



Dacorum Borough Council

Final Internal Audit Report

Commercial Asset Management (Garages)

November 2018

This report has been prepared on the basis of the limitations set out on page 10.

CONFIDENTIAL

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Key Dates:

Date of fieldwork: 10th September 2018
Date of draft report: 31st October 2018
Receipt of responses: 12th November 2018
Date of final report: 13th November 2018

Status of our reports

This report ("Report") was prepared by Mazars LLP at the request of Dacorum Borough Council and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

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1. Executive Summary

1.1. Background

As part of the Internal Audit Plan for 2018/19, we completed a risk based audit of the processes in place for Commercial Asset Management (Garages).

1.2. Audit Objective and Scope

The overall objective of this audit was to provide assurance over the adequacy and effectiveness of current controls over the management of garages within the Borough, and provide guidance on how to improve the current controls going forward.

In summary, the scope covered the following areas: Policies and Procedures, Disposals, Vacant/Void Garages, Maintenance/Repairs, Budgeting and Income, Debt Recovery, Monitoring and Repossession and Management Information.

Summary Assessment

Our audit of the Council's internal controls operating over the management of garages found there whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk. While controls are generally operating effectively, there are weaknesses which put some of the system objectives at risk.

Our assessment in terms of the design of, and compliance with, the system of internal control covered is set out below:

Evaluation Assessment	Testing Assessment
Substantial	Substantial

Management should be aware that our internal audit work was performed according to UK Public Sector Internal Audit Standards (PSIAS) which are different from audits performed in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Similarly, the assurance gradings provided in our internal audit report are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

The classifications of our audit assessments and priority ratings definitions for our recommendations are set out in more detail in Appendix A, whilst further analysis of the control environment over Commercial Asset Management (Garages) is shown in Section 3.

1.3. Key Findings

We have raised two priority 2 recommendations and one priority 3 recommendation, where we believe there is scope for improvement within the control environment. These are set out below:

- Management of Garages (Priority 2)
- Maintenance and Repairs – Process and Procedure (Priority 2)
- Management Information – Lack of KPIs (Priority 3)

It was noted at the time of audit that there was a lack of progress on disposals of garages that were agreed by cabinet in September 2014. A Garages Disposal Strategy was being drafted and is due to be discussed at the Budget Review Group in November 2018 and therefore no specific recommendation has been raised.

Full details of the audit findings and recommendations are shown in Section 4 of the report.

1.4. Management Response

We received the management responses in a timely manner and these have been included in the main body of the report.

1.5. Acknowledgement

We would like to take this opportunity to thank all staff involved for their time and co-operation during the course of this visit.

2. Scope of Assignment

2.1. Objective

The overall objective of this audit was to provide assurance that the systems of control in respect of Commercial Asset Management (Garages), with regards to the areas set out in section 2.3, are adequate and are being consistently applied.

2.2. Approach and Methodology

The following procedures were adopted to identify and assess risks and controls and thus enable us to recommend control improvements:

- discussions with key members of staff to ascertain the nature of the systems in operation;
- evaluation of the current systems of internal control through walk-through and other non- statistical sample testing;
- identification of control weaknesses and potential process improvement opportunities;
- discussion of our findings with management and further development of our recommendations; and
- preparation and agreement of a draft report with the process owner.

2.3. Areas Covered

The audit was carried out to evaluate and test controls over the following areas:

Policies, Procedures, Roles & Responsibilities

Appropriate, policies and procedures are in place for staff to manage the Council's garages portfolio in an operationally and financially effective manner. Roles and responsibilities of key officers have been documented and communicated.

Disposals

A clear plan for the disposals of garages is in place and is based on maximising income or capital receipts. There are clear procedures in place for the disposal of garages that are designed to minimise vacancy time. Appropriate authorisation for disposal of garages is part of the procedures.

Vacant / Void Garages

All vacant or void properties should be identified and robust procedures should be in place to ensure that void times are minimised. Appropriate management of waiting lists to ensure that garages are re-let in a timely manner and waiting times for garages are reduced. There is alignment between planned maintenance work and vacant garages to ensure income is not lost whilst maintenance is undertaken.

Maintenance / Repairs

Expenditure on properties is subject to sound control, including the maintenance of properties, stock condition surveys and the procedures for emergency works. The planned maintenance and repairs for garages are undertaken on a priority basis to ensure that there is an efficient use of budgets focused on maximising income and reducing expenditure on potential disposal sites.

Budgeting and Income

The charging structure set for garages is completed by a suitably qualified person, takes consideration of key factors including the implications on overall income levels for the council and this is documented and authorised appropriately. Annual reviews of the current rent levels are carried out by a suitably qualified person and include input from the Income team in regards to overall impact for the councils Finances. The annual income budget for garages is set based on the existing level of garages held to ensure an appropriate target is set taking into account disposals, levels of voids and levels of rent arrears. All income due to the Council for Council garages is collected in full and recorded accurately within the Council's systems.

Debt Recovery, Monitoring and Repossession

All efforts are made to maximise the income recovered in full and in a timely manner in accordance with the team recovery procedures. Where non-compliance with licence conditions and/or non-payment is identified, the Council promptly repossesses the garage.















Management Information

Management information is accurate, complete, relevant, and timely to allow effective management decision making. Performance of the service is maximised and that any failure to fully achieve service objectives is identified and addressed. The service operates within the agreed financial constraints. Any variances are promptly identified and an effective course of action taken.

3. Assessment of Control Environment

The following table sets out in summary the control objectives we have covered as part of this audit, our assessment of risk based on the adequacy of controls in place, the effectiveness of the controls tested and any resultant recommendations.

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

Control Objectives Assessed	Design of Controls	Operation of Controls	Recommendations Raised
Policies, Procedures, Roles & Responsibilities			Recommendation 1
Disposals			
Vacant / Void Garages			
Maintenance / Repairs			Recommendation 2
Budgeting and Income			
Debt Recovery, Monitoring and Repossession			
Management Information			Recommendation 3

The classifications of our assessment of risk for the design and operation of controls are set out in more detail in Appendix A.

4. Observations and Recommendations

Recommendation 1: Management of Garages (Priority 2)

<p>Recommendation</p> <p>The roles and responsibilities for overall management of the garages should be clearly defined and clear lines of communication between all those responsible should be established.</p> <p>A performance reporting framework should be developed, which will ensure that relevant information is available to aid decision making.</p>
<p>Observation</p> <p>The responsibilities for managing different elements of the Garages lies across a number of roles including the Garages Manager, Housing Officers, Finance Staff and the Interim Group Manager Property and Place.</p> <p>On a monthly basis, a management meeting takes place where these various roles meet to discuss key factors in regards to garages including performance against budget, repairs and maintenance, void levels, arrears levels etc.</p> <p>However, it was noted there is a risk of conflicting management objectives between the disposal of garages to generate capital receipts and the need to increase revenue through increased letting and therefore increased garages rent. Moreover there was a lack of awareness across those responsible on the progress being made on garages including status of disposals and new repairs approvals limits.</p> <p>Therefore there is a risk that poor communication and conflicting management objectives result in ineffective management of the garages at the Council.</p>
<p>Responsibility</p> <p>Group Manager (Tenants and Leaseholders) and Group Manager (Commercial Assets & Property Development)</p>
<p>Management response / deadline</p> <p>The monthly garage meeting has good representative from all services that have responsibility for delivery. Standing items are on the agenda and minutes and actions are recorded.</p> <p>A report which details the void status, income collection levels and any changes is already circulated on a monthly basis. This will be incorporated as a regular agenda item along with KPI performance to ensure a focus on overall performance is considered across the services so decisions can be based on evidence and strategic direction.</p> <p>A formal Terms of Reference will be created for this meeting to set out the roles and responsibilities of relevant officers. This document will capture the Councils strategic objectives for the next 3 years in relation to managing garages and will set out the key delivery drivers of the group meeting to achieve these objectives. The Group Manager - Tenants and Leaseholders and Group Manager - Commercial Assets & Property Development will be jointly responsible for reporting on these outcomes to relevant members of the Corporate Management Team. These objectives will be circulated to staff and partners ensuring that all are working towards clearly defined goals.</p> <p>Deadline 31 January 2019</p>

Recommendation 2: Maintenance and Repairs – Process and Procedure (Priority 2)

<p>Recommendation</p> <p>An internal documented procedure should be updated to reflect the current guidelines for arranging repairs and all staff involved in the garage repairs process should be fully aware of the current process to follow.</p>
<p>Observation</p> <p>The procedures that are to be followed, when repairs need to be carried out on garages, should be documented to ensure that correct working practices are followed.</p> <p>There is no up to date, formally documented procedure in place for repairs that guides members of staff at Dacorum. There is a handbook available to tenants, which informs tenants that they can contact Osbourne (the contractor used for repairs) directly to arrange repair work. Audit were informed that any Dacorum staff who identify works that are required will contact the Garage Management Officer (GMO), who will raise this with Osbourne.</p> <p>The process for making garage repairs was updated in August 2018, shortly before the audit was undertaken, and the authority limit for garages was reduced from £3k to £300 to be more aligned with overall cost of garages. Audit were informed that meetings were held with Osbornes and the repairs surveyors to make them aware of this process. However to ensure the new process is fully embedded with all staff in the garage repairs process the new procedures should be produced and be clearly communicated to all staff. There is a risk that staff are not aware of and are not following the correct repairs process that is in place leading to ineffective use of repairs budgets.</p>
<p>Responsibility</p> <p>Group Manager (Property and Place)</p>
<p>Management response / deadline</p> <p>The permanent Group Manager for Property and Place has now been appointed and is responsible for overseeing the procedures that relate to the garage repairs and maintenance.</p> <p>Updates to the procedure documents will be undertaken to reflect the revisions in the process, including reductions in financial thresholds The procedure documents will be communicated to all responsible staff members at Team Meetings and issued on the team site to ensure these are embedded in the day-to-day operation of the service.</p> <p>Deadline 31st December 2018</p>





Recommendation 3: Management Information – KPI’s (Priority 3)

<p>Recommendation</p> <p>A number of additional Key Performance Indicators should be considered to allow for a more effective review of Garages performance. These could include but not be limited to:</p> <ul style="list-style-type: none"> • Void Levels; • Arrears Levels; • No. of Commencements; • No. of Repossessions; • Average no. of days between lets; and • Value and Quantity of Garage reactionary repairs. <p>Moreover, we have noted from the housing sector, that other granular performance measures are commonly used, such as the time taken to collect keys to enable repairs to take place, the time taken until works are completed and ready for re-let.</p>
<p>Observation</p> <p>The Council uses the Rocket system to monitor performance and the agreed Key Performance Indicators (KPI’s) for the Council are stored on the system to allow this to take place.</p> <p>There are currently only three KPI for Garages, which relate to achieving the budgeted income, number of lets and number of terminations in the month.</p> <p>There is a risk that an effective oversight of Garages performance does not take place due to lack of appropriate key performance indicators.</p>
<p>Responsibility</p> <p>Group Manager (Tenants and Leaseholders)</p>
<p>Management response / deadline</p> <p>A review of possible indicators will be carried out to ensure that performance is effectively monitored. These will cover a number of service areas to enable scrutiny across repairs, lettings and number of voids. All KPIs will be discussed at each monthly garage meeting so decisions can be made based on this evidence. Best practice will be considered when creating all new indicators and these will be reviewed to be incorporated into the performance framework set out in Recommendation 1.</p> <p>Deadline – 16th November 2018</p>

Appendix A – Reporting Definitions

Audit assessment

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used:

Level	Symbol	Adequacy of System Design	Effectiveness of Operating Controls
Full		There is a sound system of internal control designed to achieve the system objectives.	The controls are being consistently applied, or any weaknesses identified do not affect key controls and are unlikely to impair the achievement of the objectives of the system.
Substantial		Whilst there is a basically sound system of internal control design, there are weaknesses in design which may place some of the system objectives at risk.	While controls are generally operating effectively, there are weaknesses which put some of the system objectives at risk.
Limited		Weaknesses in the system of internal control design are such as to put the system objectives at risk.	The level of non-compliance puts the system objectives at risk.
Nil		Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

The assessment gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board and as such the grading of 'Full' does not imply that there are no risks to the stated control objectives.

Grading of recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
Priority 1	Recommendations which are fundamental to the system and upon which the organisation should take immediate action. Major issues for the attention of senior management and the Audit Committee
Priority 2	Recommendations which, although not fundamental to the system, provide scope for improvements to be made. Recommendations for local management action in their areas of responsibility.
Priority 3	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed. Detailed problems of a minor nature resolved on site through discussions with local management.

Appendix B - Staff Interviewed

The following personnel were consulted:

- Vindhya Shetty – Debit Control Officer
- Aadil Ahmed - Housing Officer, Income
- Katie Kiely – Team Leader
- Corey Hackett - Garages Manager
- Iqra Meer - Risk and Compliance Officer (Housing)
- Ian Prendergast - Interim Group Manager Property and Place
- Layna Warden – Group Manager (Tenants and Leaseholders)
- Fiona Jump – Group Manager (Finance and Resources)
- Richard Rice – Group Manager (Commercial Assets and Property Development)
- Fiona Williamson - Assistant Director (Housing)

We would like to thank the staff involved for their co-operation during the audit.

Appendix C Statement of Responsibility

We take responsibility to Dacorum Borough Council for this report which is prepared on the basis of the limitations set out below.

The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy and effectiveness of the system of internal control arrangements implemented by management and perform sample testing on those controls in the period under review with a view to providing an opinion on the extent to which risks in this area are managed.

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud.

The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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