

Internal Audit Report

Barnet Homes – QL Housing System

January 2022

To: Chief Accountant

Copied to: Finance Director, The Barnet Group
Head of Housing and Regeneration, Barnet Council
Finance Manager
Business System Analyst, The Barnet Group
Senior Group Accountant, The Barnet Group
IT Manager, Barnet Homes
Executive Director of Resources

From: Head of Internal Audit

We would like to thank management and staff of Barnet Council and Barnet Homes for their time and co-operation during the internal audit.

Executive Summary

Assurance level	Number of recommendations by risk category				
Limited	Critical	High	Medium	Low	Advisory
	-	1	3	1	-
Scope					
<p>This review was undertaken as part of the London Borough of Barnet Internal Audit & Anti-Fraud Strategy and Annual Plan 2021-22, Q3 and Q4.</p> <p>Barnet Council's (the Council) external auditors (BDO LLP) raised an observation as part of the 2019/20 external audit relating to housing stock records not being properly updated. Specifically, the external auditors identified that 213 properties had been incorrectly treated as disposals during the year "due to Barnet Homes Limited not providing adequate management information to the Council to correctly account for its major works programme, new property purchases and new out of borough properties". Accordingly, there is a risk that Council's record of properties owned and valuation of assets in the financial statements may be materially incorrect if this data is not corrected.</p> <p>The external auditors recommended that Council departments involved in regeneration / redevelopment provide the Finance team and Barnet Homes Limited with plans, agreements and transfer documents so that asset disposals and acquisitions can be managed correctly in the Housing Management system. Council management accepted the recommendation and specific reporting requirements and deadlines have been included within the revised Management Agreement with The Barnet Group, which includes Barnet Homes, to address this issue.</p> <p>The Council is keen to gain further assurance over the processes and controls in place for the QL Housing system managed by Barnet Homes as well as the communication in place to maintain data integrity between Barnet Homes and the Council to ensure that the data is complete and accurate, and this review covered the design and operating effectiveness of these processes and controls, in particular focussing on roles and responsibilities, data quality and access management.</p>					
Summary of findings					
<p>We have identified a number of findings including a lack of reconciliations to confirm the completeness and accuracy of the QL property portfolio year on year, an absence of a centralised listing of property additions and disposals, and a lack of formal documentation to ensure clarity and consistency within the additions and disposals processes. It is important for Barnet Homes to formalise processes for adding and removing properties from the QL system. This includes maintaining a central record of property movement that is accessible by all relevant teams and ensuring regular reconciliations of the QL property portfolio are performed to confirm the completeness and accuracy of data. This would enhance transparency across the organisation and reduce the risk of inaccurate or incomplete reporting. Barnet Homes should also meet with the Council on a frequent basis to discuss significant property acquisitions and disposals, to ensure that both parties maintain sufficient oversight over the Council's property portfolio.</p> <p>This audit has identified 1 high, 3 medium and 1 low risk findings.</p>					

We identified the following issues as part of the audit:

- **Property reconciliations and completeness (high risk)** – Barnet Homes does not have formal processes in place to periodically assess the completeness and accuracy of the property portfolio within QL and does not perform a detailed reconciliation of property data in the QL system during the year. Furthermore, Barnet Homes does not perform any completeness checks of the QL property portfolio. For instance, by reconciling property listings from other sources back to the QL system. This may mean that missing or inaccurate data is not identified in a timely manner, and could lead to an inaccurate and/or incomplete property portfolio within QL.
- **Accuracy of the QL property portfolio (medium risk)** – Monthly change reports are downloaded from the QL system and sent to the Barnet Group Finance Director for review, who randomly selects a sample of changes made and requests evidence or explanations to confirm the appropriateness. Whilst no issues were noted through our testing of two out of two months, we would recommend that the process for checks to confirm the accuracy of the QL portfolio is formally documented and a consistent sampling approach is adopted. In addition, it was noted that there are no checks to confirm the accuracy of manually added properties, and no defined processes for when to add properties manually or automated to the system.
- **Timeliness of communication between Barnet Homes and the Council (medium risk)** – We understand that there is no communication throughout the year between the Council and Barnet Homes regarding any property additions or disposals. Furthermore, we are aware that Barnet Homes does not meet with the Council to communicate or discuss any significant movements in the property portfolio. As a result, Barnet Homes may be unaware of significant acquisitions or disposals made by the Council and may therefore not update the QL system on a timely basis.
- **Additions and disposals process notes (medium risk)** – We have not received any formal procedure documents relating to property additions and disposals on QL. Without appropriate procedures in place, the process for adding and disposing properties may be unclear, which may lead to inaccurate or incomplete data in the QL system.
- **Lack of a formalised data process flowchart (low risk)** – There is a lack of a formalised process document that consolidates all the data process flows in relation to QL. As a result, roles and responsibilities are not formally documented, which may lead to a lack of clarity in relation to the QL system.

2. Findings, Recommendations and Action Plan

Ref	Finding	Risks	Risk category	Agreed action
1.	<p><u>Property reconciliations and completeness</u></p> <p>In preparing the annual regulatory Local Authority Data Return (LADR) for the Council, Barnet Homes compares the number of properties owned in the prior year to the current year as at the year-end date. The property report detailing this information is downloaded from QL.</p> <p>Changes to property status e.g., 'Active', 'Sold', 'Demolished', 'Decommissioned', 'Void', can be made within the QL system by managers within the Barnet Homes Asset/Sales team and subsequent review by the IT Managers responsible for the QL system. Property additions can also be made by IT Managers on request from the Asset team, often through completion of a template to support the changes being made.</p> <p>Through discussion with management, it is understood that the Barnet Group Finance Director performs a high-level sense check of the movement to determine whether this appears reasonable; however, this is not reviewed by senior officers. There is no formal process in place to confirm the completeness and accuracy of the movement of each property addition or deletion within the year, and the above process is not documented.</p> <p>There is also a lack of process in place to assess the completeness of the property portfolio within the QL Housing System.</p> <p>The Barnet Homes Finance team does not have access to/ oversight of a central listing of property movements and is unaware of property additions and disposals listings kept by other teams in Barnet Homes. As a result, management does not perform a reconciliation of the property data held by its Asset/ Sales teams to the QL system.</p>	<p>If the QL Housing property data is incomplete, then properties may not be managed in-line with regulation, which can have an adverse impact on tenants, and reputational and financial impact on the Council.</p> <p>If changes to property statuses are not clearly recorded, in particular around the status of void properties, then they could be sublet by a housing officer without anyone become aware, which may lead to fraudulent activity around vacant property, leading to an adverse reputational and financial impact on the Council.</p> <p>The following may lead to misstatements in the Council's financial accounts, resulting in issues with the annual financial statements audit, and/or misstatements in management accounts, resulting in inappropriate decision making:</p> <ul style="list-style-type: none"> • If a detailed reconciliation is not performed, then the reported figure for the number of properties owned by the Council as listed in the QL system may be inaccurate or 	<p>High</p>	<p>a) A central listing of all property additions, disposals, and changes in categorisation (e.g., demolitions) within the Council will be created and stored in a shared drive so that relevant Council and Barnet Homes officers can access it to perform updates and reconciliations to the QL system.</p> <p>b) We will perform a detailed movement analysis at each year-end for the movement in properties owned year on year to correctly identify any unusual transactions or inaccuracies in the number reported. This will be formally reviewed and signed-off by appropriate individuals.</p> <p>c) We will run periodic reconciliations (e.g., quarterly) between property listings maintained by other teams to the QL system and stored in a central location, so they are accessible to relevant officers.</p> <p>d) In order to ensure that the Council receives a complete validated list of properties, we will investigate if it is possible to add additional indicators into QL to show when properties have been demolished/</p>

Ref	Finding	Risks	Risk category	Agreed action
	<p>Upon further enquiry, we obtained a listing of property additions and disposals from the Council. To test the completeness of the property data held in the QL system, we tested a sample of seven property additions and disposals in the period to confirm they had been added/ their status had been updated accurately and in a timely manner, with no exceptions noted. However, whilst we obtained listings from the Council for our testing, it is noted that Barnet Homes do not request these listings and so are unable to prepare reconciliations during the year.</p> <p>It is also understood that once the list of non-operational stock is identified, every single one of these properties needs to be checked with the Council's Regeneration team to identify which of these properties are demolished/ disposed and are owned by the Council as at the balance sheet date. There is currently no indicator on the QL system which reliably confirms this, and it is understood that Barnet Homes does not hold this information.</p> <p>We also noted that Barnet Homes does not maintain a listing which outlines any potential upcoming movement in properties to mitigate any issues with timing differences that may occur at year-end.</p>	<p>incomplete, leading to errors in the return produced.</p> <ul style="list-style-type: none"> • If reconciliations are not performed between sources independent of QL back to the QL Housing System, then the data held in the QL property portfolio may be incomplete, and/or missing data may not be identified in a timely manner. • If a central listing/record of property additions and disposals is not maintained and accessible to all relevant teams, then Barnet Homes officers may not be made aware of changes to the property listing on a periodic basis, meaning that officers may not be able to appropriately account for asset disposals and acquisitions. 		<p>disposed of and are still owned by the Council.</p> <p>e) We will investigate ways to maintain an audit trail of reasons for stock movement within the QL system, and, in the meantime, confirm the reasons for property movements with the Council's Regeneration team for each property prior to issuing the list to the Council.</p> <p>Responsible officers:</p> <p>a) Head of Housing and Regeneration, Barnet Council</p> <p>b)/c)/d)/e) Finance Director, The Barnet Group</p> <p>Target date:</p> <p>31 March 2022</p>
2.	<p><u>Accuracy of the QL property portfolio</u></p> <p>Monthly change reports are downloaded from the QL system by the IT Manager and sent to the Finance Director of the Barnet Group for review.</p> <p>These change reports include changes made to rent and property status. A sample of line transactions from these change reports will be selected by the Barnet Group Finance Director for investigation, who requests evidence or</p>	<p>The following may result in properties and tenants not being managed effectively or in accordance with regulation:</p> <ul style="list-style-type: none"> • If there are no formalised checks in place to assess the accuracy of properties included in the QL portfolio, 	Medium	<p>a) The Data Integrity Working Group will finalise documentation of the sampling process for confirming accuracy of changes made to the system so that we can be held accountable for the samples selected.</p>









Ref	Finding	Risks	Risk category	Agreed action
	<p>explanations from the relevant individual who actioned the change. From our testing, we noted that for two out of two months, the Finance Director had contacted individuals to provide documentation/explanations to support the changes being made. However, we noted that this sample differs in size monthly and is at the Finance Director's discretion.</p> <p>Whilst this process is not currently formally documented, we are aware that the Barnet Homes Data Integrity Working Group intends to document it.</p> <p>The process should reflect how the Finance Director selects the monthly sample but should also stipulate the type of property status changes that should be included in the sample. This would ensure that certain changes, e.g., to 'void' status should automatically be picked up in the sample as there is a heightened risk around these changes. If the process is not formally documented, then such changes may go unnoticed.</p> <p>In addition, we noted that no review takes place to assess the accuracy of the properties added to the QL portfolio. This is because the template that must be completed for all new properties is communicated to the IT Manager responsible for the QL System by a line manager, which is considered as authorisation in itself, and therefore no subsequent checks are made.</p> <p>Furthermore, it was noted that there is an automated control in place for bulk uploads of property additions; however, individual property additions are added to the system manually by the IT Manager. We noted that there are no checks to confirm the accuracy of manually added properties, nor are there defined processes for when to add properties manually or automated.</p>	<p>then the portfolio may contain incomplete or inaccurate information.</p> <ul style="list-style-type: none"> • If the upload of individual property additions to the QL System is performed manually, then there is a risk that errors will be made, meaning that the portfolio may contain incomplete or inaccurate information. 		<p>b) We will consider options to automate the process for uploading property additions within the QL portfolio and/or clarify roles and responsibilities in relation to these uploads so the onus is on the individual teams to make these changes, with the IT Manager having a level of system review once changes are made.</p> <p>Responsible officer: Finance Director, The Barnet Group</p> <p>Target date: 31 March 2022</p>

Ref	Finding	Risks	Risk category	Agreed action
3.	<p><u>Timeliness of communication between Barnet Homes and the Council</u></p> <p>Other than sending the year-end property report to the Council on an annual basis, we understand that there is no communication throughout the year between the Council and Barnet Homes regarding any property additions or disposals. The Council and Barnet Homes do not meet throughout the year to discuss movements to the Council's property portfolio.</p> <p>This may lead to timing differences and issues with incomplete or inaccurate data in the QL property portfolio managed by Barnet Homes.</p>	<p>If there is no communication between Barnet Homes and the Council relating to any significant Council property acquisitions or disposals, then Barnet Homes may provide inaccurate and/or incomplete management information to the Council to correctly account for any major changes in properties owned, and updates to the QL property portfolio may not be made in a timely manner.</p>	<p>Medium</p>	<p>Barnet Homes and the Council will meet quarterly to communicate Council property additions and disposals. To do so, Barnet Homes and the Council will draft a Terms of Reference, which will outline the purpose of the meetings, a timetable for meetings and relevant attendees.</p> <p>Responsible officers:</p> <p>Head of Housing and Regeneration, Barnet Council, Finance Manager, Barnet Council, and Finance Director, The Barnet Group</p> <p>Target date:</p> <p>31 March 2022</p>
4.	<p><u>Additions and disposals process notes</u></p> <p>We have not received any documents outlining formalised processes for making property additions and disposals in the QL Housing System.</p> <p>We would expect formal documents to be in place to outline the procedures for requesting property amendments, adding and deleting properties, roles and responsibilities of key officers, and the procedure for preparing property reconciliations.</p>	<p>If there are no formal documents in place, then the process for adding and disposing of properties on the QL Housing System may be unclear, misunderstood, or inconsistent among users. This may lead to inaccuracies or incomplete property data on QL.</p>	<p>Medium</p>	<p>Formal process notes for making changes to property status (e.g., 'Active', 'Sold', 'Demolished', 'Decommissioned', 'Void') on the QL Housing System will be prepared, reviewed and shared with relevant officers.</p> <p>Responsible officer:</p> <p>Finance Director, The Barnet Group</p> <p>Target date:</p> <p>31 March 2022</p>
5.	<p><u>Data process flowchart</u></p>	<p>If all data process flows are not clearly documented, then it may lead to a lack of clarity and</p>	<p>Low</p>	<p>Documents (or a document) outlining details of all data flow processes relevant to the QL Housing System will</p>

Ref	Finding	Risks	Risk category	Agreed action
	<p>Whilst we have seen evidence of documentation for various parts of the data process flow in relation to the QL Housing System, there is currently no formalised document which outlines the end-to-end data management process.</p> <p>We are however aware that Barnet Homes is taking action to consolidate all existing data flow process information into a single source document.</p>	<p>understanding amongst staff, which can subsequently result in property additions and disposals not being properly accounted for.</p>		<p>be established and circulated to responsible officers.</p> <p>Responsible officer: Business System Analyst, The Barnet Group</p> <p>Target date: 31 March 2022</p>

Appendix 1: Definition of risk categories and assurance levels in the Executive Summary

Note: the criteria should be treated as examples, not an exhaustive list. There may be other considerations based on context and auditor judgement.

Risk rating	
Critical 	Immediate and significant action required. A finding that could cause: <ul style="list-style-type: none"> • Life threatening or multiple serious injuries or prolonged work place stress. Severe impact on morale & service performance (eg mass strike actions); or • Critical impact on the reputation or brand of the organisation which could threaten its future viability. Intense political and media scrutiny (i.e. front-page headlines, TV). Possible criminal or high profile civil action against the Council, members or officers; or • Cessation of core activities, strategies not consistent with government's agenda, trends show service is degraded. Failure of major projects, elected Members & Senior Directors are required to intervene; or • Major financial loss, significant, material increase on project budget/cost. Statutory intervention triggered. Impact the whole Council. Critical breach in laws and regulations that could result in material fines or consequences.
High 	Action required promptly and to commence as soon as practicable where significant changes are necessary. A finding that could cause: <ul style="list-style-type: none"> • Serious injuries or stressful experience requiring medical many workdays lost. Major impact on morale & performance of staff; or • Significant impact on the reputation or brand of the organisation. Scrutiny required by external agencies, inspectorates, regulators etc. Unfavourable external media coverage. Noticeable impact on public opinion; or • Significant disruption of core activities. Key targets missed, some services compromised. Management action required to overcome medium-term difficulties; or • High financial loss, significant increase on project budget/cost. Service budgets exceeded. Significant breach in laws and regulations resulting in significant fines and consequences.
Medium 	A finding that could cause: <ul style="list-style-type: none"> • Injuries or stress level requiring some medical treatment, potentially some workdays lost. Some impact on morale & performance of staff; or • Moderate impact on the reputation or brand of the organisation. Scrutiny required by internal committees or internal audit to prevent escalation. Probable limited unfavourable media coverage; or • Significant short-term disruption of non-core activities. Standing orders occasionally not complied with, or services do not fully meet needs. Service action will be required; or • Medium financial loss, small increase on project budget/cost. Handled within the team. Moderate breach in laws and regulations resulting in fines and consequences.
Low 	A finding that could cause: <ul style="list-style-type: none"> • Minor injuries or stress with no workdays lost or minimal medical treatment, no impact on staff morale; or • Minor impact on the reputation of the organisation; or • Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule; or • Handled within normal day to day routines; or • Minimal financial loss, minimal effect on project budget/cost.
Level of assurance	
Substantial 	There is a sound control environment with risks to key service objectives being reasonably managed. Any deficiencies identified are not cause for major concern. Recommendations will normally only be Advice and Best Practice.
Reasonable 	An adequate control framework is in place but there are weaknesses which may put some service objectives at risk. There are Medium priority recommendations indicating weaknesses but these do not undermine the system's overall integrity. Any Critical recommendation will prevent this assessment, and any High recommendations would need to be mitigated by significant strengths elsewhere.
Limited 	There are a number of significant control weaknesses which could put the achievement of key service objectives at risk and result in error, fraud, loss or reputational damage. There are High recommendations indicating significant failings. Any Critical recommendations would need to be mitigated by significant strengths elsewhere.
No 	There are fundamental weaknesses in the control environment which jeopardise the achievement of key service objectives and could lead to significant risk of error, fraud, loss or reputational damage being suffered.

Appendix 2 – Analysis of findings

Area	Critical		High		Medium		Low		Total
	D	OE	D	OE	D	OE	D	OE	
Roles and Responsibilities	-	-	1	-	1	-	1	-	3
Data Quality	-	-	-	-	2	-	-	-	2
Access Management	-	-	-	-	-	-	-	-	-
Total	-	-	1	-	3	-	1	-	5

Key:

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

Timetable					
Terms of reference agreed: 19 th August 2021	Fieldwork commenced: 27 th September 2021	Fieldwork completed: 18 th October 2021	Draft report issued: 10 th November 2021	Management comments received: 15 th November 2021/ 6 th January 2022	Final report issued: 10 th January 2022

Appendix 3 – Identified controls

Area	Objectives	Risks	Identified Controls
<p>Roles and Responsibilities</p>	<ul style="list-style-type: none"> Barnet Homes has mapped the flow of data going into and out of QL. Roles and responsibilities in terms of data ownership and management are clearly defined. The process for adding and removing properties to the QL portfolio is documented and understood across Barnet Homes. Barnet Homes communicate on a periodic basis to the Council any significant property acquisitions or disposals. 	<ul style="list-style-type: none"> If roles and responsibilities for data ownership and management are not clearly defined, and there is no clear and understood process for mapping data that flows into and out of the QL system, then the property listing held by the Council may be incomplete or inaccurate, leading to a risk that asset disposals and acquisitions are not managed and accounted for correctly. If the Council is not made aware of changes to the property listing on a periodic basis, then officers may not be able to appropriately account for asset disposals and acquisitions, leading to a risk of misstatement in the financial statements. 	<ul style="list-style-type: none"> An organisation chart is in place for IT which identifies the individuals in the team and their roles. A Local Authority Data Return (LADR) is prepared annually. See finding 1. A stock listing as at the year-end is sent to the Council, who will interrogate and investigate as appropriate.
<p>Data Quality</p>	<ul style="list-style-type: none"> Processes are in place to periodically assess the completeness and accuracy of the property portfolio within QL, including property number and status. New properties resulting from development or acquisitions are updated within the QL system in a timely manner. 	<ul style="list-style-type: none"> If processes are not in place to periodically assess completeness and accuracy of the property portfolio within QL, update new properties resulting from development or acquisitions or any property disposals in a timely manner, then the portfolio may not reconcile with the Council financial statements leading to: <ul style="list-style-type: none"> misstatements in financial accounts, resulting in issues with 	<ul style="list-style-type: none"> Monthly audit reports are sent from IT to the Finance Director, who will test a sample of changes to ensure they are supported by appropriate evidence. See finding 2. Requests for property additions to the system must be completed via a standardised template and approved by a team manager. See finding 2.

	<ul style="list-style-type: none"> • Property disposals are updated within the QL system in a timely manner. • Sources of data to produce the year-end property data report are complete and accurate. 	<p>the annual financial statements audit; and</p> <ul style="list-style-type: none"> - misstatements in management accounts, resulting in inappropriate decision making. 	<ul style="list-style-type: none"> • A year-end property data report is produced and reviewed by the Finance team at the Council. • When extracting the year-end property data from the QL system, parameters are defined using SQL script to ensure accuracy.
<p>Access Management</p>	<ul style="list-style-type: none"> • Controls are in place to ensure that only appropriate users have access to systems. • Access is restricted where appropriate, depending on job roles and requirements. • Changes to access are approved and reflected in systems in a timely manner. Changes include adding and removing properties and updating property details. • User access (including super user access) is reviewed on a regular basis. 	<p>If access is not:</p> <ul style="list-style-type: none"> • Validated prior to granting staff permission to view and make inappropriate changes to the data. • Granted only after appropriate checks have been performed. • Commensurate with their job role and/or no longer required to perform their job role; or • Promptly removed when user access is no longer required, <p>then individuals may gain access to unauthorised information, leading to inappropriate changes being made to the property information held by the Council.</p>	<ul style="list-style-type: none"> • New user request forms must be populated and signed off by a manager which must include details on which workgroups the user can have access to. • Users must be on the network to access QL and have a Barnet Group or LBB email account. • Requests for user account changes for starters and leavers are initiated on the support helpdesk system - this is done on an ad-hoc basis. • An automated review solution is in place which notifies QL support staff with a list of users (including super users) who have never used QL/have been inactive for > 60 days. Support staff review and investigate/remove users as appropriate. • Support staff also review the user listing to check that individuals have the right access as well as confirming those still required.

Appendix 4 – Internal Audit roles and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of Barnet Homes – QL Housing System, subject to the limitations outlined below.

Internal control

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

Specifically, we will not:

- Review the customer aspect of the system (such as the collection of rental income).
- Give assurance over the completeness and accuracy of information but rather Barnet Homes has controls in place that are operating effectively to give assurance that the information is complete and accurate.
- Perform a full review of IT General Controls in the QL system.

Future periods

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

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

Responsibilities of management and internal auditors

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

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

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