

Brentwood Borough Council

INTERNAL AUDIT ANNUAL REPORT

June 2015



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EXECUTIVE SUMMARY

Internal Audit 2014/15

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:

Customer Services	Car Parking and Golf Club Income
Transformation Programme (Town Hall Re-modelling Project)	Partnership Working
Performance Management	Capital Developments
Financial Systems (including Revenues & Benefits and Payroll (Draft))	Housing Rents and Service Charges
Risk Management	Repairs and Maintenance
IT Transformation(Draft)	Property Management
IT Data Security	

We have detailed the opinions of each report and key findings on pages 4 to 8.

Our internal audit work for the 12 month period from 1 April 2014 to 31 March 2015 was carried out in accordance with the internal audit plan approved by management and the Audit and Scrutiny Committee. The plan was based upon discussions held with management and was constructed in such a way as to gain a level of assurance on the main financial and management systems reviewed. There were no restrictions placed upon the scope of our audit and our work complied with Public Sector Internal Audit Standards. The whole plan has been completed except for our review of Counter Fraud arrangements, which we agreed would span financial years. We have completed a full fraud risk assessment on the arrangements in place at the Council. This is near completion and our report is due to be issued imminently.

Head of Internal Audit Opinion

The role of internal audit is to provide an opinion to members, 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 organisation's risk management, control and governance processes, within the scope of work undertaken by our firm as outsourced providers of the internal audit service. It also summarises the activities of internal audit for the period.

Opinion

The basis for forming my opinion is as follows:

- An assessment of the design and operation of the underpinning risk management arrangements and supporting processes;
- An assessment of the range of individual opinions arising from risk based 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 management's progress in respect of addressing control weaknesses; and
- Any reliance that is being placed upon third party assurances.

Overall, we are able to provide moderate assurance that there is a sound system of internal control, designed to meet the Council's objectives and that controls are being applied consistently. In forming our view we have taken into account that:

- The majority of audits provided moderate assurance, with the key financial systems receiving substantial assurance in terms of design.
- The Council has achieved their budget for 2014/15 and has plans in place to ensure that the budget gap is addressed in future years. The Council has recognised the reduction of government funding in their future financial plans.
- Some areas of weakness have been identified through our reviews, including with risk management and IT arrangements, and the Council is working on addressing these issues. Implementation of recommendations has generally been satisfactory, despite changes of key personnel in some areas.

SUMMARY OF REPORTS

Review	Level of Assurance - Design	Level of Assurance - Effectiveness	Key Findings
Customer Services	Moderate	Moderate	<p>We found that there is strong leadership within Customer Services and the leadership team have a clear vision for the type of customer contact centre which they want to deliver to services across the Council and the technological requirements which they will require to support the new infrastructure. The contact centre is now successfully managing customer enquiries on behalf of services across the Council.</p> <p>However we were unable to see evidence or rationale for the savings target of £250k which was set out in the business case for the contact centre. We also found that there is no customer access strategy in place to ensure benefits are realised from channel shift. We also recommended that the Council develops an effective contact monitoring framework.</p>
Transformation Programme (Town Hall Re-modelling Project)	Moderate	Moderate	<p>The Council has a clear reporting structure in place to escalate any concerns about the Town Hall Re-Modelling Project. The Council has a sound governance architecture in place which provides an opportunity to manage issues and risks that arise over the course of the Project. There is strong political oversight of the Project through the Town Hall Working Group. The Council has designed the re-modelled Town Hall in a way which permits flexibility in the face of changing future demands.</p> <p>Our review found that the Council should make better use of the Highlight Report system which it has in place to monitor Project progress by ensuring that there is a clear internal logic to the RAG rating assigned to project milestones, standardising descriptions of ongoing project tasks and ensuring all milestones have anticipated completion dates. We also recommended that the Council looks to formalise the arrangements and contingency plans with external partners who will be using the Town Hall and ensure that they sign up to specific commitments.</p>
Performance Management	Moderate	Moderate	<p>As at October 2014 the project management framework was under review and had not been fully implemented. We found that the Council has a clear vision for the structure and framework that they wish to see in place for the managing of performance indicators and projects, and is already implementing improvements to the processes. The framework proposed is well structured and should improve the Council's selection of key projects to further its corporate priorities and the outcomes from these projects.</p> <p>However we found that the key performance indicators set were not always in line with the Corporate Plan and there was little evidence that the Corporate Plan was embedded in the performance management process. Performance targets set were not always consistent in the level of challenge set and there is no additional corporate action taken when performance is not being met.</p>

SUMMARY OF REPORTS

Review	Level of Assurance - Design	Level of Assurance - Effectiveness	Key Findings
Financial Systems	Substantial	Moderate	<p>We carried out a comprehensive review including the general ledger, accounts payable, accounts receivable, treasury management and budgetary control. We found there to be a sound system of internal control designed to achieve system objectives with a well-supported finance function.</p> <p>We found a small number of areas for improvement around the timelines of the completion of reconciliations and evidence of review. We also recommended that in cases where accounts payable approve an invoice on behalf of another department, the reason is clearly documented and validated on the system. User access should be reviewed annually to ensure that the assignment of Officers to authorise expenditure, including limits set for particular cost centres, is reasonable and up to date.</p>
Revenues and Benefits	Substantial	Moderate	<p>We found there to be a sound system of internal control designed to achieve system objectives with a well-supported Revenues and Benefits function. We found there to be strong controls around the review process of benefit claim applications and the writing off of overpayments. Improvements have been made to access right controls on the Northgate system.</p> <p>We found however that no documentation is retained in relation to the checks performed for the annual uprating of parameters on the Northgate system. We also noted that the policy for recovering benefit overpayments, which is currently not being followed in practice, is under review to ensure that it is more effective.</p>
Payroll (Draft)	Limited	Limited	<p>From April 2014 the Council's payroll function was outsourced to Midland HR and from January 2015 the full outsourcing of the Council's HR functions was also transferred. We reviewed the controls that were in place to manage the transfer of payroll data between the old payroll system and the Midland HR system, however there was little evidence retained and we were unable to perform our own detailed testing as reports were not available.</p> <p>We were unable to test the effectiveness of key controls in the following areas due to a lack of supporting information being available from Midland HR: authorisation of vacancies, authorisation of new starters, authorisation of expenses and overtime payments by Managers and Heads of Service, and leaver notifications. From discussions we also noted that the current process for staff leavers appears disjointed and necessary actions may not be completed for every leaver. There are also no contract key performance indicators with Midland HR for the HR aspects of the contract.</p>

SUMMARY OF REPORTS

Review	Level of Assurance - Design	Level of Assurance - Effectiveness	Key Findings
Risk Management	Limited	Moderate	<p>Our review found that the Strategic Risk Register had been redeveloped over the last year, with the help of Zurich, and is well-structured. The Council will be working on redeveloping the Operational Risk Register over the coming months. Training has been provided to all members of CLB and the Audit and Scrutiny Committee and will be rolled out to all staff at the Council in due course.</p> <p>However we found that there is no clear link between the risks included on the Risk Register and the Council's Corporate Plan. There is not a strong process in place for considering and identifying the risks that may inhibit the Council from achieving its Corporate Objectives. Risks in relation to the Council's projects are not included on the Risk Registers and we also found that Risk Management is not a standing agenda item at either the Corporate Leadership Board or the Senior Management Team meetings. We recommended that the Council should have an Officer in place with overall responsibility for Risk Management to oversee the implementation of the required actions noted on the Risk Register and also challenge the controls in place to mitigate the risks.</p>
IT Transformation (Draft)	Limited	Limited	<p>The Council has embarked on a comprehensive review of its IT strategy and the IT and Transformation programme (ITTP). Our review found that senior appointments have been made and responsibilities for the delivery of the IT programmes have been assigned. The IT departmental structure has been revised to reflect the need for flexible resourcing to meet skills and capacity required to deliver current and future IT projects.</p> <p>However we found that there was no evidence of formal approval, leadership and senior management support for the ITTP and there was no evidence that the ITTP supports the Council's Corporate Objectives. The governance and reporting arrangements for the ITTP is unclear and not documented. There is also currently no IT Strategic Plan.</p>
IT Data Security	Limited	Limited	<p>Our review found that the information security governance and management arrangements at the Council are adequate. The Council has acceptable security access controls and technical security controls such as patch management, vulnerability scanning, antivirus/antimalware, web filtering and email scanning are in place.</p> <p>However we found that the Information Security and related policy documents are out of date and there is no policy in place for remote access. We also found that there are no documented procedures for granting, suspending and amending user accounts and there is no regular security awareness training for staff. The Council also does not obtain assurance from 3rd party service providers.</p>






SUMMARY OF REPORTS

Review	Level of Assurance - Design	Level of Assurance - Effectiveness	Key Findings
Car Parking and Golf Club Income	Limited	Moderate	Our testing did not identify any issues with the general controls around the collection and banking of cash for both car park and golf club income. However we did identify that there is no set schedule which timetables car park cash collections and therefore Finance is not aware of which car park's income to expect on any particular day. Golf income received during twilight play is entirely cash based, and is not recorded on the system when booking players in on arrival, but are recorded the following morning.
Partnership Working	Limited	Limited	<p>The Council has a number of partnership arrangements in place, for which there are set policies and procedures. The Council has recently moved from a funding strategy based on service level agreements to a commissioning based approach. An updated policy has recently been drafted and approved by the Policy Board to incorporate these changes in the funding strategy.</p> <p>However through our review we identified that there is no central policy on how partnerships should be governed, or performance monitored and for ensuring that partnerships deliver against the Council's corporate priorities. We also noted that the Council's current definition of a partnership is out of date. There is also no formal process adopted for the identification of partnerships and review of the current partnership register.</p>
Capital Developments	Moderate	Moderate	<p>Our review focused on the William Hunter Way project and the revised scope of the Town Hall Remodelling project. We found that a successful public consultation exercise was completed on the William Hunter Way Project and the options appraisal was fairly presented to the Extraordinary Council. Both of the project's objectives are in line with the Corporate Plan.</p> <p>From our review we noted that the Council had not considered the impact on revisions to the Town Hall Project on external tenants who will be leasing some space within the Town Hall. We also noted that there appeared to be a lack of engagement with some key stakeholders in the William Hunter Way project e.g. the Business and Town Centre Committee.</p>

SUMMARY OF REPORTS

Review	Level of Assurance - Design	Level of Assurance - Effectiveness	Key Findings
Housing Rents and Services Charges	Moderate	Moderate	<p>From our review we found that there is a high level of engagement within the housing team from all levels of staff and this appeared to be actively encouraged within the department. We reviewed the HRA business plan and found this to be in line with government policy. We also reviewed the controls in place around rental increases and found these to be sufficient.</p> <p>We noted that the majority of senior officers within the Housing department are employed on an interim/temporary basis; the department requires long term leadership in order to see through improvements required. We also identified that the ground maintenance service charge cost is based on historical uplift data and leaseholders are most likely being undercharged for this service. We also found cases where the Council was failing to comply with statutory requirements for consultation (section 20). We raised recommendations around the current processes for calculating service charges and how this should become more of an automated process.</p>
Repairs and Maintenance	Moderate	Moderate	<p>In June 2014 the majority of repairs and maintenance was consolidated into three new contracts. We found that the use of the new contracts has simplified and streamlined the repairs and maintenance reporting and monitoring, with adequate key performance indicators in place to monitor the contracts. We found that the contracts were awarded through a sufficiently competitive and well-structured tender process to ensure the Council received value for money.</p> <p>Through our review however we noted that very few of the new repairs and maintenance processes and controls are formally documented, resulting in some processes and controls not being evidenced or consistently applied.</p>
Property Management	Moderate	Moderate	<p>The Council uses the Orchard Property Management system to record income due through rents and service charges. The Council has also implemented a new property management system called Keystone, although this was not fully utilised at the time of the audit. Estate inspections are carried out bi-monthly and regular monitoring of outcomes are monitored. We also found that the Council has good arrangements in place to manage and monitor void properties.</p> <p>We did note however that the Void Management Procedure document has not been updated to reflect the new repairs and maintenance contracts. Additionally the document does not detail the target timescales for each stage of the repairs and maintenance process. We also recommended that all sub-departments work more closely to discuss performance and the outcomes of the estate inspections.</p>


KEY PERFORMANCE INDICATORS

<i>Reporting</i>	<i>Detail on KPI's</i>	<i>RAG Rating 2014-15</i>
<ul style="list-style-type: none"> Issuance of draft report within 3 weeks of fieldwork 'closing' meeting. 	All drafts reports were issued within 3 weeks of the closing meeting.	
<ul style="list-style-type: none"> Finalise internal audit report 1 week after management responses to reports are received. 	All draft reports were finalised within 1 week of management responses being received.	
<i>Relationships and customer satisfaction</i>		
<ul style="list-style-type: none"> Customer satisfaction. 	Good feedback has been received on all audits completed.	
<ul style="list-style-type: none"> Annual survey to achieve score of at least 70%. 	The annual survey has been issued but responses have not yet been received.	TBC
<i>Staffing and training</i>		
<ul style="list-style-type: none"> At least 60% input from qualified staff. 	10 of the audits completed were undertaken by 100% qualified staff. 60% of qualified staff have been used on all other audits.	
<i>Audit Quality</i>		
<ul style="list-style-type: none"> Reliance on work by EY where appropriate. 	No issues have been brought to our attention which means that EY have not been able to rely on our work where required.	
<ul style="list-style-type: none"> Positive result from any external review (where planned). 	External review was not completed for this financial year.	N/A

APPENDIX I - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
Substantial	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
Moderate	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non compliance with some controls, that may put some of the system objectives at risk.
Limited	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
No	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non compliance and/or compliance with inadequate controls.

Recommendation Significance	
High	A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.
Medium	A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action.
Low	Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.



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