

Internal Audit Report

Estates - Commercial Property Rents and Leases

August 2022

To: Deputy Chief Executive
Director of Growth
Assistant Director Estates and Acquisitions
Head of Property and Portfolio Management
Head of Property Services & Valuation, Estate & Facilities – Property Services, CSG
Senior Surveyor, LBB
Business Director
Associate Director - Estates (Capita)

Copied to: Head of Commercial Management
Operations Director, CSG
Property Director, CSG
Director of Estates, CSG
Support Officer - Finance, Estate & Facilities, CSG
Insurance Officer, Assurance - Organisational Resilience
Head of Finance (Exchequer)
Assistant Finance Manager (AR)

From: Head of Internal Audit
Internal Audit Executive

We would like to thank management and staff of Property services for their time and co-operation during the course of the internal audit.

Executive Summary

Assurance level	Number of recommendations by risk category				
Limited Assurance	Critical	High	Medium	Low	Advisory
	-	-	8	1	-
Scope					
<p>This review was undertaken as part of the 2021/22 Internal Audit and Anti-Fraud Strategy and Annual Plan approved by the Council's Audit Committee on 28 April 2021.</p> <p>The Property Services operation is delivered by the Capita Customer Support Group (CSG) and provides a property management service to the London Borough of Barnet. Amongst other duties, the team manages the rentals of commercial properties via lease or licence. Such properties include shops, offices and industrial units.</p> <p>The income budget for the service for 2021-22 was £4.3m. Current arrears for the service stand at £1.2m.</p> <p>The sample period was March 2020 to April 2022. The Council and its services faced disruption from the COVID pandemic at this time and the commercial rent operation was also impacted by government directives to protect businesses.</p> <p>On the 11 July 2022, the Internal auditors were presented with a Variation to Contract letter dated 22 July 2020, signed by the Head of Commercial Management, which allowed for relief from Service Performance Levels, Key Performance Indicators, Performance Indicators and Service Provider Commitments under the Contract during the COVID 19 pandemic period. This period is referred to in the Variation to Contract letter as the 'COVID Relief Period'. Various extensions provided for this variation to be extended from March 2020 to 31 September 2021. This document had not been previously brought to the attention of Internal audit by the Commercial Team or the Service supplier, Capita. All sampling and testing therefore has been carried out based on the levels of activity as observed and discussed at the exit meeting, as guided by the client; but without the knowledge of variations to the contract in place which were not referred to by the client.</p> <p>The variation to contract affects Findings 1 (Lease and Letting Renewals - Rent Review) and 4 (Lease and Letting Renewals: Leases Renewal), in that the period sampled is included in the above relief period and we acknowledge that the resultant findings address performance / key performance indicators for these areas for the sampled period. However, the period sampled extends beyond the end of the relief period – (September 2021) by 6 months and therefore we feel the findings are still relevant.</p> <p>The issues raised in these findings re: setting deadlines for improvement following PI failure (finding 1) and the failure to update documentation to reflect what constituted a failed KPI, following Capita informing LBB of potential failure (Finding 4) remain applicable. We have therefore not made any further amendments to the report further to the version agreed at the discussion (apart from agreed clarifications) as this would require a substantial investment in audit resources to re-select a sample outside of the relief period and re-test.</p>					
Summary of findings					
This audit has identified 8 medium and 1 low risk finding.					

We identified the following issues as part of the audit:

- **Lease and Letting Renewals - Rent Review (medium)** – We noted that only 4/34 (11%) rent reviews due between May 2020 and March 2022 had been completed. 30/34 (88%) of the rent review cases are currently under negotiation. None of the 11 cases due for review in 2020 have been resolved. We were informed that the Performance Indicator (PI) target being measured against had in practice been extended from 3 months to 6 months, however this was not formally documented. Where targets were missed and these were reported to Contract Monitoring Meetings (CMMs), no updated deadline is then set to push for improved performance or clearly track slippage.
- **Income Collection and Debt Recovery: Bad Debt Write-Off (medium)**: We found that 27 debts valued at £107,338 are due for write off. 24/27 (89%) valued at £100,423 of the debts expected to be written off belong to only one client (referred to in the report as Client 'X'), and they are between 6-10 years old. Further to the draft report being discussed, management have informed us that this debt has now been written off as there is no foreseeable way to recover the debt.
- **Income Collection and Debt Recovery: Debt Management (medium)**: We noted that 64/449 (14%) of the debtors valued at £212,324 are currently under query. 26 of these cases are between 3-5 years old. 3 cases of bad debts valued at £132,500, which are between 7-9 years old and belong to the same client (referred to in the report as client 'Y') are being passed to the Legal team, while £50,000 payable to LBB is being delayed by the prolonged process of agreeing a Deed of Rectification & Supplemental Agreement. . Further to the draft report being discussed, management have informed us that this debt has now been written off as there is no foreseeable way to recover the debt.
- **Lease and Letting Renewals: Leases Renewal (medium)**: We found that only 24/45 (53%) of lease renewals due from 2020 have been renewed and 8/24 (33%) of the cases took 22 to 23 months to complete. The KPI for lease renewals is for them to be completed within 6 months of their due date. We were informed that the KPI had in practice been accepted as met if CSG informed LBB in advance of the 6-month target not being achievable. However, this agreement was not formally documented.
- **Lease and Letting Renewals: Legacy Rents and Leases (medium)**: There are Legacy rents and leases that expired before the start of the CSG contract in 2013 but that are not yet renewed.
- **Lease and Letting Renewals: Insurance of Property (medium)**: We noted inadequate controls and checks to ensure that commercial properties that are supposed to be insured by the lessee or tenant are in fact insured. There is a known case where a commercial property was released to a lessee without an insurance policy being in place.
- **Commercial Property Records: Register or Database (medium)**: We found that the Atrium database is deficient and unable to produce vital and accurate information required by the Property Services team, the Valuation Office Agency and the insurance team.
- **Process and Procedures: Documentation (medium)**: We noted that the procedures are not version controlled and are basic process maps (diagrammatical process).
- **Customer Services (low)**: Management was not aware of the corporate Council's customer services principles/commitments, "A customer focussed organisation – our commitments". We found that customer service surveys are not conducted.

2. Findings, Recommendations and Action Plan

Ref	Finding	Risks	Risk category	Agreed action
1.	<p>Lease and Letting Renewals: Rent Review:</p> <p>The CSG contract includes the following performance indicator (PI) relating to Rent Reviews:</p> <p>PI - 'The percentage of rent reviews completed within 3 months of the rent review date against the total number of rent reviews due' with a target of 100%.</p> <p>We reviewed the process to confirm that rent review processes are carried out without delay and that all parties to the review contract signed the document to ensure that the contracts are enforceable in case of breach by tenants.</p> <p>We obtained the report of all lettings that were due for review between May 2020 and March 2022 for our testing. We tested 34 cases (100%) in the report and found that only 4/34 (11%) cases due for review had been resolved at the time of writing this report.</p> <p>Further analysis of the testing conducted is explained below:</p> <ul style="list-style-type: none"> • 2020 Cases: None (0%) of the 11 cases that were due for review in 2020 have been completed. The 11 cases are between 18-23 months overdue. • 2021 Cases: 4/18 (22%) of cases that were due for review in 2021 have been completed, with the document confirming the new rent agreement being signed. 14/18 (78%) cases are still outstanding, being between 6-13 months overdue. • 2022 Cases: None (0%) of the 5 cases due for review have been completed yet. However, at the time of the review these cases were less than 3 months overdue and therefore the PI had not yet been missed. 	<p>If lease renewal contract is not signed by both parties to the agreement and the tenant's lease excludes security of tenure provisions, then there is a risk that the clauses in place might not be enforceable; and in case of litigation, the council might lose out financially.</p> <p>If performance measures are not clear and negative outcomes are not dealt with by senior management and the appropriate Committee, then strategic decisions will not be taken to manage the contract, and bring performance back in line, leading to financial losses and reputational damage for the Council.</p> <p>If rent review PI failures are not followed up to completion, then there is</p>	<p>Medium</p>	<p>a) <i>An additional PI/measure will be introduced which sets out and monitors a deadline to complete rent reviews which have failed the initial PI.</i></p> <p>b) <i>The Head of Property and Portfolio Management and the Head of Property Services and Valuation will set out and clearly document, what constitutes successful performance and consistently report on this monthly to CMM. This will take into consideration the circumstances around Covid and LBB's request to cease completing lease renewals and rent reviews in 2018.</i></p> <p>c) <i>In the meantime, the Head of Property Services and Valuation will ensure that the backlog of overdue reviews (in particular those that are more than one year overdue) are completed. Where necessary, resource implications will be discussed and addressed with LBB.</i></p> <p>d) <i>The Head of Property Services and Valuation will review the rent negotiation process to identify bottlenecks and review whether any measures can be put in place where possible to reduce these.</i></p> <p>Responsible officer: Head of Property Services, CSG</p> <p>Target date:</p>

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	<p>In summary, 30/34 (88%) of the cases are currently under negotiation. The stage of negotiation varies and the time this has taken is shown in the table below:</p> <table border="1" data-bbox="255 424 808 863"> <thead> <tr> <th colspan="4" data-bbox="255 424 808 491">Analysis of Uncompleted Cases</th> </tr> <tr> <th data-bbox="255 491 371 592">Year</th> <th data-bbox="371 491 488 592">Cases</th> <th data-bbox="488 491 618 592">Age Months</th> <th data-bbox="618 491 808 592">%</th> </tr> </thead> <tbody> <tr> <td data-bbox="255 592 371 659">2020</td> <td data-bbox="371 592 488 659">11</td> <td data-bbox="488 592 618 659">18-23</td> <td data-bbox="618 592 808 659">37%</td> </tr> <tr> <td data-bbox="255 659 371 726">2021</td> <td data-bbox="371 659 488 726">14</td> <td data-bbox="488 659 618 726">6-13</td> <td data-bbox="618 659 808 726">47%</td> </tr> <tr> <td data-bbox="255 726 371 793">2022</td> <td data-bbox="371 726 488 793">5</td> <td data-bbox="488 726 618 793">1-2</td> <td data-bbox="618 726 808 793">16%</td> </tr> <tr> <td data-bbox="255 793 371 863">Total</td> <td data-bbox="371 793 488 863">30</td> <td data-bbox="488 793 618 863"></td> <td data-bbox="618 793 808 863">100</td> </tr> </tbody> </table> <p>Reasons for delays were given as:</p> <ul style="list-style-type: none"> • Negotiation delay between CSG and the tenants. Often the Council's tenants are not represented, and it can take time for them to agree an increased rent. Once a draft lease is prepared, the tenant finds they do need a solicitor and often it takes considerable time to finalise the documentation due to amendments and queries over details within the lease. • COVID 19. Many of the Council's tenants are small businesses that were forced to temporarily cease trading at various times during 2020 and 2021. CSG was unable to inspect premises and meet with tenants. This contributed to a significant backlog during 2020 and 2021. During 2021-2022, CSG has focused on lease renewals and high value rent 	Analysis of Uncompleted Cases				Year	Cases	Age Months	%	2020	11	18-23	37%	2021	14	6-13	47%	2022	5	1-2	16%	Total	30		100	<p>a risk that the council might lose out financially due to a prolonged review process.</p>		<p>30 December 2022</p>
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Total	30		100																									

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	<p>reviews, but the back log has been difficult to address. NOTE: due to the Covid pandemic, lockdowns and change in laws over 2020 and 2021 many tenants were unreachable as their demise was non-operational, therefore Property Services letters to initiate rent reviews were not received and responded to by tenants. Furthermore, at a time where tenants are being offered rents relief by LBB, it was not appropriate to carry out a rent review and increase their rents. In addition to this, new laws were introduced during the pandemic which prevented tenants from being served notice/evicted. This is the main reasoning for the low volumes of completion during this period.</p> <ul style="list-style-type: none"> • Excess case volumes above core contract. Until December 2021, funding for the excess cases was not forthcoming. It was agreed in 2021 that LBB would fund one additional resource to mitigate the pressure created by the volume of cases and in December 2021 CSG was able to recruit that additional resource. Case volumes continue to rise, predominantly as a result of the Council's proactive approach towards its estate which, while positive, creates additional case load for a statically funded core contract. <p>Performance Indicator (PI) Reported Performance:</p> <p>We reviewed the monthly service report to ensure that the Property Services and Valuation team reports its Performance Indicator (PI) monthly (as set out above); and that it also achieves its monthly PI as specified in the contract with LBB.</p>			

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	<ul style="list-style-type: none"> The examination of the report established that: The rent review PI was only achieved in one out of six months (17%). <p>The analysis of the rent review performance indicators failure is shown in the table below:</p> <table border="1" data-bbox="255 523 694 995"> <thead> <tr> <th colspan="2">Rent Review PI Failure Analysis</th> </tr> <tr> <th>Month</th> <th>PI Failure</th> </tr> </thead> <tbody> <tr> <td>October 2021</td> <td>none</td> </tr> <tr> <td>November 2021</td> <td>4 cases</td> </tr> <tr> <td>December 2021</td> <td>4 cases</td> </tr> <tr> <td>January 2022</td> <td>2 cases</td> </tr> <tr> <td>February 2022</td> <td>4 cases</td> </tr> <tr> <td>March 2022</td> <td>1 Case</td> </tr> </tbody> </table> <p>However, the Head of Property Services and Valuation informed us that the PI only failed in two cases during the six months reviewed. He revealed that in most of the cases, the team had reported the delay to LBB in advance, and therefore the failure to meet the target is not a 'failure' as specified in the contract due to the fulfilment of the reporting requirement that has been agreed. However, we have not seen this documented agreement within the contract.</p> <p>The Head of Property Services and Valuation, agreed the rent review PI failure in the following cases only because the team did not inform LBB of the imminent failure:</p>	Rent Review PI Failure Analysis		Month	PI Failure	October 2021	none	November 2021	4 cases	December 2021	4 cases	January 2022	2 cases	February 2022	4 cases	March 2022	1 Case			
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	<ul style="list-style-type: none"> • November 2021: Market Lane and Little Wood PI failed and • January 2022: Glebelands negotiation missed its PI date and therefore failed. <p>Our discussion with the Head of Property Services and Valuation indicated that the team informs LBB whenever it is unable to meet the KPIs and PIs as specified in the contract with LBB. We were informed that as long as the Council is notified of the slippage, that the KPIs and PIs are agreed as having been met. We were also informed that the KPI calculation commences from the date when the agreement is reached and not when the rent agreement review is due. Finally, we were informed that the target is no longer 3 months but was extended to 6 months at some point in the past four years. However, none of these arrangements were formally documented. The contract documentation still states the PI is 'The percentage of rent reviews completed within 3 months of the rent review date against the total number of rent reviews due'.</p> <p>Our review found that there is no consequence for the PI failure reported to LBB via the Contract Monitoring Meetings (CMMs). When a PI failure is reported by the Property Services and Valuation team to LBB there is no process in place to ensure that performance improves and that rent reviews are completed in time subsequently. There is no amended time limit or target for when the rent reviews will be completed after reporting the PI failure to LBB.</p> <p>Our discussion with the Head of Property Services and Valuation and LBB Commercial confirmed that there is no further measure or monitoring to address the PI failures reported to LBB.</p>			

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2.	<p>Income Collection and Debt Recovery: Bad Debt Write-Off</p> <p>We examined the Commercial property rents and leases to ensure that an adequate debt management process is in place, the aged debts analysis report is produced monthly and all income from Commercial Property is accounted for.</p> <p>The Commercial Property's aged debt analysis report dated 20/02/2022 was obtained from the Assistant Finance Manager (AR) for the testing. 100% testing of the report was carried out, and we found that the AR team produced the report monthly and distributed it to all stakeholders.</p> <p>Our testing of the aged debt analysis report confirmed 27 cases valued at £107,338 are categorised as debts pending write-off. These debts are summarised in the table below. It includes:</p> <ul style="list-style-type: none"> • 24/27 (89%) valued at £100,423 of the debts expected to be written off belong to only one client The total debt consists of 24 months unpaid (rents' debt) invoices. The report revealed that the client's debt is between four to six years old. • 1/27 (4%) case valued at £6,914 is ten years old (3,618 days). • 2/27 (7%) cases valued at eighteen pence are one year old. <table border="1" data-bbox="174 1193 967 1441"> <thead> <tr> <th colspan="4">Analysis of Debtors To be Written Off</th> </tr> <tr> <th>CLIENT</th> <th>AMOUNT OWED (£)</th> <th>AGE OF DEBT (Years)</th> <th>REPORT REFERENCE</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>100,423.60</td> <td>4-6</td> <td>Rents invoices from May 2016</td> </tr> </tbody> </table>	Analysis of Debtors To be Written Off				CLIENT	AMOUNT OWED (£)	AGE OF DEBT (Years)	REPORT REFERENCE	1	100,423.60	4-6	Rents invoices from May 2016	<p>If the authority to pass debts to debt collectors is not granted in a timely manner, then there is a risk that debtors will increase consistently, leading to an increase in doubtful and bad debts.</p> <p>The council's cash flow might be negatively impacted making it impossible for the council to meet its financial obligations.</p> <p>If the credit balances are not written in, then there is a risk that the overall debt values will be distorted, and fraudulent practices could occur, for example the fraudulent transfer of credits to individual accounts if the credit balance remains without being monitored.</p>	Medium	<p>a) <i>The Head of Property and Portfolio Management will liaise with the Accounts Receivable team to provide the necessary approvals required to write off the bad debts (Completed as informed by the Head of Service on 28 July 2022)</i></p> <p>b) <i>Going forward, the Head of Property and Asset Management will continue to hold monthly meetings with the Accounts Receivable team to ensure the debts are reviewed and authority to pass debts to the debt collector is given in time to reduce bad debts.</i></p> <p>c) <i>The Head of Property Services and Valuation will liaise with the Accounts Receivable team to obtain the necessary approvals required to write-in the credit notification cases.</i></p> <p>Responsible officer: Head of Property & Portfolio Management</p> <p>Target date:</p> <p>a) Complete b) and C) 30th December 2022</p>
Analysis of Debtors To be Written Off																
CLIENT	AMOUNT OWED (£)	AGE OF DEBT (Years)	REPORT REFERENCE													
1	100,423.60	4-6	Rents invoices from May 2016													

Ref	Finding				Risks	Risk category	Agreed action
				to May 2018 (24 months)			
2	6914.38	10	One invoice				
3	.05	1	-				
4	.13	1	-				
TOTAL	107,338.12						
<p>Further discussion with the Assistant Finance Manager (AR) on the bad debts revealed that the Commercial Property team did not grant the AR team the authority to pass the debt to the debt collectors until the most significant debtor (Client 'X') had been found to have absconded from the United Kingdom. An investigation by the AR team revealed that the debtor is currently in Canada.</p> <p>Note: from the early days of the COVID pandemic until March 2022, by law, landlords of commercial tenants were unable to evict tenants on the grounds of inability to pay rent; this prevented LBB from instructing debt collectors as there was no remedy to non-payment, i.e. eviction was not permitted by law.</p> <p>Resolution meetings:</p> <p>The Head of Property Services and Valuation informed us that a monthly meeting had been set up to resolve identified issues by the LBB Head of Property and Portfolio Management. The monthly meetings, which started in June 2020, consist of the LBB Head of Property and Portfolio Management, Head of Property Services and Valuation</p>							

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	<p>(CSG), Assistant Finance Manager (AR) and Property Services Officer (CSG).</p> <p>At the time of fieldwork, 11 meetings had been held (there was a 9 month break between Oct 2020 and July 2021), with the last meeting held on the 20 January 2022. There has since been a recent meeting on the 24 April 2022. Attendance varied from two to seven parties in attendance. The arrears figure noted in the minutes as of 11 June 2020 (the first meeting) was £1.5m; this increased to £2.129m at the January 2022 meeting which was held 4 months prior to this report being drafted. We have been informed that this figure had reduced to £1.2m as at the 24 April 2022 meeting.</p> <p>Credit Notification:</p> <p>We found 48 cases of past clients with small credit balances valued at £5,191.71. These cases are between 6-16 years old and are required to be written into the council's accounts. The highest value out of the 48 cases is £3,074.</p> <p>Further to the draft report being discussed, management have informed us that the unpaid debt has now been written off as there is no foreseeable way to recover the this.</p>			
3.	<p>Income Collection and Debt Recovery: Debt Management:</p> <p>We also reviewed the aged debt report to identify if appropriate debt management procedures are in place.</p> <p>We obtained and analysed the aged debt analysis report provided by the AR team and found that as at the end of February 2022, there were 449 commercial property debts (i.e. individual invoices), across 117 separate clients, with a total debt valued at £1,316,163.88.</p> <p>Some significant debtors are as follows:</p>	<p>If appropriate actions against debtors are delayed, then there is a risk that the debts will become bad, and the council will be unable to recover them, leading to loss of income and possible cash flow problems.</p>	<p>Medium</p>	<p>a) <i>The Head of Property Services and Valuation will liaise with the appropriate stakeholders to ensure that the Deed of Rectification & Supplemental Agreement is finalised to enable the Council to start recovering the debts from the holding company.</i></p> <p>b) <i>The Head of Property Services and Valuation will liaise with the AR and the HB Public Law to ensure that the Client 'Y' case is resolved.</i></p> <p>Responsible officer:</p>

Ref	Finding	Risks	Risk category	Agreed action
	<ul style="list-style-type: none"> • 64/449 (14%) of the cases relate to 14 debtors and are valued at £212,324.88. These are currently under query. 26 of these cases are between 3-5 years old while the rest are below 3 years old. These queries are yet to be resolved by the Commercial Property team. • 3/449 (1%) cases valued at £5,916 are missing payments i.e. the debtor is claiming they have paid but the team is unable to link a received payment to the client's account. Two of these cases (£3,950) are over four years old, while the remainder are below two months old. Payments are recorded by LBB. • 3/449 (1%) debtor cases valued at £18,424 are categorised as 'CR 7 Day Letter issued' (i.e. Notification of Court Action). The debts are owed by the same client (referred to below as client 'X') and are over six years old. The CR 7 Day Letters were issued on 7th March 2016 to the tenant as per the instruction of the property services team (the CR7 Day Letter is sent out to the tenant before action is taken against them). However, no instruction to go ahead with the Court Action was given by the property services team to the Accounts Receivable team until the time of this audit. (See further details of this client below) • 3/449 cases of bad debts valued at £132,500(excluding debts with collector) currently with the HB Public Law for litigation belong to one client (referred to below as client 'Y') The debt is between seven and nine years old (See below for details). 	<p>If the contractual documentation is not completed in time and necessary action taken in recovering the debt, then there is a risk that the debt could become bad leading to loss of income.</p>		<p>CSG Head of Property Services and Valuation, Target date: Complete. These debts have now been written off.</p>

Ref	Finding	Risks	Risk category	Agreed action
	<p>There is a risk of an increase in the council's unrecoverable debts and subsequent loss of income if recovery action is not taken in the near future, in line with the Council's debt management policy. The policy states that 98.5% of debt should be collected within 1 year, whereas 70% (314/449) of the current debt is now over 1 year old.</p> <p>Client 'X'</p> <p>Further enquiries about this £18,424 debtor from the Assistant Manager Finance revealed that the parent company occupy the premises on a 10-year lease from 1 May 2013 at a current passing rent of £30,000 per annum, expiring on 30 April 2023.</p> <p>However, the site was included within the West Hendon Regeneration Area and a Highways Improvement scheme. Part of the land was subject to a Compulsory Purchase Order (CPO); the client effectively vacated the land from the end of January 2020. Following the CPO, the occupational lease terms required rectification to reflect the reduced demise. It was proposed that the rent should be reduced to £17,760 pa with effect from 1st February 2020.</p> <p>The total rent arrears due, after deducting the cost of an earlier Valuation Report, is calculated as £166,444.66. It was proposed that an initial payment of £50,000 be paid on completing the Supplemental Agreement and the outstanding balance be repaid monthly (£7,762.98 pcm).</p> <p>At the time of the audit, the agreed £50,000 bulk sum had not been paid nor the monthly £7,762.98. Our discussion with the Assistant Manager of Finance and the evidence of email communication among stakeholders revealed that the Deed of Rectification & Supplemental Agreement is yet to be completed and signed.</p>			

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	<p>If the Deed of Rectification & Supplemental Agreement is not completed in time and necessary action is taken in recovering the debt, there is a risk that the debt could become bad, leading to loss of income.</p> <p>However, our discussion with the Head of Property Services and Valuation revealed that a provisional agreement had been produced and the team is working to ensure it is finalised and payment collected from the client.</p> <p>The payment of the £18,424 debtor balance identified in our testing for this client is dependent on the above negotiation having been completed. It will form part of the overall agreed debt balance.</p> <p>The total outstanding balance on Client 'X' as at 24th March 2022 was £199,259 and out of which a payment of £68,400 was made on the 25th April 2022. The current debt is now £130,859.58.</p> <p>Subsequent to the discussion of the report, the Head of Property Services and Valuation informed Internal Audit that an agreement has been completed enabling repayment of the arrears through a repayment plan.</p> <p>Client 'Y':</p> <table border="1" data-bbox="237 1114 954 1457"> <thead> <tr> <th colspan="5">Analysis of Debtors To be Written Off</th> </tr> <tr> <th>S/N</th> <th>CLIENT</th> <th>AMOUNT</th> <th>AGE Days</th> <th>Years</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Client Y</td> <td>12,500</td> <td>2784</td> <td>7.6</td> </tr> <tr> <td>2</td> <td>Client Y</td> <td>12,500</td> <td>2687</td> <td>7.4</td> </tr> <tr> <td>3</td> <td>Client Y</td> <td>107,500</td> <td>3254</td> <td>8.9</td> </tr> <tr> <td>4</td> <td>Client Y</td> <td>£3,842</td> <td>3131</td> <td>8.6</td> </tr> </tbody> </table>	Analysis of Debtors To be Written Off					S/N	CLIENT	AMOUNT	AGE Days	Years	1	Client Y	12,500	2784	7.6	2	Client Y	12,500	2687	7.4	3	Client Y	107,500	3254	8.9	4	Client Y	£3,842	3131	8.6			
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Ref	Finding					Risks	Risk category	Agreed action
	5	Client Y	£3,953	2967	8.1			
	6	Client Y	£4,558	1554	4.3			
	7	Client Y	£4,695	1093	2.9			
	Total		149,548					
	<p>Our discussion with the AR team revealed that the authorisation to pass the debt to recovering agents was delayed because the Property Services and Valuation team negotiated with the debtor for payment prior to May 2021. Subsequent to this, the debt became a bad debt, which required further action.</p> <p>Furthermore, our discussion with the HB Public Law Litigation Lawyer responsible for the case revealed that necessary action is yet to be taken on the debtor because:</p> <ul style="list-style-type: none"> • There was a delay in the response by the Property Services and Valuation team to the HB Public Law enquiry that was sent via email on 26 May 2021. The response to the enquiry was not received by HBPL until 18 November 2021, which unfortunately was after the case file had been closed by HBPL (the case file was closed on 22 October 2021 due to the lack of response). • Permission to conduct asset searches on each of the trustees, to ascertain whether the trustees have assets that HB Public Law could secure the judgment against them, was requested on 26 May 2021 but was not 							

Ref	Finding	Risks	Risk category	Agreed action
	<p>understood by HBPL to have been given until 27 January 2022, because of the case file having been closed in the meantime and the instruction given on 18 November 2021 therefore having been disregarded. The delay has impacted negatively on the speed of process of the litigation.</p> <ul style="list-style-type: none"> As a result of the delay in receiving the permission, the litigation team is currently trying to investigate whether Client 'Y's Trustees are personally liable because they were not included as a party to the tenancy. <p>However, our discussion with the Head of Property Services and Valuation revealed that:</p> <ul style="list-style-type: none"> the Client 'Y's lease was successfully forfeited on 14th June 2018 to reduce the amount of its indebtedness to the council. Property Services and Valuation got the court's order that the lessee should pay the debts owed on 18th August 2018 after losing its appeal against the forfeiture, but it did not pay; hence the instruction to HB Public Law to ensure recovery of the debt. There was a misinterpretation of the email sent by the Head of Property Services and Valuation to HB Public law giving it authority to go ahead. <p>If appropriate actions against debtors are delayed, there is a risk that the debts will become bad, and the council will be unable to recover them, leading to loss of income and cash flow problems.</p> <p>Further to the draft report being discussed, management have informed us that the unpaid rent debt has now been written off as there is no foreseeable way to recover the this.</p>			

Ref	Finding	Risks	Risk category	Agreed action
4.	<p>Lease and Letting Renewals: Leases Renewal</p> <p>The CSG contract includes the following related Key Performance Indicator (KPI):</p> <p>ES KPI 4 Lease Renewals (previously ES PI 4)</p> <p><i>100% of those lease renewals that are due to be undertaken are processed within 6 months of expiry date.</i></p> <p>We reviewed the lease renewal process to certify that reviews are carried out without delay, ref the KPI; and that all parties to the renewal contract sign the documents to ensure that the agreements are enforceable in case of breach by any Lessee.</p> <p>Our testing of the Lease renewal process revealed that information on the electronic register is updated whenever there is a new lease, or a lease is renewed. However, the report shows a delay of an average of 15 months in completing each lease renewal.</p> <p>A 100% sample of 45 cases of leases that expired between 2020 and 2022 provided by the Head of Property Services and Valuation were tested. Our testing found that:</p> <p>1. Closed or Completed</p> <p>24/45 (53%) cases have been either closed or completed. Closed cases are leases that are no longer operating/not renewed, while completed cases are leases that have been renewed.</p> <p>Further analysis of the 24 cases indicates that the time spent in negotiation is often protracted. The reasons given for delays are noted against Finding 1 of this report.</p> <p>It took the team an average of 15 months to negotiate each of the cases before they were renewed.</p>	<p>If lease renewals are delayed, then there is a risk that the renewal could be side-tracked, leading to loss of income to the council.</p> <p>Protracted negotiations may cause the Council to lose out on favourable market rents.</p>	<p>Medium</p>	<p>a) <i>As for Finding 1 – Rent Reviews, The Commercial Services Team and the Head of Property Services and Valuation will set out and clearly document, via a contract variation, what constitutes successful performance for Lease Renewals and consistently report on this monthly to senior management and quarterly to the appropriate committee.</i></p> <p>b) <i>The Head of Property Services and Valuation will ensure that overdue renewals (particularly those that are more than one year overdue) are given priority for completion.</i></p> <p>c) <i>The Head of Property Services and Valuation will review the process to reduce the time taken in negotiating lease renewals.</i></p> <p>d) <i>Property Services will consider undertaking a benchmarking exercise with other London Boroughs to ascertain comparative performance timelines and if improvements can reasonably be expected.</i></p> <p>Responsible officer: Head of Property Services and Valuation, CSG</p> <p>Target date: 30th December 2022</p>

Ref	Finding	Risks	Risk category	Agreed action
	<ul style="list-style-type: none"> • 8/24 (33%) cases took 22 to 23 months • 10/24 (42%) cases took between 10 and 18 months and • 6/24 (25%) cases took between 1-9 months to complete. <p>2. Terms Agreed</p> <p>5/45 (11%) cases terms have been agreed, but documents have not been signed. These cases need to be formally completed as early as possible, as the lease agreements expired between December 2020 and July 2021. Though the leases are expired, the lessees are still in the properties and continuing with the old lease agreements.</p> <p>3. Under negotiation</p> <p>14/45 (31%) cases are still under negotiation. A review of progress of these cases revealed that the negotiation process in some cases is protracted and could impact negatively on the council's income. The lessees are still in the properties and continuing to be charged the old rates.</p> <p>Further analysis of cases under negotiation revealed that:</p> <ul style="list-style-type: none"> • 5/14 (36%) of the cases have been under negotiation for between 20 to 22 months. These leases expired between June and August 2020 yet are still being negotiated. • 3/14 (21%) cases have been under negotiation for 19 months; while • 6/14 (43%) cases have been under negotiation for up to six months. <p>4. Not Started</p>			

Ref	Finding	Risks	Risk category	Agreed action
	<ul style="list-style-type: none"> 2/45 (4%) of cases the negotiation has not started on the leases. One of these leases expired in March 2022 while the second expired in December 2020. <p>Key Performance Indicator (KPI) Reported Performance:</p> <p>We reviewed the monthly service report to ensure that the Property Services and Valuation team reports its KPI performance monthly.</p> <p>The KPI for leases renewal is included in the service report and recent reports stated that the Property Services and Valuation team achieved the KPI for all the six months from October 2021 to the end of the financial year.</p> <p>As for Finding 1 above, the KPI has been classified as having been met in the reports because it was agreed by LBB that if CSG inform LBB beforehand, such cases are no longer categorised as KPI or PI failures. However, as for Finding 1, this agreement does not form part of the formal contractual documentation.</p>			
5.	<p>Lease and Letting Renewals: Legacy Rents and Leases</p> <p>Our review also found that there are Legacy rent reviews and lease renewals that were not dealt with pre-2016, some of which pre-dated the contract with Capita and have not yet been reviewed or renewed.</p> <p>Our discussion with the Head of Property Services and Valuation Barnet Estates established that these legacy items:</p>	<p>If legacy lettings and leases are not detected and updated, then the council may not have a complete record of its property. This could lead to lost income and a failure to put in place the necessary measures to safeguard the property and tenants, for example, by way of licensing where relevant</p>	<p>Medium</p>	<p>a) <i>LBB management will facilitate a reconciliation of properties and liaise with CSG to determine properties where legacy rents and leases apply and ensure they are captured and listed for review.</i></p> <p>b) <i>Management will agree an indicative programme to work through all the overdue rent reviews and lease renewals with an aim that they are completed to a specified and agreed deadline, (this will be dependent on</i></p>

Ref	Finding	Risks	Risk category	Agreed action
	<ul style="list-style-type: none"> • were not identified by the process of migrating data into the database (Atrium was installed in 2015) • are being identified from time to time and added to the schedule. <p>Our primary testing (see Findings 1 and 4) covered the period May 2020 – March 2022.</p> <p>In summary, the additional outstanding items from before May 2020 include the following:</p> <p>Rent Reviews: A report of 35 outstanding rent reviews pre-May 2020 was provided. The 35 cases were reviewed, and we found that:</p> <p>31/35 (88%) cases are currently under negotiation. The cases consist of rents that that expired between April 2018 and March 2020.</p> <p>1/35 (2%) case is not yet started. It expired on 1st April 2019, and we were informed that it was one of the rent reviews that LBB asked CSG not to undertake in 2018.</p> <p>3/35 (8%) are on hold. These cases expired between April 2018 and July 2019. They are on hold because LBB asked CSG to put them on hold.</p> <p>Lease Renewals: A report provided by the Service showed 33 renewals outstanding that expired before May 2020.</p> <p>The 33 cases were reviewed.</p>	<p>and ensuring appropriate insurance.</p>		<p><i>third party responsiveness and any further changes to the law).</i></p> <p><i>(In prioritising rent reviews and lease renewals, Priority will be given to renewals that were overdue as at the beginning of the CSG contract).</i></p> <p>Responsible officer: Head of Property Services and Valuation, CSG</p> <p>Target date: 30th December 2022</p>

Ref	Finding	Risks	Risk category	Agreed action
	<p>12/33 (36%) cases are currently under negotiation. The cases consist of leases that expired between April 2018 to January 2020.</p> <p>9/33 (28%) cases terms have been agreed but not yet closed (these were agreed between 21 September 2018 to 21 Oct 2019).</p> <p>12/33 (36%) cases have been closed or completed. These two categories therefore no longer require any further action.</p>			
6.	<p>Lease and Letting Renewals: Insurance of Property</p> <p>We reviewed the process and controls used by the Property Services and Valuation Team to ensure the council's commercial properties are adequately insured and that under or over-insured properties are detected in time to reduce LBB losses.</p> <p>Our discussion with the insurance team revealed that information required to update or manage insurance efficiently and effectively is not always provided by the Property Services and Valuation team in time, for example:</p> <ul style="list-style-type: none"> • Changes of use of property • Changes of tenants or tenancy • Changes in rents • Sold and disposed of properties • Demolished property due to regeneration or other reasons <p>Access to the Atrium database, to enable the insurance team to check and review changes that are likely to affect the</p>	<p>If insurance policies of lessees and tenants are not checked for adequacy, then an inadequate policy might be put in place which may not cover the property in case of any eventualities leading to loss and bad publicity for LBB.</p>	<p>Medium</p>	<p>a) <i>There will be a regular meeting, of a frequency to be agreed between the insurance team and the Property Services and Valuation team, for the resolution of insurance issues. As part of this, the Property Services and Valuation team and the Insurance team will agree and adopt the best approach of receiving information from each other.</i></p> <p>b) <i>Management will ensure that an updated and accurate report of the properties where insurance is to be provided by tenants is prepared and shared with the Insurance team.</i></p> <p>c) <i>The Property Services and Valuation team will confirm if all properties that require the tenant or lessees to insure are adequately insured.</i></p> <p>d) <i>The Property Services and Valuation team will proceed with the project to move to a new system to enable LBB to update and produce</i></p>

Ref	Finding	Risks	Risk category	Agreed action
	<p>insurance policies, is yet to be provided despite requests being made for over a year.</p> <p>Furthermore, we were informed that the Property Services and Valuation team had not adopted a uniform approach of providing the insurance team with information required to confirm the adequacy of the insurance policies.</p> <p>The Property Services and Valuation Team is unable to provide the insurance team with an accurate report on the different insurance arrangements required for each of the properties in its portfolio. Management stated this was due to the inadequacies of the Atrium system being used by the team, which does not contain a field to record insurance information.</p> <p>Commercial Properties where Tenants or Lessees are Responsible for the Insurance Policy</p> <p>The Head of Property Services and Valuation provided us with a report of the commercial properties where Tenants or Lessees are responsible for the insurance. The report provided was manually collated in August 2021 to provide the Valuation Office Agency with detailed information on the Council's commercial property at that time and cannot be confirmed to represent the accurate, current picture of the volume of commercial properties that are insured by the tenants or lessees.</p> <p>Our discussion with the Head of Property Services and Valuation confirmed that the team's current Atrium system, which was introduced in December 2015, does not have the capabilities to provide specific details on leases and lettings where tenants are responsible for the property insurance. We understand there is a project underway to replace the property database and this will be an opportunity to ensure</p>			<p><i>accurate information on all its commercial property.</i></p> <p>Responsible officer: CSG Head of Property Services and Valuation</p> <p>Target date: 30th December 2022</p>

Ref	Finding	Risks	Risk category	Agreed action
	<p>that such a breakdown of lease terms can be stored such that these reports can be produced. However, this is a major project and will not likely be completed during 2022.</p> <p>Furthermore, we also found that there is no process in place to:</p> <ul style="list-style-type: none"> • check and confirm that properties that are supposed to be insured by the third parties are actually insured; • verify that properties are insured according to the provisions of the lessees' contracts; or • confirm the adequacy of the insurance policies put in place by the tenants and lessees. <p>Montrose Hub/Cafe</p> <p>In the case of the above building, the agreement indicates that the tenant was to insure the property, but the Property Services and Valuation Team released the building to the tenant without confirmation that the insurance was in place. Our review of this property revealed that:</p> <ul style="list-style-type: none"> • Chief Officer Decision (COD) was signed on 07/07/2021 • The property was passed to the lessee by LBB without necessary evidence to confirm that the lessee insured the property according to the contract and the content of the COD • The investigation of the insurance team on 29/09/21 discovered that the lessee did not insure the property because the property does not have a post-code, and the property was released to them without adequate insurance in place • There is no evidence to confirm that the insurance cost has been passed to the lessee or an arrangement for repayment is in place. 			









Ref	Finding	Risks	Risk category	Agreed action
	<p>There is an urgent need to ensure that all properties where the responsibility to have insurance is passed to the lessees are recorded and reviewed to ensure there are no other cases of Council-owned commercial properties that are currently uninsured.</p>			
7.	<p>Commercial Property Records: Register or Database</p> <p>We sought to obtain reports to test Atrium, the Commercial Properties Database, to confirm if data values, information, and reports produced by the system are accurate, valid, and suitable.</p> <p>The information obtained from our discussion with the Head of Property Services and Valuation and the insurance report provided revealed that the Atrium system currently in use:</p> <ul style="list-style-type: none"> • is deficient and unable to produce some vital information required by the team. For example, the system cannot run or produce reports that provide lists of leases where tenants and lessees are responsible for all repairs, just internal repairs, or for insuring the property. • does not have all the required vital fields to include detailed insurance information to make data management and monitoring easy. • does not have the capacity to include a breakdown of leases and letting agreements. <p>The system is unable to produce what is required by the Valuation Office Agency. The team had to manually collate the required information to enable the Council to provide the Valuation Office Agency with the required detailed information of all the of the Council's properties.</p>	<p>If the database is not fit for purpose, then there is a risk that it will be producing inaccurate information that will impact negatively on the council.</p>	<p>Medium</p>	<p>a) <i>A timeline will be drawn up to provide target dates for the delivery of the project to renew the property database/management system.</i></p> <p>b) <i>Progress will be monitored against the project plan to ensure it stays on track and regular reports of progress will be given to senior management.</i></p> <p><i>In the interim</i></p> <p>c) <i>The Head of Property Services and Valuation will ensure that adequate arrangements are in place to accurately fulfil any statutory obligations to provide information to the Valuation Office Agency or any in-house teams for the carrying on of Business-as-usual in relation to the Council's properties.</i></p> <p>Responsible officer: CSG Head of Property Services and Valuation</p> <p>Target date: 31st August 2022</p>

Ref	Finding	Risks	Risk category	Agreed action
	<p>If the database is not fit for purpose, there is a risk that it will be producing inaccurate/incomplete information that will impact the council negatively or cause reputational damage. Production of reports will be time-consuming and delayed.</p> <p>However, the Head of Property Services and Valuation informed us that the team are currently engaged in the process of replacing the current property database with new software that will take care of all the weaknesses of the current database. The current expectation is that procurement will take place in late 2022 or early 2023, which could mean a new system going live in approx. April or May 2023.</p>			
8.	<p>Process and Procedures:</p> <p>We obtained the relevant process documents, namely:</p> <ul style="list-style-type: none"> • Rent Review by Contractor CSG • Rent Review In-House CSG Estates <p>Our review of the procedures used by the Property Services and Valuation team revealed that the output specification being used currently was produced in 2013.</p> <p>We tested each of the processes and found that:</p> <ul style="list-style-type: none"> • the processes are a basic process map (diagrammatical process) showing the process involved, but the explanation and the step-by-step process is not documented. • they are not version controlled and therefore <ul style="list-style-type: none"> ➢ the date and time of the last update was not documented on the processes; and ➢ the next date of review is not shown. 	<p>If the estates' rent review processes are not documented and explained, knowledge may be lost if staff with experience leave the service, leading to gaps in knowledge and potential inefficiencies.</p>	<p>Medium</p>	<p>a) <i>The Rent Review by Contractor CSG and Rent Review In-House CSG Estates processes will be formalised and version-controlled as appropriate.</i></p> <p>b) <i>The Head of Property Services and Valuation will produce a word version of the procedures for reference purposes, and to reduce the risk of knowledge loss or gaps in knowledge if experienced staff leave the team.</i></p> <p>Responsible officer: CSG Head of Property Services and Valuation,</p> <p>Target date: 31st August 2022</p>

Ref	Finding	Risks	Risk category	Agreed action
	<p>We were informed by the Head of Property Services and Valuation Barnet Estates that the process for setting rents is not documented, but it is based on the requirements of the RICS guidance, best practice and the experience of the professional staff in the team.</p>			
9.	<p><u>Customer Services (CS)</u></p> <p>We asked management if they were aware of the Barnet Customer Service Principles, which includes staff commitments to customer service (“A customer focussed organisation – our commitments”). They confirmed they were unaware of this document containing these principles. This is consistent with the finding in other recent audits (Council Tax and Trade Waste).</p> <p>Our discussion with the Head of Property Services and Valuation Barnet Estates revealed that customer surveys are not conducted by the team.</p> <p>A report of complaints / feedback relating to Commercial Properties – and how they were resolved - was requested but at the time of writing this had not been provided. In view of the above there is no evidence of the team learning from corporate complaints.</p> <p>Our own review of the service’s section of LBB’s website during the course of the audit confirmed that relevant information such as commercial property for sale and rents is available and updated regularly. Relevant contact details for the service were provided on the website.</p>	<p>If the service fails to identify or address weaknesses in customer services delivery noted from customer feedback, then opportunities to improve Service delivery will be missed.</p> <p>If there no adequately monitored complaints resolution process in place, there is a risk that complaints resolution delay leading to legal action against the council.</p>	Low	<p>a. A self-assessment will be completed against the Corporate customer services commitments, “A customer focussed organisation – our commitments”. Proportionate action will be taken to cross-reference and overlay customer service operation with the corporate expectation, including seeking customer feedback.</p> <p>Responsible Officer CSG Head of Property Services and Valuation,</p> <p>Target date 31st August 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 	<p>Immediate and significant action required. A finding that could cause:</p> <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 	<p>Action required promptly and to commence as soon as practicable where significant changes are necessary. A finding that could cause:</p> <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 	<p>A finding that could cause:</p> <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 	<p>A finding that could cause:</p> <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 	<p>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.</p>
Reasonable 	<p>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.</p>
Limited 	<p>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.</p>
No 	<p>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.</p>

Appendix 2 – Analysis of findings

Area	Critical		High		Medium		Low		Total
	D	OE	D	OE	D	OE	D	OE	
Area 1 Process, Procedures Roles and Responsibilities	-	-	-	-	-	1	-	-	1
Area 2 Commercial Property Record	-	-	-	-	-	1	-	-	1
Area 3 Calculation Valuation and Approval	-	-	-	-	-	-	-	-	-
Area 4 Covid-Related Commercial Rents Assistance	-	-	-	-	-	-	-	-	-
Area 5 Income Collection and Debt Recovery	-	-	-	-	-	2	-	-	2
Area 6 Lease and Letting Renewal	-	-	-	-	-	4	-	-	4
Area 7 Customer Services	-	-	-	-	-	-	-	1	1
Total	-	-	-	-	-	8	-	1	9

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: Date: 2nd Dec 2021	Fieldwork commenced: Date: 2 March 2022	Fieldwork completed: Date: 23rd March 2022	Draft report issued: Date: 10th May 2022	Management comments received: Date: 31st May 2022	Final report issued: Date: 12 August 2022

Appendix 3 – Identified controls

Area	Objective	Risks	Identified Controls
<p>Process and Procedures</p>	<p>There are up to date, version-controlled Process and Procedures in place, and they are approved and operate effectively.</p> <p>Members of staff are aware of their roles and responsibilities under the commercial rents collection and lease agreement and renewal processes and perform their tasks appropriately.</p>	<p>If process and procedures are not documented and approved then, there is a risk that inconsistent practices may occur and go undetected leading to loss of income or breach of legislation.</p> <p>If policies and procedures are not accessible, then there is a risk that members of staff might not be aware of their roles and responsibilities.</p>	<p>The process and procedures are in place. These include <i>the Rent Review by Contractor CSG and Rent Review In-House CSG</i>. No lease renewal documentation was provided. They are available in both electronic and hard copies. They are easily accessible by members of staff.</p> <p>However, the procedures are in diagrammatical format and are not version controlled.</p> <p>The process for setting rents is not documented, but it is based on the requirements of the RICS best practice.</p>
<p>Roles and Responsibilities</p>	<p>Rent reviews are undertaken when due by officers with the appropriate expertise and training.</p> <p>Clear roles are allocated for identifying and allocating rent review cases due and for monitoring their progress to completion.</p>	<p>If officers responsible for renegotiating rentals do not consider all relevant information during the rent review process, then there is a risk that revised rentals may be incorrectly calculated leading to lost income or protracted negotiations causing unnecessary delays, lease terminations and a backlog of cases.</p> <p>If rent reviews are missed or take too long to complete, then there is a risk of lost income or delayed receipts.</p>	<p>The roles and responsibilities of each staff member are documented in their job description.</p> <p>The job description of staff is produced following best practices and with the contribution of the human resources.</p> <p>There is segregation of duties in the rent review and leases renewal process. The reviews are carried out by professional surveyors. The work is reviewed by the Head of Property Services & Valuation before it is passed to LBB for discussion. The LBB team has the right to query and refuse the negotiation. The review report goes to the Legal team for update before any of the reviews can be signed off.</p>

<p>Commercial Property Records</p>	<p>There is an up to date and complete record of all commercial properties owned by LBB (Commercial Property Register). There is a satisfactory process in place for ensuring a Commercial Property Register is adequately maintained.</p> <p>There is annual process of reconciling commercial property to ensure that all properties are captured in the asset register</p>	<p>If commercial properties' records are not accurate, updated, and securely kept, then there a risk of fraud or loss of income that may impact negatively upon the council's financial position.</p> <p>If commercial properties are not reviewed and reconciled annually, the property register will not correctly reflect the state of the council commercial property and the valuation will be incorrect.</p>	<p>There is a record of all commercial properties owned by LBB (Commercial Property Register). The records are kept and updated in the uniform databases.</p> <p>However, the system is unable to accommodate all information required to produce accurate reports for the team. The fields to include vital information such as insurance policies and internal and external repairs are not available.</p>
<p>Calculation (valuation) and approval</p>	<p>Revised rents, including back dated amounts where applicable, are accurately calculated and independently approved.</p> <p>Conflicts of interest are identified and addressed.</p>	<p>If valuations are incorrect, specifically understated, either unintentionally or intentionally, then there is a risk of lost income (fraud risk).</p>	<p>The rent review calculation and leases renewal services are provided by professional surveyors, but the process is prolonged.</p> <p>Annual fixed asset valuation is conducted with the finance specialist to enable the council to have an accurate value for its property.</p>
<p>COVID-related commercial rent financial assistance and rent deferral</p>	<p>Commercial rent was waived during COVID lockdown periods during 2020-21 in line with LBB approval and guidance.</p> <p>Application process which was reviewed and authorised.</p>	<p>If commercial rents were not waived in accordance with the LBB's agreement/ approval, then the council might be unable to retain tenants leading to loss of income.</p> <p>If commercial rents were not waived, then local businesses may have suffered unnecessary financial</p>	<p>There is a detailed process for the Commercial rent waived during COVID lockdown periods during 2020-21. Approval for the waivers was obtained from the committee, and the approval process was documented.</p> <p>Associated financial assistance claims were appropriately processed, with adequate review and approval and processed promptly to support businesses.</p>

	<p>Associated financial assistance claims were appropriately processed, with adequate review and approval and processed in a timely manner to support businesses. (Test a sample of applications for approval)</p> <p>COVID-related rent holidays and deferrals to date in 2021-22 are appropriately approved and administered.</p>	<p>hardship during the COVID lockdowns.</p> <p>If financial assistance to commercial leaseholders is granted arbitrarily without adequate controls, checks, and authorisation, then inconsistencies leading to fraudulent practices may occur and go unnoticed leading to loss of funds to the council.</p> <p>If COVID-related rents deferrals are not documented and appropriately approved according to the council's policy, then inappropriate or fraudulent approval may be granted leading to confusion during reconciliation and loss of income to the council.</p>	
<p>Income Collection and Debt Recovery</p>	<p>All income from Commercial Property is accounted for.</p> <p>Commercial property accounts are reconciled periodically to ensure accuracy of the records.</p> <p>Income collection process is robust and regularly monitored to ensure funds are paid directly to the Council's Account on time.</p>	<p>If all income from the commercial properties is not accounted for then there is a risk of fraud or misappropriation of funds that could impact negatively on the council's financial position.</p> <p>If there is an error in the records which is not identified then the correct balance may not be recovered.</p>	<p>The process of invoicing the commercial property is in place and is being followed.</p> <p>The debt age analysis is produced monthly by the AR team and distributed to all stakeholders.</p> <p>There are no adequate controls for responses to the queries issued by the AR on the debts.</p> <p>Approvals to pass debts to debt collection agents are prolonged, leading to an increase in the age of the debtors.</p> <p>Processes for bad debt write off, and credit writes-in are also prolonged.</p>

	<p>There is an adequate process in place to monitor rent payment arrears and recover them in time.</p> <p>There is an adequate debt management process to ensure rent arrears do not turn to bad debt.</p>	<p>If the council fails to monitor and collect the rent arrears owed then there is a risk that debtors will increase consistently and Service finances might be negatively impacted. The council may have cash flow problems and be unable to meet its financial obligations.</p> <p>If debts are not recovered in a timely manner, then, there is a risk that debts might become bad/'statute barred' and lead to loss of income.</p>	
<p>Lease and Letting Renewals</p>	<p>There are up to date leasing and letting procedure notes that facilitate appropriate lease and letting processing and record keeping.</p> <p>Lease and letting renewal documents are signed by all parties to the contract or letting agreement to evidence agreement to contract terms; and the renewal process is tracked for completeness, accuracy and timeliness.</p> <p>Lease payments have adequate supporting documentation, which is accurate, and appropriately authorised.</p>	<p>If there are no procedure notes then there is a risk of inconsistent practices leading to fraud or loss of income.</p> <p>If lease renewal contract is not signed and sealed by both parties to the agreement, then there is a risk that the clauses in place might not be enforceable; and in case of litigation, the council might lose out financially.</p> <p>If there are inadequate supporting documents for lease renewal payments, then there is risk of misinterpretation of terms of the lease and potential litigation and lost income.</p>	<p>The leases renewal and rent review processes are documented and followed, but the procedures are delayed making it inefficient and ineffective.</p> <p>There are controls in place to ensure KPIs are achieved. The KPIs are reported in the monthly service meeting report. However, the KPI reporting controls are inadequate as KPI statistics start after the agreement and not at the expiration of the leases, which is how the KPI should be measured based on its definition.</p> <p>The controls to ensure that the rent review PI is achieved are inadequate. The rent reviews PI was not achieved in some cases due to prolonged negotiation.</p>

	<p>Lease renewal documents are securely stored.</p> <p>Insurance is appropriately calculated, documented and charged back as appropriate.</p>	<p>If lease renewal agreement contracts are not securely kept and updated as needed, then there is risk of the documents not being available for reference and monitoring.</p> <p>If insurance is not in place or not appropriately documented, then there is a risk of expired or non-provision of insurance leading to the council having to bear the cost in case of fire or unforeseen events.</p>	
Customer Services	<p>There is complaints procedure in place and all complaints are recorded and are addressed within an appropriate timeframe.</p>	<p>If there no adequately monitored complaints resolution process in place, there is a risk that complaints resolution delay leading to legal action against the council.</p>	<p>The service's section of LBB's website is updated regularly and relevant information such as commercial property for sale and rents are available. Relevant contact details for the service were provided on the website.</p> <p>The team did not conduct annual customer service surveys and reports on customer complaints were not provided.</p>

Appendix 4 – Internal Audit roles and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of *Commercial Rents and Lease renewals*, 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 in detail the legacy cases that were inherited by CSG.

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.