development Plan. However, where new arrangements are introduced, integration with elements of the existing governance framework could be more effective, e.g. Corporate Project Management.
- Monitoring of the progress of projects and activities could be enhanced by ensuring the completeness of information recorded and reported to decision-makers, as found in the audits of LDP (timeframes), Homelessness (KPIs), Corporate Projects (risk information and highlight reports) and GDPR (information assets).



- Whilst in the main we found the control framework to be well-designed, inconsistent application of controls was evident in some areas, e.g. Key Financial Controls and Homelessness.
 - IT risks were on the whole being well-managed, although some required improvements in records maintained was identified.
 - The Council could seek to take more advantage of digital and IT solutions to monitor and manage the delivery of its services, e.g. Building Control and Homelessness.
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ADDED VALUE



USE OF SPECIALISTS

We have used our IT specialists to deliver the audits of Business Continuity and Disaster Recovery, PCI DSS Compliance and GDPR.



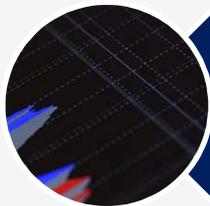
RESPONSIVENESS

We have been able to be flexible with the plan to respond to emerging risks and concerns, e.g. the Housing Department audit.



BENCHMARKING AND BEST PRACTICE

We have shared best practice examples from our clients, other local government bodies and guidance in a number of our reviews. We have provided updates on potential fraud, e.g. Bank mandate fraud and CHAPS payments.



INNOVATION

We have utilised data analytics in the main financial systems review to highlight areas for further investigation.



BACKGROUND TO ANNUAL OPINION

Introduction

Our role as internal auditors to Brentwood Borough Council is to provide the Audit and Scrutiny Committee, and the Director with an opinion on the adequacy and effectiveness of the internal control system to ensure the achievement of the organisation's objectives in the areas reviewed. Our approach, as set out in the firm's Internal Audit Manual, is to help the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Our internal audit work for the 12 month period from 1 April 2018 to 31 March 2019 was carried out in accordance with the internal audit plan approved by management and the Audit and Scrutiny Committee, adjusted during the year for any emerging risk issues. 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 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.

Scope and Approach

Audit Approach

We have reviewed the control policies and procedures employed by Brentwood Borough Council to manage risks in business areas identified by management set out in the 2018-19 Internal Audit Annual Plan approved by the Audit and Scrutiny Committee. This report is made solely in relation to those business areas and risks reviewed in the year and does not relate to any of the other operations of the organisation. Our approach complies with best professional practice, in particular, Public Sector Internal Audit Standards, the Chartered Institute of Internal Auditors' Position Statement on Risk Based Internal Auditing.

We discharge our role, as detailed within the audit planning documents agreed with Brentwood Borough Council management for each review, by:

- Considering the risks that have been identified by management as being associated with the processes under review
- Reviewing the written policies and procedures and holding discussions with management to identify process controls
- Evaluating the risk management activities and controls established by management to address the risks it is seeking to manage
- Performing walkthrough tests to determine whether the expected risk management activities and controls are in place
- Performing compliance tests (where appropriate) to determine that the risk management activities and controls have operated as expected during the period.

Audit Opinion

The opinion provided on page 4 of this report is based on historical information and the projection of any information or conclusions contained in our opinion to any future periods is subject to the risk that changes may alter its validity.

Reporting Mechanisms and Practices

Our initial draft reports are sent to the key officer responsible for the area under review in order to gather management responses. In every instance there is an opportunity to discuss the draft report in detail. Therefore, any issues or concerns can be discussed with management before finalisation of the reports.

Our method of operating with the Audit and Scrutiny Committee is to agree reports with management and then present and discuss the matters arising at the Audit and Scrutiny Committee meetings.

Management actions on our recommendations

Management have generally been conscientious in reviewing and commenting on our reports. For the reports which have been finalised, management have responded positively. The responses indicate that appropriate steps to implement our recommendations are expected.

Recommendations follow-up

Implementation of recommendations is a key determinant of our annual opinion. If recommendations are not implemented in a timely manner then weaknesses in control and governance frameworks will remain in place. Furthermore, an unwillingness or inability to implement recommendations reflects poorly on management's commitment to the maintenance of a robust control environment.

Relationship with external audit

All our final reports are available to the external auditors through the Audit and Scrutiny Committee papers and are available on request. Our files are also available to external audit should they wish to review working papers to place reliance on the work of internal audit.

Report by BDO LLP to Brentwood Borough Council

As the internal auditors of Brentwood Borough Council we are required to provide the Audit and Scrutiny Committee, and the Corporate Leadership Board with an opinion on the adequacy and effectiveness of risk management, governance and internal control processes, as well as arrangements to promote value for money.

In giving our opinion it should be noted that assurance can never be absolute. The internal audit service provides Brentwood Borough Council with Moderate Assurance that there are no major weaknesses in the internal control system for the areas reviewed in 2018-19. Therefore, the statement of assurance is not a guarantee that all aspects of the internal control system are adequate and effective. The statement of assurance should confirm that, based on the evidence of the audits conducted, there are no signs of material weaknesses in the framework of control.

In assessing the level of assurance to be given, we have taken into account:

- All internal audits undertaken by BDO LLP during 2018-19
- Any follow-up action taken in respect of audits from previous periods for these audit areas
- Whether any significant recommendations have not been accepted by management and the consequent risks
- The effects of any significant changes in the organisation's objectives or systems
- Matters arising from previous internal audit reports to the Council.



KEY PERFORMANCE INDICATORS

Quality Assurance as per the Internal Audit Charter	KPI Results	RAG Rating
Annual Audit Plan delivered in line with timetable	Three audits have been deferred at management's request, as detailed on page 3	
Actual days are in accordance with Annual Audit Plan	To date this KPI has been met	
Customer satisfaction reports - overall score at least 70% for surveys issued at the end of each audit	No surveys have been received relating to 2018/19 as yet	
Annual survey to Audit Committee to achieve score of at least 70%	Survey to be issued in June 2019	
At least 60% input from qualified staff	To date this KPI has been met	
Issue of draft report within 3 weeks of fieldwork 'closing' meeting	The first two audit reports (Building Control and Planning) were deferred for issue pending agreement and signing of the new contract with BDO as the Council's internal audit provider	
Finalise internal audit report 1 week after management responses to report are received	To date this KPI has been met	
Positive result from any external review	An external audit review was not undertaken during 2018/19. The internal cold review on the Council's records and files relating to the internal audit services was passed.	
Audit sponsor to respond to terms of reference within one week of receipt and to draft reports within two weeks of receipt	To date this KPI has been met	
Audit sponsor to implement audit recommendations within the agreed timeframe	To date, 71% of recommendations falling due for implementation have been completed.	
Internal audit to confirm to each meeting of the Audit and Scrutiny Committee whether appropriate co-operation has been provided by management and staff	We can confirm that for the audits undertaken to date, management and staff have supported our work, their co-operation has enabled us to complete our work in line with the terms of reference through access to records, systems and staff as necessary.	

KEY for RAG rating: rating



= met target



= partly met target



= not met target



= not applicable



APPENDIX 1

OPINION SIGNIFICANCE DEFINITION

Level of Assurance	Design Opinion	Findings from review	Effectiveness Opinion	Findings from review
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.



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