



Internal Audit Report 2017/2018

I4B Holdings Ltd

Final

February 2018

Benefits realisation, management information and reporting

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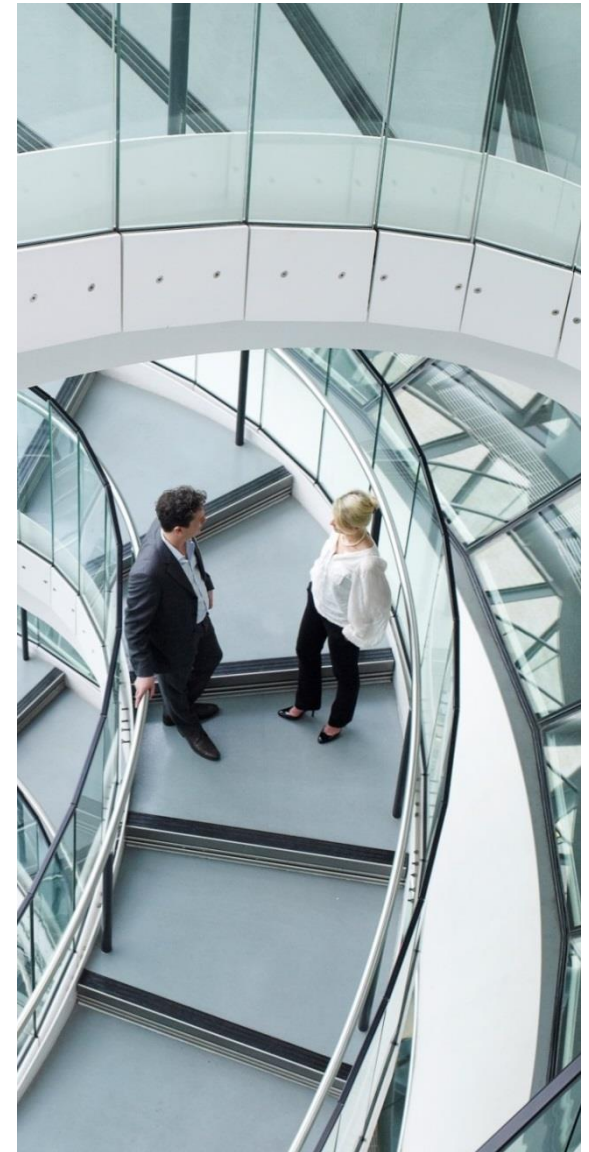
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Chris Brown, Programme Manager – PRS Portfolio Acquisitions (Brent Council)
 Paul Gulley, Head of Commercial Finance (Brent Council)
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For information:

Martin Smith, I4B Board Chair
 Councillor George Crane, Councillor (Fryent Ward)
 Peter Gadson, Director of Performance, Policy and Partnerships (Brent Council)
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Executive summary (1 of 4)

Report classification



Reasonable

Total number of findings

	Critical	High	Medium	Low	Advisory
Control design	-	-	3	3	-
Operating effectiveness	-	-	-	-	-
Total	-	-	3	3	-

Key:

- Control Design Issue (D) – There is no control in place or the design of the control in place is not sufficient to mitigate the potential risks in this area.
- Operating Effectiveness Issue (OE) – Control design is adequate, however the control is not operating as intended resulting in potential risks arising in this area.

Executive summary (2 of 4)

Headlines

I4B is a wholly owned subsidiary of Brent Council, incorporated in December 2016, I4B has been set up to reduce the number of Brent families living in temporary accommodation by providing good quality affordable homes.

The objective of this review was to consider the design and operating effectiveness (where implemented) of controls relating to Benefits realisation and Management Information and Reporting for I4B.

We noted a number of areas of good practice, including:

- The overall purpose of the company and the goals it seeks to achieve are laid out within the business plan. These have been revised appropriately to include a high level of detail within the current draft business plan that is to be presented to the January 2018 board;
- Although no non-Financial KPIs were included in the original business plan and this is highlighted as part of this review, work has already been put in place to address this and a significant number of non-Financial KPIs have been included in the new draft business plan that includes details of the measures used to derive them, and
- KPIs have been written into the Service Level Agreement with the Council and the Housing Management Contracts which should ensure management reporting is given appropriate attention by other stakeholders and provide I4B with a mechanism to hold contractors accountable.

Although examples of good practice have been noted, areas for further improvement have also been identified. We noted three medium and three low risk findings as part of this review. The key areas of improvement relate to improving the distinguishing the intended benefits of I4B from the perspective of I4B, the absence of non-financial KPIs in the original business plan and management of data in the PRS project tracker. Our other findings relate to areas where procedures could be improved to make the control environment more efficient and effective.

Summary of findings

The three medium risk findings are:

- Distinguishing objectives and implementing an approach for measuring the intended benefits (finding one):
 - Per the original business plan, the intended purpose of I4B is to reduce the number of Brent families living in temporary accommodation by providing good quality affordable homes. Displaying a causal link between I4B and any change in the homelessness rate in the Borough is likely to be very difficult given that a number of external factors will affect this rate. However, the original business plan was written before I4B was operational and from the perspective of the Council and as such does not clearly distinguish how the objectives the Council have for I4B differ from the objectives I4B has for itself. As such it is important to ensure a clear distinction between the objectives of I4B and the objectives the Council has for I4B such that I4B can implement a clear approach to measuring its intended benefits.

Executive summary (3 of 4)

- Non-Financial KPIs (finding two):
 - No non-financial KPIs were included in the original business plan. As noted above, the new business plan (to be approved by the board in January 2018) contains a significant number of KPIs of varying nature and should therefore rectify this issue, however as at the date of testing these were not in place.
- Private Rented Sector (PRS) project tracker (finding three):
 - The process for creating and maintaining the PRS project tracker, which contains a lot of key operational information and drives many of the KPIs, involves complicated manual spreadsheets that have a high risk of transcription error. We are also not aware of any data validation procedures performed to confirm the accuracy of the data on an ongoing basis.

The three low risk findings are:

- Overall purpose of company (finding four):
 - The new business plan contains a number of goals for the company but it is not outlined how these will interact or the level of priority between them.
- Monitoring the proportion of LHA rents (finding five):
 - The business plan contains the agreement with shareholders that a maximum of 25% of properties can be let at higher than LHA rates. This metric is not currently monitored.
- Limited Succession Planning (finding six):
 - The process relating to the non-financial KPIs, PRS project tracker and feedback of performance to the board appears heavily reliant on the knowledge of the— PRS Portfolio Acquisitions with limited formal documentation or guidance on these processes. Succession planning appears insufficient should this Programme Manager leave the employment of the Council/ I4B.

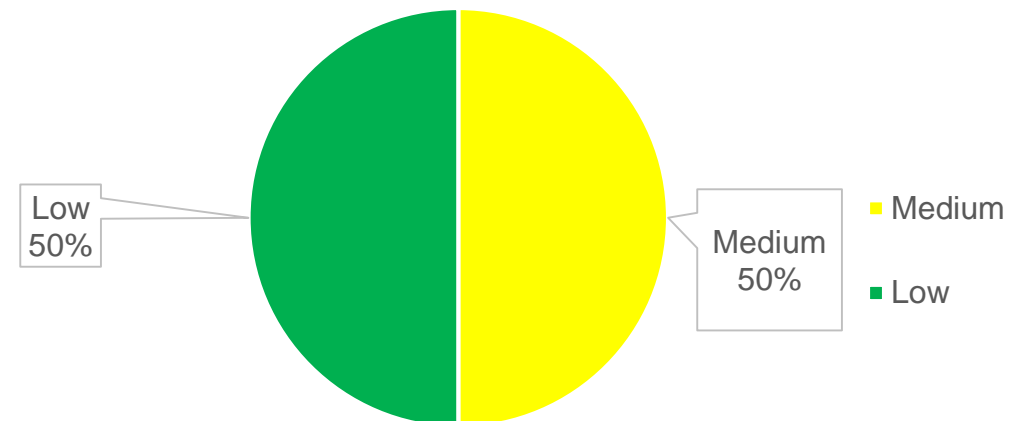
For full details of each of the findings noted as part of this report, please see the Current year findings section of the report.

Executive summary (4 of 4)

Summary of findings by areas of scope:

Area of scope	Number of findings					Finding reference
	Critical	High	Medium	Low	Advisory	
Benefits Realisation	-	-	2	1	-	1,2,4
Management Information and Reporting	-	-	1	2	-	3,5,6

Audit findings by risk rating



Medium

Medium

Medium

Low

Low

Low

Rating definitions – see appendix A

Background and scope

Background

I4B is a wholly owned subsidiary of Brent Council, incorporated in December 2016, I4B has been set up to reduce the number of Brent families living in temporary accommodation by providing good quality affordable homes.

Brent has one of the highest numbers of households in temporary accommodation in England, for quarter 2 of 2016-17, Brent reported having 2,895 households living in Temporary Accommodation, the 4th highest of all housing authorities in England.

On 14 March 2016 Cabinet approved the council's Temporary Accommodation Reform Plan, which responds to this challenge. One of the main measures outlined in the Plan is for Brent to acquire a large portfolio of Private Rented Sector (PRS) accommodation, which would be professionally managed and in which costs can be protected against rental inflation.

As a wholly owned, Local Authority Company, I4B has been setup to operate at 'arms length' from Brent, with the remit of providing affordable Private Rented Accommodation to households for which Brent has a responsibility.

Given I4B's underlying remit to reduce the number of Brent families living in temporary accommodation, the purpose of this audit was to assess I4B's approach to benefits realisation, management information and reporting. In particular the focus is the extent to which the intended benefits of I4B are clear and measurable, in addition to the sufficiency, completeness and accuracy of the reporting against these and other metrics and performance indicators both financial and non-financial.

Limitations of scope

Our work was limited to the sub-processes and control objectives outlined in Terms of Reference. Our internal audit testing was performed on a judgemental sample basis and focussed on key controls mitigating risks. Our testing is designed to assess the adequacy and effectiveness of key controls in operation at the time of the audit.

Please note that in relation to the scope per the Terms of Reference, whilst our internal audit assessed the efficiency and effectiveness of key controls from an operational perspective, it is not within our remit as internal auditors to assess the efficiency and effectiveness of policy decisions.

As detailed in the Terms of Reference, this review will not provide assurance over the robustness of I4B's financial modelling nor an analysis of costs and benefits of the structure to Brent Council.

This review has been delivered for I4B and does not provide assurance in regards to I4B's reporting to Brent Council

Current year findings (1 of 6)

Distinguishing objectives and implementing an approach for measuring the intended benefits

Control design

1

Finding rating

Rating

Medium

Finding and root cause

Per the original business plan, the intended purpose of I4B is to reduce the number of Brent families living in temporary accommodation by providing good quality affordable homes.

Displaying a causal link between I4B and any change in the homelessness rate in the Borough is likely to be very difficult given that a number of social factors will affect this rate.

However, the original business plan was written before I4B was operational and from the perspective of the Council and as such does not clearly distinguish how the objectives the Council have for I4B differ from the objectives I4B has for itself.

The Council's intention for I4B is to support its homeless agenda and reduce the number of families in temporary accommodation. I4B's primary objective for itself is to make a compliant offer to any qualifying tenant nominated by the Council.

I4B could make a compliant offer to every nominated tenant and the number of families within temporary accommodation within Brent could still increase as a result of external factors. As such it is important to ensure a clear distinction between the objectives of I4B and the objectives the Council has for I4B such that I4B can implement a clear approach to measuring its intended benefits.

Risk

In the absence of a clear distinction between the goals of I4B and the goals of the Council, and a clearly define approach for I4B to measure its success against those goals, there is a risk that there will be a lack of clarity regarding the overall success of the company which may impact upon future strategic decisions.

Recommendations

It is recommended that management ensure that there is a clear distinction between what are the goals of I4B and what are the goals of the Council such that I4B.

Once distinguished management should ensure there is a clear approach against which the overall success of the organisation in delivering against its primary objective can be measured and reviewed on a periodic basis.

Current year findings (1 of 6)

Distinguishing objectives and implementing an approach for measuring the intended benefits

Control design

1

Finding rating

Rating

Medium

Management responses

Partially accepted - This is a joint responsibility on i4B and the Council. i4B has been set up to support and deliver housing and regeneration benefits to the council. i4B's first business is as a PRS landlord tasked with providing quality accommodation for the Council to nominate homeless customers. i4B is able to quantify the number of properties let to nominated customers and will be able to evidence quality through customer surveys and KPI performance. However, the council has a greater awareness of the benefits of each nomination both in financial and quality of life measurement. i4B has approached the council's housing needs service to work jointly to better evidence benefits. As i4B propose new products it will endeavour to agree with the shareholder the most appropriate measurement for success.

Responsible person/title:

Sadie East

Target date:

September 2018

Reference number:

1718BRMIR-1

Current year findings (2 of 6)

Non-Financial KPIs

Control design

2

Finding rating

Rating

Medium

Finding and root cause

We note that in the original business plan that was improved in November 2016, all of the KPIs included against which performance of the organisation was to be monitored were financial and there were no specific metrics designed to assess the operational performance of the organisation. From discussions with management, it is understood that in advance of I4B beginning to operate, it was considered difficult to identify clear and specific metrics that would be both relevant and achievable.

We do however note that in the new business plan (to be approved by the board in January 2018) that there are now 33 KPIs in place with a large number being non-financial. Reporting on these KPIs is to commence from the January 2018 board meeting onwards.

Risk

In the absence of clearly defined KPIs both financial and non-financial that are appropriate for the nature of I4B's activities against which progress is monitored and reported on a timely basis there is a risk that measurement of on-going performance may not be sufficient and accurate to enable well-informed strategic and operational decisions to be made.

Recommendations

Management should ensure that going forward the newly defined KPIs included in the draft business plan that is to be approved at the January Board meeting are monitored to the Board at each monthly meeting.

All KPIs both financial and non-financial should have quantifiable targets and where I4B is not meeting the targets, explanations should be sought for the cause of the shortcoming and action plans implemented where necessary to address any performance issues identified.

Current year findings (2 of 6)

Non-Financial KPIs

Control design

2

Management responses

- a) *Accepted - The Board has agreed the new KPIs and will receive reports on performance at every Board meeting.*
- b) *Accepted - Targets will be set for the KPIs and performance monitored by the board. Any issues will be highlighted and addressed.*

Responsible person/title:

Chris Brown/James Cook

Target date:

April 2018

Reference number:

1718BRMIR-2

Finding rating

Rating

Medium

Current year findings (3 of 6)

PRS project tracker

Control design

3

Finding rating

Rating

Medium

Finding and root cause

The Private Rented Sector (PRS) tracker, is a manual excel spreadsheet that contains details of all current properties owned by I4B along with those identified for purchase. It contains key dates, financial data (such as purchase price and rent amounts) and other information to support a number of the KPIs (such as the status of refurbishment). The tracker is maintained by the Programme Manager – PRS Portfolio Acquisitions and is placed in a dashboard each month.

The processes for creating this collates data from a number of sources and is a very manual process undertaken within complicated spreadsheets that have a high risk of transcription errors. Despite the complexity of the process, there are not currently any data validation procedures performed to confirm the accuracy and completeness of the data on an ongoing basis.

Risk

Given the manual nature of the process, the complexity of the spreadsheets, and the absence of any data validation checks, there is a risk that information in the PRS tracker may not be accurate and complete and errors in the data impacting upon the KPIs being reported may not be identified and addressed accordingly. This is likely to become a higher risk as the number of properties operated by I4B increases.

Recommendations

Management should examine the possibility of using a system based approach to manage and maintain this information.

However, if an appropriate system based approach is not considered the most efficient approach then management should seek to incorporate data validation checks either embedded within the spreadsheet or as review checks to be undertaken as part of the process of updating the PRS tracker in order to give assurance over the accuracy and completeness of data.

Current year findings (3 of 6)

PRS project tracker

Control design

3

Management responses

Accepted - The Company and the Shareholder are considering systems able to improve data collection, accuracy and transparency. A process mapping workshop took place on 29 January 2018 which contributed to developing requirements for a system.

Responsible person/title:

Chris Brown

Target date:

November 2018

Reference number:

1718BRMIR-3

Finding rating

Rating

Medium

Current year findings (4 of 6)

Overall purpose of company

Control design

4

Finding rating

Rating

Low

Finding and root cause

Within the new business plan, the purpose of the company has expanded from the original homelessness remit to include other elements e.g. 'invest to deliver regeneration and financial benefits for its sole shareholder'. We understand from discussions with management that these other activities are primarily in place to support the homelessness goal (i.e. increase the gross yield and diversify to provide a stronger financial base) and explore other opportunities for how I4B can support the overall strategy of Brent Council. However, it is not outlined how the multiple goals will interact with each other and what level of priority will be given to each of them.

Risk

In the absence of clarity regarding the relationships between the different remits of the company and the prioritisation of these, there is a risk that the intended benefits of I4B's existence are not clearly defined which may result in a lack of clarity regarding the success of the company.

Recommendations

Management should ensure that purpose of the company is clearly defined with the priority of the company's foals and how they interact with each other clearly laid out in the business plan such that the intended benefits of I4B's existence are clear.

Management responses

Accepted - This will be reflected in i4B's new and future business plans. As i4B proposes new products it will endeavour to agree with the shareholder the most appropriate measurement for success.

Responsible person/title:

Sadie East

Target date:

April 2018

Reference number:

1718BRMIR-4

Current year findings (5 of 6)

Monitoring the proportion of LHA rents

Control design

5

Finding rating

Rating

Low

Finding and root cause

The I4B business plan contains the following statement that 'The total mix of properties that may be let at greater than LHA rates is 25% of the portfolio, which may be flexed by prior agreement with the shareholders representative.' This is to ensure that I4B remains primarily focussed on the goal of providing affordable accommodation to Brent Residents.

To date all houses have been rented at LHA rates but we are aware that there are plans in the next phase of the business plan to introduce Intermediate Market Rent and Market Rent Properties and currently, as part of either the financial model or the KPIs, there is no process in place to ensure that adherence to this threshold is monitored.

Risk

If the 25% limit is not monitored, then there is a risk that, as other types of rent are introduced, it may be unknowingly breached putting I4B in breach of the covenants of its shareholders agreement.

Recommendations

Management should ensure that the proportion of properties let in excess of LHA rates is monitored and reported to the Board in order to inform future decisions regarding purchasing and tenancy types.

Management responses

Accepted - This has been added to the suite of KPI indicators as KPI 34.

Responsible person/title:

Chris Brown

Target date:

April 2018

Reference number:

1718BRMIR-5

Current year findings (6 of 6)

Succession Planning

Control design

6

Finding rating

Rating

Low

Finding and root cause

We understand that the Programme Manager has a fortnightly feedback session with an I4B Board member in order to feedback operational or performance issues between board meetings. Weekly, an update regarding the PRS Meeting is sent to the I4B board to inform them of the proposed acquisitions and seek their comments.

There does not appear to be any methodology documentation for these two processes with the Programme Manager responsible for the production of the necessary data and management of the feedback to the board.

In addition, a significant amount of the non-Financial KPIs are to be sourced from the PRS project tracker which is maintained by the Programme Manager and there does not appear to be guidance documents available for how this spreadsheet is maintained.

Risk

Failure to ensure that key operating procedures including those that form part of periodic reporting are clearly documented places reliance on the current individuals in post and exposes I4B to the risk that were there to be changes in key staff, the necessary processes may not be able to be followed by an alternative staff member.

Recommendations

Management should create guidance documents for how key performance metrics from the PRS project tracker are collated and how the feedback is communicated to senior stakeholders and the board.

Current year findings (6 of 6)

Limited Succession Planning

Control design

6

Management responses

Accepted - resources will be identified to provide this guidance.

Responsible person/title:

Chris Brown

Target date:

August 2018

Reference number:

1718BRMIR-6

Finding rating

Rating

Low

Appendix A: Basis of our classifications

Individual finding ratings

Critical

A finding that could have a:

- **Critical** impact on operational performance; or
- **Critical** monetary or financial statement impact; or
- **Critical** breach in laws and regulations that could result in material fines or consequences; or
- **Critical** impact on the reputation or brand of the organisation which could threaten its future viability.

High

A finding that could have a:

- **Significant** impact on operational performance; or
- **Significant** monetary or financial statement impact; or
- **Significant** breach in laws and regulations resulting in significant fines and consequences; or
- **Significant** impact on the reputation or brand of the organisation.

Medium

A finding that could have a:

- **Moderate** impact on operational; or
- **Moderate** monetary or financial statement impact; or
- **Moderate** breach in laws and regulations resulting in fines and consequences; or
- **Moderate** impact on the reputation or brand of the organisation.

Appendix A: Basis of our classifications

Individual finding ratings

Low

A finding that could have a:

- **Minor** impact on the organisation's operational performance; or
- **Minor** monetary or financial statement impact; or
- **Minor** breach in laws and regulations with limited consequences; or
- **Minor** impact on the reputation of the organisation.

Advisory

A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Report classifications

Report classification	Level of assurance	Description
	Substantial	There is a sound system of internal control designed to achieve the client's objectives. The control processes tested are being consistently applied.
	Reasonable	While there is a basically sound system of internal control, there are weaknesses, which put some of the client's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the client's objectives at risk.
	Limited	Weaknesses in the system of internal controls are such as to put the client's objectives at risk. The level of non-compliance puts the client's objectives at risk.
	No	Control processes are generally weak leaving the processes / services open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes / services open to error or abuse.

Appendix B: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken this review subject to the limitations outlined below:

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other changes; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.