



Audit Advisory Committee
5 December 2017

**Report from the Strategic Director
of Resources**

**Brent Housing Partnership – Summary of Audits Reports
Issued 1 April 2016 to 31 August 2017**

Wards Affected:	N/A
Key or Non-Key Decision:	N/A
Open or Part/Fully Exempt: <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
No. of Appendices:	None
Background Papers:	None
Contact Officer(s): <small>(Name, Title, Contact Details)</small>	Michael Bradley, Head of Audit and Investigations Tel: 020 8937 6526 Email: michael.bradley@brent.gov.uk

1.0 Purpose of the Report

1.1 This report provides a summary of internal audit reports issued to the Brent Housing Partnership Audit Committee during the period from 1 April 2016 to 31 August 2017.

2.0 Recommendation

2.1 That the Audit Advisory Committee notes the list of internal audit reports issued to the Brent Housing Partnership Audit Committee and the summary of issues highlighted for those audits which resulted in 'limited assurance' audit opinions.

3.0 Detail

3.1 The following table indicates the audits completed and relevant levels of assurance during the period 1st April 2016 to 31 August 2017:

AUDIT	Assurance Opinion
Housing Rents (Rent Accounting)	Reasonable
Rent Arrears Management	Reasonable

AUDIT	Assurance Opinion
Complaints Management	Reasonable
Conflict of Interests and Gifts and Hospitality (Members)	Reasonable
Gas Servicing	Reasonable
Leasehold Management & Service Charges	Reasonable
Procurement and Contracts (non-major works)	Limited
Watling Gardens TMO	Limited
Kilburn Square Coop	Limited
Management of BHP Owned Properties	Limited
Conflict of Interests and Gifts and Hospitality (Staff)	Limited

3.2 The 2016/17 and 2017/18 results and I are indicated in the table below.

	Substantial	Reasonable	Limited	Nil
2014/15	0	40% (2 audits)	60% (3)	0
2015/16	0	67% (4)	0	33% (2)
2016/17 and 2017/18	0	55% (6)	45% (5)	0

3.3 Set out below are recommendations arising from the limited assurance reports listed in paragraph 3.1 above. NB these findings are from the original audit reports and are effectively a 'snapshot' of the controls in place at that time. Management action will have taken place to address some or all of the agreed recommendations (e.g. for the Procurement section below, all contracts have been novated since this report was finalised). A formal follow up process will establish the full extent of that implementation and be reported to the Committee as per our protocol.

BHP Procurement (Non Major Works)

The BHP Procurement Team advertises contracts for the ALMO and manages the specifying, tendering and letting processes. BHP has a major contracts register that lists all contracts with a value of greater than £50,000 that are currently in place with BHP. £25,000 is currently the minimum threshold for a contract to be subject to a tender process but there are discussions in place to adjust this to £100,000.

The objective of this review was to consider the design and operating effectiveness of controls in relation to the procurement of non-major works for BHP. Upon understanding the nature of the population, testing of controls was extended to cover all works and services procured by BHP during the period, excluding consultancy services contracts. We considered whether the relevant rules from BHP's procurement policy were followed in relation to the works and services, and whether any necessary approvals/waivers were sought. We identified 1 high priority, 5 medium priority and 1 low priority finding as part of our review.

Key findings were as follows:

- The waiver process (bypassing of requirement to obtain 3 quotes) is not outlined in existing policy and no register is maintained nor is the use of waivers for existing contracts monitored;
- There is currently no automated control that prevents management from raising purchase orders above the Official Journal of the European Union (OJEU) limit.
- The contract register is updated manually and is not reviewed in a systematic manner and there is currently no process in place for review of end dates on the contract register.
- No performance framework is in place for the BHP's procurement function.
- For 2/5 (40%) contracts, conflict of interest declarations could not be located for any panel members, including the non-Council member (external tenant representative). BHP Procurement did not conduct conflict of interest checks for contracted suppliers, members of the BHP team or the Council before January 2017.
- BHP's procurement policy is outlined in the 'Draft Contract purchase orders' document. The 'Draft Contract purchase orders' policy has not been formalised.

Watling Gardens TMO

The review considered the effectiveness of internal controls across a broad range of areas within Watling Gardens TMO. We identified a number of high and medium priority findings as a result of the audit.

Key findings were follows:

- The Modular Management Agreement (MMA) not finalised and set out as required in the new DCLG format;
- The Management and Maintenance Allowance not reviewed since the TMO was set up;
- A separate Code of Confidentiality as required by the MMA not in place;
- No formal Scheme of Delegation in place;
- No Conflict of Interests Policy and Gifts & Hospitality Policy in place;
- Lack of a Business Plan;
- An Annual Plan not produced, and
- Weaknesses in the area of financial management including reconciliations; payroll; compliance with HMRC regulations; and the budget.

Kilburn Square Coop

The review considered the effectiveness of internal controls across a broad range of areas within Kilburn Square Coop. We identified two high priority and five medium priority findings as a result of this audit.

Key audit findings were:

- Concerns about governance arrangements and the extent to which board members of the Coop were involved in the day to day operational running of the TMO;
- Modular Management Agreement (MMA) between the Council and the Coop not finalised or set using the new DCLG template.
- No formal scheme of delegation in place;
- A Code of Confidentiality not published as required;
- The Management and Maintenance allowance not reviewed since the formation of the Coop in 1994.
- No ethical policies and procedures (i.e. Conflict of Interests and Gifts and Hospitality policies) and guidance for both board members and staff in place.
- No process for identifying the training needs of members and no annual training and development plan in place.
- Business Plan not sufficiently comprehensive.
- The lack of a Service Level Agreement (SLA) or written protocols in place between the Council, BHP and KSTMO, and
- Weaknesses in the area of financial management including the budget; control account reconciliations, bank reconciliations, and lack of segregation of duties within the income function.

Management of BHP Properties

The review considered the effectiveness of BHP's controls and processes over the management of its own properties including the rent arrears recovery process for both current and former tenants. We identified three high priority, one medium priority and four low priority findings as a result of this audit.

Key findings were as follows:

- Rent arrears recovery actions for both current and former tenants' arrears not undertaken in compliance with procedures and timescales. More specifically no recovery action carried out on former tenant arrears since July 2014;
- Target time scales for the re-letting of intermediate / market rental and settled home properties not met. For a significant number of properties tested (87%), the targets were exceeded. This was further compounded by the failure to undertake pre void inspections;
- The majority of policies and procedures in respect of the management of BHP's own properties not reviewed or updated since 2012, and
- Unable to locate a number of documents on the V5 system including pre-inspection checklists; void inspection forms; handover certificates; and tenancy agreements.

Conflict of Interests and Gifts and Hospitality (Staff)

This review considered the design and operating effectiveness of BHP's controls to deliver ethical values in practice and the extent to which they are being complied with by all employees. We identified 8 medium risk and 1 low risk findings as part of our review.

Key findings were:

- There were inconsistencies between some of BHP's ethical policies;
- Policies not regularly reviewed and updated;
- Declarations not properly completed by some employees and authorising officers;
- Lack of evidence of discussions between employees and managers where interests have been declared;
- Lack of evidence of approval being sought and obtained by employees prior to commencement of secondary employment or starting a business, and
- Concerns about the appropriateness of some gifts and hospitality being accepted by employees.

Fire Servicing, Maintenance & Responsive Repairs of Fire Installation – Follow Up

An Internal Audit of Fire Servicing, Maintenance and Responsive Repairs of Fire Installations was undertaken in 2015/16. We undertook a follow-up exercise to determine the level of implementation of recommendations agreed by management during the 2017/18 financial period.

In the previous report fifteen recommendations (eleven priority 1; four priority 2 and one priority 3) were made and accepted by management. Based on the evidence presented, our follow up audit revealed that:

- eight recommendations had been fully implemented ,
- three recommendations had been partially implemented.
- one recommendation had not been implemented.

Please note that four recommendations were not followed up as part of this review as they related to the procurement of the initial contract which has not been re-let since the audit was initially undertaken in 2015/16.

The partially implemented recommendations relate to:

- **Monthly spot checks** – records not maintained centrally and reliance on vigilance of residents to notify BHP when they come across any out of date equipment.
- **Liquidated Damages** – yet to be applied.
- **Quality Control** – Post inspections.

The unimplemented recommendation relates to:

Payments – The theoretical amount of liquidated and ascertained damages foregone on overdue works have yet to be calculated or applied.

This audit originally attracted a 'Nil' assurance rating based on the previous definition. Because we have not followed up on all of the recommendations we have not amended the original assurance rating.

- 3.4 Whilst there were similarities between the Watling Gardens and Kilburn Square TMO audits, we found no other common themes across the areas of audit which need to be brought to the attention of the Audit Advisory Committee.

3.5 We have already undertaken follow up audit work on the audits indicated below:

- **Watling Gardens TMO** - (ten recommendations had been fully implemented; nine had been partly implemented and eight had yet to be implemented).
- **Kilburn Square TMO** - (two recommendations had been fully implemented and six had been partly implemented).
- **Complaints Management** - (four recommendations had been fully implemented; four had been partly implemented and three had yet to be implemented)

4.0 Management Updates

4.1 As a result of the closure of BHP and the services brought back under direct management by the Council, the Council's policies and procedures have been adopted for:

- Procurement
- Conflict of Interests and Gifts and Hospitality

4.2 **BHP Owned Properties** – these properties are now owned by First Wave Housing with a Service Level Agreement (SLA) with the Council to carry out housing management functions. The rent arrears and collection are now managed within the same team as the Council stock, with the same oversight and processes. This should further mitigate the risks.

4.3 **Tenant Management Organisations (TMOs)** – Consultants have been appointed to work with the two Tenant Management Organisations with a view to assessing their management capability and to report on support required to make them compliant. A report is due before the end of the calendar year.

5.0 2018/19 Plan

5.1 Future audit plans for Housing will be prepared based on previous audit assurance mapping work undertaken by Internal Audit, a review of relevant risk registers and consultation with senior management. A draft plan for 2018/19 will be brought to the Audit and Advisory Committee for approval in March 2018.

6.0 Financial Implications

6.1 None. None. There are no specific financial implications associated with noting this report.

7.0 Legal Implications

7.1 None.

8.0 Equality Implications

8.1 None.

9.0 Consultation with Ward Members and Stakeholders

9.1 None.

10.0 Human Resources/Property Implications (if appropriate)

10.1 None.

Report sign off:

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