

## Final Internal Audit Report

### Council Investment and Operational Properties – Income Maximisation

June 2019

**Distribution:** Executive Director of Resources and Monitoring Officer (Final only)  
 Director of Facilities Management and Support Services  
 Head of Estates and Asset Management  
 Head of Customer Contact  
 Senior Estates Manager

Assurance Level	Identified Issues	
<b>Substantial Assurance</b>	Priority 1	0
	Priority 2	3
	Priority 3	1

#### Confidentiality and Disclosure Clause

This report ("Report") was prepared by Mazars LLP at the request of London Borough of Croydon 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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Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.

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## 1. Introduction

- 1.1 Council Investment and Operational Properties relates to all Croydon owned properties excluding monuments and the housing stock. There is a plan however, to purchase 250 flats from the general fund, mainly in the borough of Croydon to tackle the ongoing homelessness problem.
- 1.2 Assets are continuously being reviewed to gage the best possible use both financially and logistically. From September 2018 there were no more leasehold assets.
- 1.3 A new database – Technology Forge is being used to store information such as the tenancy agreements. Not all tenancy agreements are uploaded onto the new database as of yet and therefore some are still maintained in hard copy.
- 1.4 Income is collected by the Council. Invoices are sent to individuals/organisations normally quarterly in advance. Where payments are not made, the LBC debt recovery team is responsible for recovering the monies owed to them.
- 1.5 The objectives, methodology and scope are contained in the Audit Terms of Reference at Appendix 1.

## 2. Key Issues

### Priority 2 Issues

The Asset Management Plan was for 2015-18 and made reference to posts no longer in place, (**Issue 1**).

Asset acquisition and disposal policies and/or procedure notes were not in place, (**Issue 2**).

Debt arrears reports had not been provided to the Assets and Estates Management team since September 2018, (**Issue 3**).

The Priority 3 issue is included under item 4 below.

### 3. Actions and Key Findings/Rationale

<b>Control Area 1: Legislative, Organisational and Management Requirements – Asset Management Plan</b>		<b>Detailed Finding/Rationale – Issue 1</b>
<b>Priority</b>	<b>Action Proposed by Management</b>	
2	Following the recent changes to the ED Resources and S151 Responsibilities the Scheme of Financial Delegation is being reviewed and amended in respect of asset transactions. The asset management will be reviewed to incorporate this and clear revised processes written to clarify the procedures and included within a revised asset management strategy.	<p>The Asset Management Plan sets out how the Asset Management Strategy is to be delivered.</p> <p>While an Asset Management Strategy for the period 2015-18 was in place, this referred to posts no longer in place and was not current for the 2018/19 year.</p> <p>Where an up to date Asset Management Plan is not in place, there is a risk that the most appropriate actions to manage the Council's assets may not be taken.</p>
<b>Responsible officer</b>	<b>Deadline</b>	
Head of Estates and Asset Management	December 2019	

<b>Control Area 2: Market Analysis and Overarching Strategy – Acquisition Procedure / Disposal Procedure</b>					
<b>Priority</b>	<b>Action Proposed by Management</b>				
2	<p>There is a formal Investment Strategy in place that was approved by the Leader in October 2018 (min ref 3718/FR). This will be included within the revised asset strategy which will also include an updated process for general acquisition and disposals in line with the revised scheme of financial delegation.</p>				
	<p><b>Detailed Finding/Rationale – Issue 2</b></p> <p>Policies and procedures set out the expectations of how tasks are to be carried out and by whom and act as a point of reference for staff while undertaking their duties.</p> <p>At the time of the audit there was no acquisition policy or procedure in place for the purchase of capital investment or operational properties by the Council (either for the Asset Management and Estates team or Council wide).</p> <p>Furthermore, while discussion with the Head of Asset Management and Estates (HAME) established that before the disposal of properties occurs, the use of these surplus properties is considered and surveyors confirm the current market values of the property, no procedure or policy was in place for the disposal of properties.</p> <p>Where there is no documented guidance of how capital investments should be purchased and disposed of, there is a risk that the most efficient and beneficial means of acquiring and disposing of property are not being used by the Council.</p>				
	<table border="1"> <thead> <tr> <th><b>Responsible officer</b></th> <th><b>Deadline</b></th> </tr> </thead> <tbody> <tr> <td>Head of Estates and Asset Management</td> <td>December 2019</td> </tr> </tbody> </table>	<b>Responsible officer</b>	<b>Deadline</b>	Head of Estates and Asset Management	December 2019
<b>Responsible officer</b>	<b>Deadline</b>				
Head of Estates and Asset Management	December 2019				

**Control Area 4: income Collection – Reports Sent from Accounts Receivable**

<b>Priority</b>		<b>Action Proposed by Management</b>	<b>Detailed Finding/Rationale – Issue 3</b>
2	<p>Monthly update meetings have now been diarised and, as part of this, an arrears report circulated beforehand. There are still some issues with Debt Recovery staffing which can lead to delays and a more robust process needs to be agreed with the Head of Customer Contact.</p>	<p>Debt recovery for rental income due from capital investments and operational properties is conducted by the debt recovery team. In order to help facilitate this debt collection process and to take landlord action when required, the Asset Management and Estates team receive monthly age debt reports.</p> <p>The Senior Estates Manager confirmed that monthly reports had been received from the Accounts Receivable Team in line with the SLA agreed between the services. However, the last report received was for September 2018 (at time of audit in December 2018). It was also explained that the Senior Estates Manager is able to search individual accounts in Oracle (Croydon's financial system) for the current position of that account to be further investigated.</p> <p>Where monthly reports are not regularly received of all accounts in arrears, there is a risk that the Asset Management and Estates team are not fully aware of the debt position and, where required, do not take appropriate landlord action.</p>	
<b>Responsible officer</b>		<b>Deadline</b>	
Senior Estates Manager / Head of Customer Contact		June 2019	

4. Priority 3 Recommendation

Action Proposed by Management	Findings
<p>These have now been progressed and were in time for year end.</p>	<p>Rolling reconciliations are undertaken by the Councils debt recovery team of the amount of outstanding debt to that reflected on the Councils general ledger on a monthly basis by the System Accountant (SA). These are then reviewed by the Head of Finance, Resources and Accountancy (HFRA).</p> <p>Internal Audit was provided with the October 2018 reconciliation, which had been undertaken by the SA and reviewed by the HFRA. There was no date stamp on the reconciliation to verify when it had been completed and reviewed to verify timeliness.</p> <p>Furthermore, it was advised by the HFRA that the SA was on sick leave until the new year and therefore the November 2018 reconciliation had not been completed at the time of the audit (December 2018) and the team was running behind.</p> <p>Where reconciliations are not completed in a timely manner, there is a risk that errors and omissions are not detected and rectified in a timely manner and are more difficult to resolve.</p>

## **TERMS OF REFERENCE**

### **Council Investments and Operational Properties – Income Maximisation**

#### **1. INTRODUCTION**

- 1.1 Council Investment and Operational Properties relates to all Croydon owned properties excluding monuments and the housing stock. There is a plan however, to purchase 250 flats from the general fund, mainly in the borough of Croydon to tackle the ongoing homelessness problem.
- 1.2 Assets are continuously being reviewed to gage the best possible use both financially and logistically. From September 2018 there will be no more leasehold assets.
- 1.3 A new database – Technology Forge is being used to store information such as the tenancy agreements. Not all tenancy agreements are uploaded onto the new database as of yet and therefore some are still maintained in hard copy.
- 1.4 Income is collected by the Council. Invoices are sent to individuals/organisations normally quarterly in advance. Where payments are not made, the LBC debt recovery team is responsible for recovering the monies owed to them.
- 1.5 This audit is being undertaken as part of the agreed Internal Audit Plan for 2018/19.

#### **2. OBJECTIVES AND METHODOLOGY**

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of the control environment relating to the Council Investment and Operational Properties – Income Maximisation audit review.
- 2.2 In order to achieve the overall objectives, a risk based systems audit approach will be carried out, documenting and evaluating the actual controls against those expected and based on this, undertaking appropriate testing conducted.
- 2.3 The key findings, conclusions, and subsequent issues arising will be presented at an exit meeting and followed by the circulation of a draft report for consideration by management. This prior to agreement and issue of the final audit report.

#### **3. SCOPE**

- 3.1 This audit will examine the Council's arrangements in relation to Council Investments and Operational Properties - income Maximisation, and will include the following areas:

Control Areas/Risks	Issues Identified		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Legislation, Organisational and Management Requirements	0	1	0
Market Analysis and Overarching Strategy	0	1	0







Council Investments and Operational Properties 2018-19

Register of Property Agreements and Tenancy Agreements	0	0	0
Income Collection	0	1	1
Budgetary Control	0	0	0
Management Reporting	0	0	0
<b>TOTAL</b>	<b>0</b>	<b>3</b>	<b>1</b>

## DEFINITIONS FOR AUDIT OPINIONS AND IDENTIFIED ISSUES

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are consistently applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage.

Priorities assigned to identified issues are based on the following criteria:

<b>Priority 1 (High)</b>	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
<b>Priority 2 (Medium)</b>	Control weakness that represent an exposure to risk and require timely action.
<b>Priority 3 (Low)</b>	Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice.

## STATEMENT OF RESPONSIBILITY

We take responsibility to the London Borough of Croydon 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.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars LLP accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

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