

FINAL INTERNAL AUDIT REPORT

ENVIRONMENTAL AND COMMUNITY SERVICES

REVIEW OF THE MANAGEMENT OF STRATEGIC PROPERTY FOR 2017-18

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REVIEW OF THE MANAGEMENT OF STRATEGIC PROPERTY AUDIT 2017-18

INTRODUCTION

1. This report sets out the results of our systems based audit of the management of Strategic Property for 2017-18. The audit was started in Q4 of 2017-18 as part of the programmed work specified in the 2017/18 Internal Audit Plan agreed by the Section 151 Officer and Audit Sub-Committee.
2. The controls we expect to see in place are designed to minimise the department's exposure to a range of risks. Weaknesses in controls that have been highlighted will increase the associated risks and should therefore be corrected to assist overall effective operations. Any Priority 1 recommendations or Nil/Limited Assurance opinions must be considered for inclusion in the Department's Risk Register.

AUDIT SCOPE

3. The scope of the audit was outlined in the Terms of Reference issued on 09/03/2018.

AUDIT OPINION

4. Overall, the conclusion of this audit was that limited assurance can be placed on the effectiveness of the overall controls. Definitions of the audit opinions can be found in Appendix D.

MANAGEMENT SUMMARY

5. The contract for facilities management is with the Total Facilities Management contractor (TMF contractor) but, the Strategic Property part of the contract is performed by the Strategic Property sub-contractor. The Communications Protocol (Schedule 26) in the contract specifies how the relationship between LB of Bromley, the TMF contractor and the Strategic Property sub-contractor should operate and LBB approaches the Strategic Property sub-contractor directly. The payment process within that schedule (paragraph 7) states that the Strategic Property sub-contractor will invoice the TMF contractor, who then invoice LBB for the agreed amount.

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6. This review focused on the management of Strategic Property including performance of the Strategic Property sub-contractor. Controls were reviewed by way of checking supporting documents and sample testing. The following issues have been identified which we would like to draw to management's attention:-

- **Verification of Contract Performance to support payments**

A sample of 5 invoices was selected from all payments made to the TMF contractor in respect of the Strategic Property sub-contractor between October 2016 and March 2018 to ensure validation checks were undertaken before approval for payment. The sample of 5 invoices included 4 monthly contract invoices for the Strategic Property sub-contractor. To validate the payment in full for the sample invoices the monthly monitoring reports, the tracker of LBB's work schedule and contract monitoring meeting minutes for the sample months were checked. Findings arose in all three areas (as discussed in Finding 1) that challenge the validity of these documents to support payment in full.

- **Issues with work commissioned from the Strategic Property sub-contractor which is outside the scope of the contract**

It was noted that a number of projects were commissioned from the Strategic Property sub-contractor which are outside the scope of the contract. These projects were funded from capital funding of £250K for property disposal/feasibility works. This funding was agreed by the Executive on 24/05/2017 to enable feasibility works to be undertaken on various sites. The Executive was informed by Management that the feasibility work would be undertaken by the Strategic Property sub-contractor, the key subcontractor of the Council's Total Facilities Management Contract, and their fee basis is calculated against the schedule of rates contained within the contract and consequently separate tenders for this work would not be required.

From the review of a sample of 5 projects, it could not be established that the TFM agreed schedule of rates were applied for these projects/feasibility studies. Payments have been made towards 3 of the 5 projects in the sample, for a total of £67,752 and therefore it cannot be confirmed if the Council has secured value for money.

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- **Key performance Indicators (KPIs)**

The KPIs in the original contract were deemed to be unworkable by Management and a review of KPIs was started with the contractor in January 2017 which completed in January 2018. New KPIs and a Balanced Scorecard system to calculate the penalties were agreed by the Strategic Partnership Board for implementation from 01/03/2018. The following issues were noted with the review process and adoption of new KPIs and Balanced Scorecard system to calculate the penalties:

- No interim arrangements were put in place for monitoring and application of penalties whilst the original KPIs were under review.
- No penalty has been applied which relate to the management of Strategic Property since the start of the contract in December 2016. Due to poor recording of contract monitoring information it could not be confirmed if satisfactory service has been received and penalties were not due, or penalties were due, but had not been applied.
- There is no evidence that the management has considered the financial impact of non-delivery of service to LBB to inform the maximum penalties.

- **£1m income generation plan**

On commencement of the contract in October 2016, the Strategic Property sub-contractor was expected to develop and agree with the LBB a £1m Income Generation Strategy and Plan by April 2017 and monitor progress against this plan and report monthly. On enquiry by Internal Audit on the progress of the plan, the Head of Asset and Investment (HAI) advised that another discussion had taken place (that was also not formally documented) between LBB and the Strategic Property sub-contractor where it was further discussed that the savings would not be required to start being realised until April 2018.

Management provided a copy of the Income generation plan as produced by the Strategic Property sub-contractor to Internal Audit which is attached in Appendix D. Internal Audit queried the assumptions made or factors that the Strategic Property sub-contractor has taken into account in generating the plan and how have they identified the

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properties from which they consider the additional income will be achieved. The HAI informed Audit that he does not have any information to substantiate the Income generation plan (Appendix D).

A copy of the first quarterly monitoring report on the progress of the Income Generation Plan as produced by the contractor was reviewed by Internal Audit. As part of the review, Internal Audit discussed the monitoring report with The Senior Accountant ECS Finance to confirm that the increase in income identified in the monitoring report was new Income. The Senior Accountant ECS Finance advised that a number of queries are outstanding on the new income identified by the contractor. Finance had been chasing the contractor since July 2018 to resolve the outstanding queries so Finance can reflect the true figure into their budget monitoring and budget estimate process.

7. Validation of a sample of 5 invoices selected from all payments made to the TMF contractor in respect of the Strategic Property sub-contractor between October 2016 and March 2018 also highlighted that one invoice was paid on an estimated amount and a year-end reconciliation for 2017-18 has not been obtained to establish the actuals.
8. From the review of a sample of 15 commercial properties Internal Audit established the following:
 - There are no common debt recovery procedures applicable to both the Exchequer contractor and the Strategic Property sub-contractor which clearly define the roles and responsibilities of each department within the contract.
 - The rental arrears report identifies debt by customer name (tenant), as opposed to property address. This poses difficulties in cases where the same tenant occupies multiple properties.

SIGNIFICANT FINDINGS (PRIORITY 1)

9. There are 4 Priority 1 recommendations identified in this report and discussed in paragraph 6.

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DETAILED FINDINGS / MANAGEMENT ACTION PLAN

10. The findings of this report, together with an assessment of the risk associated with any control weaknesses identified, are detailed in Appendix A. Any recommendations to management are raised and prioritised at Appendix B.

ACKNOWLEDGEMENT

11. Internal Audit would like to thank all staff contacted during this review for their help and co-operation.

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
1	<p><u>Verification of Contract Performance to support payments</u></p> <p>A sample of 5 invoices was selected from all payments made to the TFM contractor in respect of the Strategic Property sub-contractor between October 2016 and March 2018 to ensure validation checks were undertaken before approval for payment.</p> <p>The sample included 4 monthly contract invoices for the Strategic Property sub-contractor; Invoice 90644336 for the period October 2017, Invoice 90617392 for the period April 2017, Invoice 90656168 for the period December 2017 and Invoice 90644335 for the period September 2017. The invoices included the monthly payment for the Strategic property sub-contractor to deliver Schedule 2 works as specified in the contract.</p> <p>Management advised that to support payment in full the contractor submits a monthly monitoring report and a tracker of LBB’s work schedule to evidence delivery of services specified in the contract (Schedule 2). These documents are reviewed at the monthly contract monitoring meeting. Following the discussions at the contract monitoring meeting if the</p>	<p>Performance of the contractor is not managed, leading to ineffective service delivery and value for money not being obtained.</p>	<p>Payments of invoices must be supported by robust contract monitoring. Deficiencies in contract monitoring must be remedied.</p>

Priority 1
Required to address major weaknesses and should be implemented as soon as possible

Priority 2
Required to address issues which do not represent good practice

Priority 3
Identification of suggested areas for improvement

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	<p>contractor’s performance is deemed to be satisfactory and there are no issues which will warrant application of a penalty the invoices are agreed for payment.</p> <p>To validate the payment in full for the sample invoices the monthly monitoring reports, tracker of LBB’s work schedule and contract monitoring meeting minutes for the sample months were checked. Findings arose in all three areas (as discussed below) that challenge the validity of these documents to support payment in full.</p> <p style="text-align: center;">Issues with the Strategic Property sub-contract monitoring reports</p> <p>Discussions with management highlighted that the information presented in the monitoring reports by the contractor is not independently verified by the contract manager. Therefore there is no independent check that the information presented on the report is accurate.</p> <p>Further review of the monitoring reports September 2017 to January 2018 was undertaken to verify that they provided evidence of service delivery and contractor’s performance. The</p>		<p>Management should independently verify the accuracy of the performance information produced by the Contractor.</p> <p>Management should ensure that contract monitoring reports clearly show evidence of completed work with</p>

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	<p>main issues arising:-</p> <ul style="list-style-type: none"> • The KPI report was in a dashboard format displaying RAG status over a 3 month period. No supporting documents were attached to the reports to verify accuracy of graphical data presented. It should be noted that these KPIs are linked to financial penalties. • The performance dashboard report is not kept updated and the same report has been submitted for the 5 months reviewed. • The Property Management (L & T) activities report lists the number of rent reviews that are outstanding, rent reviews that are due in next 12 months; the number of renewals due in the next 12 months and outstanding renewals. This information does not demonstrate how many, if any, rent reviews were undertaken by the contractor in that month and therefore performance. • The Property debtors report lists the top 10 debtors at the time of generating the information. This information is provided to the Strategic Property sub-contractor by 		<p>sufficient details to support payments for all services specified in schedule 2 of the contract</p> <p>Reports presented in dashboard format should be supported by evidence to verify the accuracy of graphical data presented.</p> <p>The performance dashboards reports should be updated and reflect any changes during that period. Submission of the same report each month should be challenged by the Client Team.</p> <p>Activity reports should reflect actual work</p>

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	<p>the Exchequer contractor. The report does not record any information to demonstrate if any action was taken by the Strategic Property sub-contractor to address the outstanding debt.</p> <ul style="list-style-type: none"> • A list of acquisitions is included, however the status and next action in the process are not kept updated. It was noted that the asking price of 2 properties to be acquired increased from £315k to £320K (December 2017 report). No explanation was recorded for the increase in asking price on the report or in the contract monitoring minutes. • A List of Disposals is included, however the status and next action fields are not updated. It was noted that the value of properties to be sold decreased from £550k to £530K (December 2017 report). No explanation was recorded for the decrease in the price on the report or in the contract monitoring minutes. • The monthly reports do not cover all services specified in schedule 2 of the contract. 		<p>undertaken to allow meaningful monitoring of performance.</p> <p>The acquisitions and disposals lists should include adequate annotations and explanation to support change.</p>

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	<p>The information provided by the contractor in the form of the monthly monitoring report is insufficient to demonstrate satisfactory performance as no meaningful conclusions can be drawn.</p> <p style="text-align: center;">Issues with tracker of LBB’s work schedule</p> <p>Management advised that the contractor also provides a tracker report ahead of contract monitoring meetings for contract managers to review and highlight any issues at the contract monitoring meeting. Management could not evidence that they received the tracker report before the contract monitoring meetings for April 2017 and September 2017.</p> <p style="text-align: center;">Issues with contract monitoring meetings</p> <p>Discussion with management confirmed that the contract monitoring meetings are minuted. Copies of the minutes are distributed to both parties and agreed at the next meeting. The minutes were not comprehensive. It was noted that the issues discussed and action required and their timescales for completion were not recorded on the action log in all instances. The reports and information discussed at the contract</p>		<p>Management should ensure that they receive the tracker reports before the contract monitoring meetings so it can be reviewed and any issues highlighted by the report can be discussed at the contract monitoring meeting.</p> <p>The Contract monitoring meeting minutes should include :</p> <ul style="list-style-type: none"> • Detailed notes on discussion of the monitoring report • Agreed actions and their timescales for completion must be

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	<p>monitoring meeting were not retained with the contract monitoring minutes.</p> <p>The monthly invoice should be brought to the contract monitoring meeting but the check on the minutes for the relevant monthly meetings, identified that:-</p> <ul style="list-style-type: none"> • Invoice 90644336 for £ 171,410.99 for the period October 2017: The invoice was not discussed at the Contract monitoring meeting on 15/11/2017. It is minuted that the contractor informed Bromley that the October invoice was not yet ready to bring to the meeting. It should be noted that the invoice was raised on 13/11/2017 and paid on 15/11/2017. • Invoice 90617392 for £425,945.30 dated 10/07/2017 for the period April 2017: The invoice for April 2017 was not brought to the meeting on 17/05/2017. The fixed cost invoiced for Strategic and Operation property management for April 2017 was £104,875.53. The fixed cost should have been £84,214.16. Management advised that this discrepancy was identified in February 2018 which 		<p>recorded on the action log in all instances.</p> <ul style="list-style-type: none"> • Agreement of the payment due taking into account any amounts that need to be adjusted i.e. services not delivered, penalties etc. <p>[Priority 1]</p>

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	<p>occurred due to miscoding and was adjusted at a later stage via a credit note. It was noted that the invoice was paid on 11/07/2017.</p> <ul style="list-style-type: none"> • Invoice 90656168 for £ 171,410.99 for the period December 2017. The invoice for December 2017 was not brought to the meeting on 17/01/2018. It should be noted that the invoice was paid on 16/01/2018. • Invoice 90644335 for £ 171,410.99 for the period September 2017. It is not clear from the contract meeting minutes from 25/10/2017 and 15/11/2017 that the invoice for September 2017 was discussed at the meeting. It should be noted that the invoice was paid on 15/11/2017. <p>There was no formal agreement recorded that the values invoiced were due considering all factors; contract monitoring, trackers and performance.</p>		
2	<p><u>Issues with work commissioned from the Strategic Property sub-contractor which is outside the scope of the contract:</u></p>	Value for money is not achieved.	

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	<p>It was noted that a number of projects were commissioned from the Strategic Property sub-contractor which are outside the scope of the contract.</p> <p>The Head of Asset and Investment (HAI) advised these projects were funded from capital funding of £250K for property disposal/feasibility works. This funding was agreed by Executive on 24/05/2017 to enable feasibility works to be undertaken on various sites. These sites are either currently identified or yet to be identified, within the Borough, for disposal to generate a capital receipt or to redevelop providing new facilities or developments to generate efficiencies and/or economic growth.</p> <p>Internal Audit reviewed the Executive report (Report no. DRR 17/024) and noted that the members were informed that:</p> <p><i>'3.4 This feasibility work would be undertaken by the Strategic Property sub-contractor who are the key subcontractor of the Council's TFM Contract and commenced their service offering on the 1st December 2016. Their fee basis is calculated against the schedule of rates contained within the contract which are</i></p>		

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	<p><i>set against comparable frameworks with a 5% discount consequently separate tenders for this work would not be required. This will be continually monitored on a case by case and reported to Members.</i></p> <p><i>3.12 The decision to dispose or re-develop sites will be made by the Executive on a case by case basis but would be informed by the feasibility work the details of which would be reported at that point demonstrating as to what the sums expended were and what would be required to take to market on a transparent basis by reference to the TFM agreed schedule of rates, demonstrating that the Council has secured value for money for such fees.'</i></p> <p>A list of non-contractual work (project/feasibility studies) was obtained from management on 23/03/2018 which included 8 projects which were commissioned from the Strategic Property sub-contractor. A sample of 5 projects was selected for review. The following was noted:</p> <ul style="list-style-type: none"> No quotation found for 1/5 projects. (Project A, value £29,000) 		<p>Management must ensure that they achieve value for money by ensuring that work is commissioned in line with LBBs Contract Procedure Rules or TFM agreed schedule of rates are applied for</p>

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	<ul style="list-style-type: none"> Breakdown of cost was not provided on 3/5 quotations. Therefore it is not possible to establish if rates quoted were as per the SOR agreed in the contract. (Project B, value £45,000, Project C value £41,750 and Project D value £75,000) For one of the 5 projects, Project E, rates quoted on the proposal were significantly higher than the SOR agreed in the contract. (Project value £14,304.00) <table border="1" data-bbox="383 751 1171 1018"> <thead> <tr> <th>Hourly rates</th> <th>On the quotation</th> <th>Agreed SOR as per the contract</th> </tr> </thead> <tbody> <tr> <td>Partner</td> <td>£275</td> <td>£175 (Senior Director) £136 (Director)</td> </tr> <tr> <td>Associate</td> <td>£150</td> <td>£89</td> </tr> <tr> <td>Surveyor</td> <td>£80</td> <td>£58</td> </tr> </tbody> </table> <p>No evidence was seen that the rates quoted were queried by the HAI who raised the order. It was also noted that the amount on the Order (PRW5) did not match the quotation amount.</p>	Hourly rates	On the quotation	Agreed SOR as per the contract	Partner	£275	£175 (Senior Director) £136 (Director)	Associate	£150	£89	Surveyor	£80	£58		<p>projects/feasibility studies as reported to Executive (Report no. DRR 17/024).</p> <p>Supporting documents i.e. fee proposals, quotations and project details should be retained.</p> <p>[Priority 1]</p>
Hourly rates	On the quotation	Agreed SOR as per the contract													
Partner	£275	£175 (Senior Director) £136 (Director)													
Associate	£150	£89													
Surveyor	£80	£58													

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	<p>Therefore due to lack of supporting documents i.e. detailed fee proposals, quotations and project details it is not possible to establish that the TFM agreed schedule of rates were applied for these projects/feasibility studies.</p> <p>Senior Property Manager, TFM Client Team confirmed on 20/09/2018 that the following projects/feasibility studies have been invoiced and paid so far:</p> <p>PRW1 Invoiced and paid £38,448</p> <p>PRW5 Invoiced and paid £14,304</p> <p>PRW4 Invoiced and paid £15,000</p> <p>It cannot be confirmed that the Council has secured value for money for the combined fee of £ 67,752 paid to date to the Strategic Property sub-contractor for the above mentioned projects/feasibility studies.</p>		

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
3	<p><u>KPIs</u></p> <p>On commencement of the contract between LBB, the TFM contractor and subsequently the Strategic Property sub-contractor a number of KPIs were included in the contract.</p> <p>The HAI advised that the KPI's in the original contract were deemed to be unworkable and a review of KPIs was started with the contractor in January 2017. The review was to align the KPIs to the service line deliverables, ensuring that they were both measurable and demonstrable. HAI confirmed that a series of meetings were set up for both the contractors and LBB Client management team to attend on the 26/10/2016, 08/11/2016, 07/02/2017, 05/07/2017 and 17/10/2017.</p> <p>The review of KPIs was completed in January 2018 and the new KPIs and a Balanced Scorecard system to calculate the penalties were agreed by the Strategic Partnership Board for implementation from 01/03/2018.</p> <p>The amended KPIs to monitor the performance of the Strategic Property sub-contractor and changes to the maximum penalties applicable are detailed in Appendix C. The following</p>	<p>Where there is no documented evidence of a change in the agreed KPIs as per the agreed contract there is a risk that LBB are not achieving value for money and the service they expected.</p>	

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	<p>issues were noted:</p> <ul style="list-style-type: none"> No evidence was seen of any interim agreement for monitoring and application of penalties whilst the original KPIs were under review. It should be noted that the review of KPIs started in January 2017 and the revised KPIs were agreed for application from March 2018. No penalty has been applied which relate to the management of Strategic Property since the start of the contract in December 2016. Due to poor recording of contract monitoring information it could not be confirmed if satisfactory service has been received and penalties were not due or penalties were due but had not been applied. There has been substantial reduction in the number of KPIs and the maximum penalties for inadequate performance (Appendix C). There is no documentation to support the rationale for the amendment to KPIs and maximum penalties. There is no evidence that the management has considered the financial impact of non-delivery of service to LBB to inform the maximum 		<p>Interim monitoring arrangement and application of penalties should be agreed whilst the KPIs are reviewed.</p> <p>Supporting documents should be retained to evidence contract monitoring and an audit trail of action taken and decisions made.</p> <p>Meetings between contract management and contractors where changes to the agreed contract are discussed should be formally documented.</p> <p>Written instructions should be written for the</p>

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	<p>penalties.</p> <ul style="list-style-type: none"> There are no written instructions on how the Balanced Scorecard calculates the penalties. Internal Audit reviewed the workings of the Balanced Scorecard with the HIA. It was noted that the scorecard does not calculate correct values in all instances. The HAI could not explain the anomalies and advised that a further review of the KPIs and penalties is being considered. 		<p>Balanced Scorecard. If there are any further changes to KPI's or the Balanced Scorecard the recommendations identified by Internal Audit must be adhered to. (Priority 1)</p>
4	<p><u>£1m Income Generation Plan</u></p> <p>In the Executive meeting on 20/07/2016 (Report no. DRR16/066) members were informed that :</p> <p><i>'In addition as highlighted in the previous report the Strategic Property sub-contractor will also, on an incentivised basis, seek to grow our net investment income (excluding property generated by new capital) by a minimum of £1m (index adjusted) within three years. This will be achieved by:</i></p> <ul style="list-style-type: none"> <i>o Reshaping the investment portfolio to improve returns and income growth prospects.</i> 	<p>Failure to monitor key outcomes for the contract lead to potential losses to the authority.</p>	<p>Management should ensure that any changes to delivery of key outcomes (to grow the net investment income by a minimum of £1m within 3 years) should be formally agreed and documented.</p> <p>Penalties should be applied consistently and</p>

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	<p>o Adopting a more commercial approach to managing rents.</p> <p>o Adopting a more commercial approach to service charge recoveries.</p> <p>The incentive for the Strategic Property sub-contractor will be that after the first £350k of new income generated for the Council, they will retain a % of the income based on a banded fee. This is broken down in the table below:-</p> <table border="1" data-bbox="282 735 1178 847"> <tr> <td>Band 1</td> <td>0 to £350k</td> <td>No fee</td> </tr> <tr> <td>Band 2</td> <td>£351k to £700k</td> <td>7% of increment</td> </tr> <tr> <td>Band 3</td> <td>£701k to £1m</td> <td>10% of increment</td> </tr> </table> <p>Members were assured that the Strategic Property sub-contractor's commercial knowledge and experience will allow them to grown the net investment income by a minimum of £1m within 3 years.</p> <p>On commencement of the contract in December 2016, the Strategic Property sub-contractor was expected to develop and agree with the Customer's client a £1m Income Generation Strategy and Plan by April 2017 and monitor progress against</p>	Band 1	0 to £350k	No fee	Band 2	£351k to £700k	7% of increment	Band 3	£701k to £1m	10% of increment		<p>any decisions by management to not apply penalties should be recorded along with the justification.</p> <p>Supporting documents to verify the assumptions made or factors that the Strategic Property sub-contractor has taken into account in producing the Income Generation Plan should be obtained from the contractor and retained for reference.</p> <p>Management should ensure that the queries on</p>
Band 1	0 to £350k	No fee										
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	<p>this plan and report monthly. A critical KPI with a monthly penalty of £5,000 for non-delivery was included in the contract to monitor progress of the Income Generation Plan. On enquiry by Internal Audit to establish why the penalties have not been applied for the period April 2017 to March 2018, HAI advised that another discussion had taken place (that was not formally documented) between Strategic Partnership Board and the Strategic Property sub-contractor where it was further discussed that the savings would not be required to start being realised until April 2018.</p> <p>Management provided Internal Audit with a copy of the current Income Generation Plan, as produced by the contractor. This is attached in Appendix D. Internal Audit queried the assumptions made or factors that the Strategic Property sub-contractor have taken into account in generating the plan and how they have identified the properties from which they consider the additional income will be achieved. HAI confirmed that he does not have any information to substantiate the Income Generation Plan (Appendix D).</p> <p>HAI provided a copy of the first quarterly monitoring report on the progress of the Income Generation Plan as produced by</p>		<p>the monitoring report to review the progress of the Income Generation Plan are resolved by the contractor in a timely manner.</p> <p>Going forward, management should ensure that the contractor provides clear evidence to support all new income identified with the monitoring report.</p> <p>(Priority 1)</p>

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No.	Findings	Risk	Recommendation
	<p>the contractor to Internal Audit on 10/10/2018. The monitoring report was discussed with Senior Accountant ECS Finance to confirm that the increase in income identified in the monitoring report was new Income. The Senior Accountant ECS Finance advised that a number of queries have been raised on the new income identified by the contractor. Finance have been chasing the contractor since July 2018 to resolve the outstanding queries so Finance can reflect the true figure into their budget monitoring and budget estimate process.</p>		
5	<p>Validation of a sample of 5 invoices selected from all payment made to the TFM contractor in respect of the Strategic Property sub-contractor between October 2016 and March 2018 also highlighted following issue.</p> <ul style="list-style-type: none"> o Invoice 51653 for £42,866.50 dated 14/11/2017 which was paid on 22/12/2017. A review of supporting information highlighted that the liability to Bromley for nearly £43K is based on estimate and at the end of the year the relevant finance company would carry out reconciliation (true-up) of the expenditure which would then show the actual expenditure. A year-end reconciliation was not obtained to establish the actuals. 	<p>Failure to undertake appropriate checks lead to potential losses to the authority.</p>	<p>Where payments are made on estimates, actual charges should be confirmed from year end reconciliations and adjusted accordingly.</p> <p>[Priority 2]</p>

Priority 1
Required to address major weaknesses and should be implemented as soon as possible

Priority 2
Required to address issues which do not represent good practice

Priority 3
Identification of suggested areas for improvement

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
6	<p><u>Debt Recovery</u></p> <p>Rental income collection and debt recovery action is undertaken by the Exchequer contractor based on instructions supplied by the Strategic Property sub-contractor.</p> <p>Debt recovery however, should be undertaken in consultation with the Strategic Property sub-contractor (particularly where more serious recovery action is taken, such as appointing a debt collector or bringing legal action) as the property surveyors may be more familiar with the tenant's circumstances.</p> <p>It was identified that there are no common debt recovery procedures applicable to both the Exchequer contractor and the Strategic Property sub-contractor which clearly define the roles and responsibilities of each department within the contract.</p> <p>In addition, from testing a sample of 15 properties audit established the following:</p> <p>Accounts may be responsible for a number of leases. For reference A this is an example of such a case and it is therefore difficult to apportion debts to the correct lease. The total value of the arrears was £6,000 for two quarters on the</p>	<p>Where rental income is not recovered in a complete manner, there is a risk of financial loss to the Council. Where rental income and payments made cannot be accurately attributed to individual leases there is a risk that recovery action is undertaken on the incorrect lease.</p>	<p>A set of common debt recovery procedures applicable to both the Exchequer contractor and the Strategic Property sub-contractor should be developed. These should clearly define the roles and responsibilities of each department.</p> <p>In addition, monies paid for rental income should be netted off to specific leases within accounts.</p> <p>(Priority 2)</p>

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Identification of suggested areas for improvement

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
	<p>debt report and therefore it would seem that this is in relation to this property, but as there are other properties on the account it is not known for certain.</p> <p>For reference B, the tenant holds three leases under this account, some payments have been made but there is still an outstanding amount of £2,523.67 and it is unknown which particular lease this refers to.</p> <p>For reference C, there was an outstanding builders insurance premium of £549.69 and we were unable to establish what, or if any recovery actions had been taken on this reference.</p>		
7	<p><u>Rental Arrears</u></p> <p>We were informed that staff from the Strategic Property sub-contractor do not have a straightforward manner of accessing up-to-date information on rental arrears and are required to email the Exchequer contractor in order to obtain this information. The Strategic Property sub-contractor do receive a monthly report showing outstanding invoices from the Exchequer contractor; however, this identifies debt by customer name (tenant), as opposed to property address. This</p>	<p>Where up-to-date information on rental arrears is not easily accessible there is a risk staff do not have adequate information for decision-making purposes.</p>	<p>A spreadsheet should be developed and kept up-to-date with the rental arrears on each property. This should be set up by property address. This should be easily accessible to all relevant the Strategic Property sub-contractor staff.</p>

Priority 1

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Priority 3

Identification of suggested areas for improvement

DETAILED FINDINGS

No.	Findings	Risk	Recommendation
	poses difficulties in cases where the same tenant occupies multiple properties; e.g. it may be unclear for the surveyors how much debt is attributable to each property.		(Priority 2)

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Priority 3
Identification of suggested areas for improvement

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
1	<p>Payments of invoices must be supported by robust contract monitoring. Deficiencies in contract monitoring must be remedied.</p> <p>Management should independently verify the accuracy of the performance information produced by the Contractor.</p> <p>Management should ensure that contract monitoring reports clearly show evidence of completed work with sufficient details to support payments for all services specified in schedule 2 of the contract</p>	1	<p>The recommendations of this report have already been actioned in respect of monthly minutes with regard to tracker reports being received prior to meetings so it can be reviewed and any issues highlighted by the report can be discussed at the contract monitoring meeting.</p> <p>The Strategic Property sub-contractor have been instructed to provide from the Property Management Data Base the following reports on a calendar monthly frequency by the 10th of each calendar month effective from 10 November 2018.</p> <p>Report 1: The total value and</p>	Head of Asset and Investment	Ongoing with evidence based reports by 15/11/2018

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 Identification of suggested areas for improvement

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
	<p>Reports presented in dashboard format should be supported by evidence to verify the accuracy of graphical data presented.</p> <p>The performance dashboards reports should be updated and reflect any changes during that period. Submission of the same report each month should be challenged by the Client Team.</p> <p>Activity reports should reflect actual work undertaken to allow meaningful monitoring of performance.</p> <p>The acquisitions and disposals lists should include adequate annotations and explanation to</p>		<p>breakdown of Rent due in Report Month from the Property Management database.</p> <p>The total value and breakdown of all other income due in Report Month from the Property Management database.</p> <p>Breakdown to include Rent, Service Charge, Rates etc and asset class – i.e. Investment Portfolio/General Portfolio etc.</p> <p>Report 2: A list of all void properties and how long they have been void.</p> <p>Report 3: Copies of the Monthly “Activity Alerts List” detailing rent reviews/lease renewals and trigger</p>		

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Identification of suggested areas for improvement

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
	<p>support change.</p> <p>Management should ensure that they receive the tracker reports before the contract monitoring meetings so it can be reviewed and any issues highlighted by the report can be discussed at the contract monitoring meeting.</p> <p>The Contract monitoring meeting minutes should include:</p> <ul style="list-style-type: none"> • Detailed noted on discussion of the monitoring report • Agreed actions and their timescales for completion must be recorded on the action log in all instances. 		<p>events.</p> <p>Above report to show that appropriate action/review was taken to ensure that service of all rent review notices was undertaken within 3 months prior to review date and terms agreed on lease renewals within 6 months of expiry date.</p> <p>Report 4: A copy of the case Tracker.</p> <p>Report 5: A report from the Exchequer contractor requested via the Strategic Property sub-contractor to show the calendar month arrears against the Exchequer contractor's Rent Roll.</p>		

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MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
	<ul style="list-style-type: none"> Agreement of the payment due taking into account any amounts that need to be adjusted i.e. services not delivered, penalties etc. 		<p>Report 6: A random sample of 5 cases from Reports 3&4 to demonstrate the Strategic Property sub-contractor's Self Audit.</p> <p>In addition to this the TFM team will also undertake a random audit each month.</p> <p>A monthly diarised minuted meeting commencing from 12/11 will take place with the Strategic Property sub-contractor to review the above reports prior to the monthly Service Operations Board.</p>		
2	<p>Management must ensure that they achieve value for money by ensuring that work is commissioned in line with LBBs Contract Procedure Rules or</p>	1	<p>The Strategic Property sub-contractor has failed to deliver quotes and estimates in accordance with the contract provisions despite repeated requests to do so.</p>	<p>Head of Asset and Investment / Asset Management Team Manager</p>	Ongoing

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MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
	<p>TFM agreed schedule of rates are applied for projects/feasibility studies as reported to Executive (Report no. DRR 17/024).</p> <p>Supporting documents i.e. fee proposals, quotations and project details should be retained.</p>		<p>Consequently the decision has been made not to award any further Development work to the Strategic Property sub-contractor and utilise the Council’s usual procurement routes instead.</p> <p>Where the Strategic Property sub-contractor still provide L&T advice outside the scope of the contract – such works are either specifically approved via the Executive or will be in accordance with the Schedule of Rates contained within the Contract with retained instructions/quotes/fee breakdown/scope and variations.</p>		

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Identification of suggested areas for improvement

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
3	<p>Interim monitoring arrangement and application of penalties should be agreed whilst the KPIs are reviewed.</p> <p>Supporting documents should be retained to evidence contract monitoring and an audit trail of action taken and decisions made.</p> <p>Meetings between contract management and contractors where changes to the agreed contract are discussed should be formally documented.</p> <p>Written instructions should be written for the Balanced scorecard.</p> <p>If there are any further changes</p>	1	<p>KPI's are now monitored at the minuted Service Operations Board on a monthly basis.</p> <p>The Balanced Scorecard and associated weightings will be formally reviewed as a consequence of this audit and a series of minuted meetings will be held to deliver this.</p> <p>This review will include a set of agreed written instructions/methodology for the scorecard and will take into account the recommendations of Internal Audit.</p> <p>The series of minuted meetings will be held on 6/11, 20/11, 4/12 and 18/12 – with a view to submitting for</p>	Head of Asset and Investment / Asset Management Team Manager	Mid Jan 2019

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Priority 3
 Identification of suggested areas for improvement

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
	to KPI's or the Balanced Scorecard the recommendations identified by Internal Audit must be adhered to.		approval at the January Strategic Partnership Board meeting.		
4	<p>Management should ensure that any changes to delivery of key outcomes (to grow the net investment income by a minimum of £1m within 3 years) should be formally agreed and documented. Penalties should be applied consistently and any decisions by management to not apply penalties should be recorded along with the justification.</p> <p>Supporting documents to verify the assumptions made or</p>	1	<p>The Strategic Property sub-contractor has provided high level figures for income they believe they have generated, however as of 31 October 2018, no detailed working papers have been submitted to substantiate these figures.</p> <p>The Strategic Property sub-contractor has now been instructed to provide more details on how the extra income will be generated / achieved on a case by case basis. The analysis of the forecast is hoped to be completed by 20</p>	Head of Asset and Investment	20/11/2018 And ongoing via monthly meeting and report thereafter.

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MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
	<p>factors that the Strategic Property sub-contractor has taken into account in producing the Income Generation Plan should be obtained from the contractor and retained for reference.</p> <p>Management should ensure that the queries on the monitoring report to review the progress of the Income Generation Plan are resolved by the contractor in a timely manner.</p> <p>Going forward, management should ensure that the contractor provides clear evidence to support all new income identified with the</p>		<p>November 2018 (meetings scheduled for 1/11, 6/11, 13/11 and 20/11).</p> <p>Monthly progress meetings have been scheduled on the first Tuesday of each month to review and monitor progress – these meetings will be minuted and will take place to the monthly Service Operations Board.</p> <p>The Strategic Property sub-contractor will formally present a monthly report on progress within their part of the monthly Service Operations Board Agenda.</p> <p>The additional income has been built into the Council’s Financial Forecast.</p>		

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MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
	monitoring report.		If the Strategic Property sub-contractor fails to meet the agreed saving target of £1m then contractual penalties would be applied consistently and any decisions by management to not apply penalties would be recorded along with the justification and approval from the Director of Regeneration.		
5	Where payments are made on estimates, actual charges should be confirmed from year end reconciliations and adjusted accordingly.	2	Where Service Charge Payments are made by the Council in respect of its occupation of premises then following year end reconciliation should take place within 4 months – as per standard industry practice. Audits findings related to the	Head of Asset and Investment	20/11/2018

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MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
			Service Charge at Property F. The Strategic Property sub-contractor have been instructed to conclude this reconciliation by 20 November.		
6	<p>A set of common debt recovery procedures applicable to both the Exchequer contractor and the Strategic Property sub-contractor should be developed. These should clearly define the roles and responsibilities of each department.</p> <p>In addition, monies paid for rental income should be netted off to specific leases within accounts.</p>	2	<p>It is agreed that both the TFM and the Exchequer contractor Contracts are not clear on roles and responsibilities and that the Strategic Property sub-contractor should take the lead on the instruction of Debt Recovery.</p> <p>The Strategic Property sub-contractor has identified and evidenced this as a failing in the contract early on and has continually tried to work with the Exchequer contractor in a) receiving appropriate debt information and b)</p>	Head of Asset and Investment	28/02/2019

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Priority 3
 Identification of suggested areas for improvement

MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
			<p>agreeing a process for instruction on debt/arrears recovery.</p> <p>A process to rectify this has been submitted by the Strategic Property sub-contractor to define the roles and responsibilities of each department and also ensure that monies paid for rental income are netted off to specific leases within accounts.</p> <p>The TFM Team will liaise with the Exchequer contractor to ensure this process is adopted – with the output being monitored via the SOB Monthly Meetings. It is planned that this should be in place by February 2019.</p>		

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MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
			This approach will be discussed with Head of Exchequer services for her approval/endorsement.		
7	A spreadsheet should be developed and kept up-to-date with the rental arrears on each property. This should be set up by property address. This should be easily accessible to all relevant the Strategic Property sub-contractor staff.	2	As per Recommendation 6, a process to rectify this has been submitted by the Strategic Property sub-contractor to define the roles and responsibilities of each department and also ensure that monies paid for rental income are netted off to specific leases within accounts and therefore the ability to generate a rent arrears spreadsheet against each property can be delivered. The TFM Team will liaise with the Exchequer contractor to ensure this process is adopted – with the output	Head of Asset and Investment	28/02/2019

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MANAGEMENT ACTION PLAN

Finding No.	Recommendation	Priority *Raised in Previous Audit	Management Comment	Responsibility	Agreed Timescale
			<p>being monitored via the SOB Monthly Meetings. It is planned that this should be in place by February 2019.</p> <p>This approach will be discussed with Head of Exchequer services for her approval/endorsement.</p>		

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KPI - Strategic Property sub-contract							
No.	Component	Basis of Measurement	Basis and Source of Scoring	Target Score %	Frequency	Penalty as per original contract	Amended maximum penalty
1	Disposals	Percentage	To manage the customers disposals programme and report performance against this programme on a monthly basis	95%	Monthly	£1,000	£417
2	Finance and audit - SAM performance	Percentage	Report monthly on portfolio performance including value of rent role, arrears by age, voids, improvement opportunities (lease events such as rent reviews, lease renewals and re-gears).Report to compare contracted, opportunity and actual totals. To be broken down into categories. Unless markets conditioned or strategy mean that it is not in the Councils best interests, serve all rent review notice within 3 months of review	95%	Monthly	17 SAM KPIs- penalty charge ranging from £5000 to £1000	£417

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			date and agree terms on lease renewals within 6 months of expiry date.				
3	Property data base and transparency agenda	Percentage	Maintain an accurate property data base of all LBB properties and ensure transparency agenda is delivered and maintained so that LBB is fully compliant.	95%	Quarterly	Initially £5000 and then KPIO after 95% accuracy was achieved.	£624
4	Accommodation strategy	Percentage	To provide quarterly details of occupational space analysis and moves undertaken together with recommendations to improve space optimisation and in collaboration with customers client deliver the Civic Centre accommodation programme.	95%	Quarterly	£1,000	£204
5	Strategic Asset Management performance (Education)	Percentage	Report on the number of education land achieved in accordance with the timescales to deadlines set by customer education department.	95%	Quarterly	KPIO	£204

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6	Measurement of portfolio performance	Percentage	Assess the performance of investment properties (including shopping centres) to enable an assessment of whether properties should be retained or sold to ensure that the Councils investment criteria are met and the portfolio provides an appropriate risk profile - as per the estate strategy and finance budget assumptions.	95%	Quarterly	KPIO	£624
7	Continuous improvement	Percentage	Demonstrate to the customer that innovation and continuous improvement are priorities in the performance of the contract.	95%	Annual	£5,000	£2,500 negotiable as this penalty is for not delivering £1 million new income.
8	Valuations (Stat)	Percentage	Conduct valuations on 100% of the portfolio with 25% of valuations being completed on a rolling basis in agreement with finance.	95%	Annual	£1,000	£5000

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Priority 1
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9	Competency	Percentage	Vetting and training of staff to be conducted in line with best practice and the Strategic Property sub-contractor policies to ensure workforce is trained and qualified. Evidence of such to be provided if requested in a reasonable timescale.	95%	Annual	£1,000	£208
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Identification of suggested areas for improvement

REVIEW OF THE MANAGEMENT OF STRATEGIC PROPERTY AUDIT 2017-18

APPENDIX D

Income Generation Plan:

	2018					2019					2020			
	Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4
Initial Income Growth														
Glades	£26,250	£26,250	£26,250	£26,250		£26,250	£26,250	£26,250	£26,250		£-00	£-00	£-00	£-00
Walnuts	£-00	£-00	£10,000	£-00		£-00	£-00	£10,000	£-00		£-00	£-00	£-00	£-00
Market Square	£-00	£-00	£-00	£59,000		£-00	£-00	£-00	£-00		£-00	£-00	£-00	£-00
Others	£-00	£2,000	£18,000	£5,000		£75,000	£-00	£-00	£-00		£10,000	£10,000	£10,000	£10,000
	£26,250	£28,250	£54,250	£90,250	£199,000	£101,250	£26,250	£36,250	£26,250	£190,000	£10,000	£10,000	£10,000	£10,000
														£40,000
Core Income Growth														
Lease Events														
- Rent Reviews	£-00	£20,000	£10,000	£10,000		£10,000	£20,000	£5,000	£25,000		£13,750	£13,750	£13,750	£13,750
- Lease Renewals	£5,000	£-00	£10,000	£5,000		£-00	£10,000	£5,000	£15,000		£10,000	£15,000	£10,000	£15,000
Lease Renegotiations	£6,000	£5,000	£7,000	£12,000		£8,500	£10,000	£12,000	£9,500		£11,250	£11,250	£11,250	£11,250
	£11,000	£25,000	£27,000	£27,000	£90,000	£18,500	£40,000	£22,000	£49,500	£130,000	£35,000	£40,000	£35,000	£40,000
														£150,000
Cost Recovery & Savings														
Cost Refunds	£4,000	£4,000	£4,000	£4,000		£4,000	£2,000	£2,000			£2,000	£2,000	£-00	£4,000
Cost Recharges														
- Service Charge	£4,286	£4,286	£4,286	£4,286		£4,286	£4,286	£4,286			£-00	£-00	£-00	£-00
- Insurance	£17,143	£17,143	£17,143	£17,143		£17,143	£17,143	£17,143			£-00	£-00	£-00	£-00
- Utilities	£10,000	£10,000	£10,000	£10,000		£10,000	£10,000	£10,000			£-00	£-00	£-00	£-00
- Business Rates	£4,286	£4,286	£4,286	£4,286		£4,286	£4,286	£4,286			£5,000	£5,000	£5,000	£5,000
	£39,714	£39,714	£39,714	£39,714	£158,857	£39,714	£37,714	£37,714		£115,143	£7,000	£7,000	£5,000	£9,000
														£28,000
					£447,857					£435,143				£218,000
														£1,101,000
Reshaping Investment portfolio														
Income growth from investments	£14,500	£65,000	£65,000			£81,000	£81,000	£81,000	£81,000		£101,000	£75,500	£50,500	£25,200
					£144,500					£324,000				£252,200
					£592,357					£759,143				£470,200

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OPINION DEFINITIONS

APPENDIX E

As a result of their audit work auditors should form an overall opinion on the extent that actual controls in existence provide assurance that significant risks are being managed. They grade the control system accordingly. Absolute assurance cannot be given as internal control systems, no matter how sophisticated, cannot prevent or detect all errors or irregularities.

Assurance Level	Definition
Full Assurance	There is a sound system of control designed to achieve all the objectives tested.
Substantial Assurance	While there is a basically sound systems and procedures in place, there are weaknesses, which put some of these objectives at risk. It is possible to give substantial assurance even in circumstances where there may be a priority one recommendation that is not considered to be a fundamental control system weakness. Fundamental control systems are considered to be crucial to the overall integrity of the system under review. Examples would include no regular bank reconciliation, non-compliance with legislation, substantial lack of documentation to support expenditure, inaccurate and untimely reporting to management, material income losses and material inaccurate data collection or recording.
Limited Assurance	Weaknesses in the system of controls and procedures are such as to put the objectives at risk. This opinion is given in circumstances where there are priority one recommendations considered to be fundamental control system weaknesses and/or several priority two recommendations relating to control and procedural weaknesses.
No Assurance	Control is generally weak leaving the systems and procedures open to significant error or abuse. There will be a number of fundamental control weaknesses highlighted.