



Hinckley & Bosworth Borough Council – Internal Audit
Report

Commercial Asset Management 2022/23

June 2023

Final Report

mazars

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01 Introduction

As part of the 2022/23 Internal Audit Plan for Hinckley and Bosworth Borough Council (the 'Council'), we have undertaken a review of Commercial Asset Management. The objectives of the audit were to evaluate and assess the adequacy and effectiveness of the Council's arrangements for the management of commercial assets.

We are grateful to the Estates & Assets Manager, Commercial Estates Surveyor, and other staff for their assistance and co-operation during the course of the audit.

This report summarises the results of the internal audit work and, therefore, does not include all matters that came to our attention during the review. Any such matters have been discussed with the relevant staff.

02 Background

Commercial asset management is the process of buying, selling, and holding assets with the goal of receiving maximum return from assets, whilst also ensuring that assets are utilised efficiently and that community benefits are deliverable from them. Expected Annual Rental Income from Commercial Assets for 2022/23 was £1.2 million.

The Council has a Property Asset Management Plan 2023-2028 in place, which has a primary objective to provide, operate and maintain an appropriate portfolio of property assets and to ensure the property assets are considered as part of the overall strategy of the Council.

'Commercial Development' has been included as a key target within the Council's Property Asset Management Plan 2023-2028, with the Council seeking to explore greater opportunities to increase and compliment their current commercial estate. Creating greater awareness of the Council as a prominent local landlord by providing a range of commercial, retail and office units to local businesses, is an example of one of many forms how the Council aims to deliver on this key target.

The Council holds a portfolio of commercial assets comprising of industrial units, ground lease plots and retail and other miscellaneous units for which they offer flexible lease terms to businesses. This portfolio amounts to just over 100 units and plots, with industrial units boasting a significant share of this.

Responsibility for managing commercial assets sits with the Commercial Estates Function within the Council, which is overseen by the Estates & Asset Manager. This function can be further sub-categorised into the following: Admin, Financial Management, Legal and Accounts. Day-to-day responsibility is delegated from the Estates & Asset Manager to the Commercial Estates Surveyor.

The Commercial Estates Function utilises a spreadsheet, known as the 'Lease Terrier', to record information regarding leases associated solely with the commercial units they manage (a wider database capturing all properties the Council manages can be found on the central Government database ePIMS). The Lease Terrier contains separate worksheets that categorise commercial units based on their nature. This review focussed on commercial units that fell within the following categories: Industrial, Plots and Retail. Furthermore, they also operate a 'Current Matters' spreadsheet, which provides a snapshot of their current position with reference to commercial properties that either are vacant or are experiencing backlog matters (matters where an arrangement exists that requires a formal agreement but where no formal record has been completed).

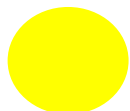
Financial management information such as budgets and/or forecasts, impacting individual commercial units, are typically generated on an exception basis. However, wider financial forecasts which concern the commercial estate as a whole are produced annually as they formulate part of the Council's Medium Term Financial Strategy.

Management of debtors at the Council falls under the remit of the Accounts Team, where the Civica Financial Information System is utilised to create new debtors, produce periodic invoices and generate debt-recovery letters. However, whilst the Accounts Team are responsible for using the Civica System to manage any debt, responsibility for taking action to recover outstanding debt lies with the respective budget-holders / functions as they are the ultimate owners of the debt.

The Council has established a new Extended Leadership Team, of which the Estates & Asset Manager is a member of, with a view to establish formal key performance indicators for various functions within the Council (including the Commercial Estate). Whilst no formal KPIs exist for the function currently, the Council does capture vacancy and backlog matters information through a dashboard InPhase, which is currently updated quarterly.

03 Key findings

Assurance Rating



Moderate Assurance

Rationale

Based on the agreed scope and rating criteria (see **Appendix A1** for the detailed scope and definitions of the assurance ratings), there is **Moderate** assurance over the system of internal control evaluated.

We have identified some areas with significant weaknesses and room for improvement relating to KPI and budget reporting, debt recovery management and lease compliance monitoring. Further detail regarding the recommendations is in **Section 04** and a summary of key observations is included below.

Priority	Number of Recommendations
High	-
Medium	3
Low	3
TOTAL	6

3.1 Examples of areas where controls are operating reliably

Governance Arrangements

- The Council has an 'Asset Management Policy' in place which supports their 'Property Asset Management Plan 2023-2028' by outlining the structured approach to how the Council will manage the key resource of property and land.
- A 'Commercial Estates Organisational Hierarchy' and 'Commercial Estates Structure' exists which clearly depicts the sub-functions of the Commercial Estate and to which board the function must report to (Asset Regeneration & Strategy Group).
- Three forms of regular meetings occur within the Commercial Estates Function:
 - A weekly catch-up between the Estates & Asset Manager and Commercial Estates Surveyor to discuss any current matters regarding the commercial estate;
 - A bi-weekly 'Lease Update Meeting', where updates regarding ongoing leases and other commercial estate matters are discussed; and,
 - A bi-weekly 'Legal Meeting', which is similar to the 'Lease Update Meeting' but also has the Head of Legal and solicitors present to discuss legal implications of any progressing leases.

Financial Management

- The Commercial Estate team uses a 'Current Matters' spreadsheet, which provides a snapshot of units that are either vacant or are experiencing backlog matters. This spreadsheet is updated bi-weekly, with a separate spreadsheet saved monthly to allow for a clear audit trail of progression. This spreadsheet is shared at all three meetings within the Commercial Estate.
- Within the 'Current Matters' spreadsheet, a 'Renewals' worksheet

exists which captures leases due to expire within the following 12 months. A system report is run on ePIMS (the wider Government database capturing all property managed by the Council) bi-annually by the Commercial Estates Surveyor, where information is then transferred to the 'Current Matters' spreadsheet ensuring it is forward-looking for at least the next 6 months.

- Each week, a report is run on Civica which identifies and generates debt-recovery letters regarding overdue invoices. The system will generate letters where overdue invoices have not been paid for two weeks and then again for four weeks.
- The Council has an 'Acquisition and Development Strategy Technical Document' in place, which guides the use of the Council's actions to make land and property acquisitions and disposals to support economic redevelopment within the borough. Included within the document are also separate 'Acquisition' and 'Disposal' Strategies.
- Audit reviewed the most recent case of an acquisition and the most recent case of a disposal and confirmed for both cases adherence to requirements within the 'Acquisition and Development Strategy Technical Document'.

Lease Compliance

- The Commercial Estates Team uses a 'Lease Terrier' spreadsheet, which captures information regarding current leases and their associated units, vacant units are also highlighted within this database. Information captured includes the unit / plot, details of the tenant, the lease commencement and expiration date, amount of rent and a notes section.
- Audit reviewed a sample of 15 leases, to confirm details held on the 'Lease Terrier' were accurate and up-to-date, and confirmed for all within the sample that information was correctly captured.
- Audit selected a sample of 17 properties to confirm whether the rent charged on the lease was reflective of the most recent rent review that had taken place at the Council. We confirmed for all within the sample that the current rent being charged was either consistent with the rent review or established there was a legitimate reason as to why

a discrepancy existed (for example, multiple units occupied by the same tenant and aggregated under a single lease resulted in a discounted level of rent being charged).

- The Commercial Estate Function maintain a spreadsheet which hold details of the commercial properties they manage and their respective Electrical Installation Condition Reports (EICRs). Whilst ground lease plots are not captured on the EICR spreadsheet, a separate spreadsheet capturing insurance details regarding the Council's plots is maintained as it is the responsibility of the tenant to obtain insurance for buildings built upon the plot of land.

Performance Information

- Data regarding current vacant units and backlog matters are captured and updated quarterly on a dashboard InPhase. Furthermore, they are outlined within the 'Current Matters' spreadsheet which is shared and discussed at regular meetings within the Commercial Estates Function, ensuring relevant personnel are informed with the current position and status of leases.

3.2 Risk Management

We reviewed the Corporate Risk Register from January 2023 and found the following risk which has a link to Commercial Asset Management: 'S.48 – Fire arrangements in commercial premises'.

Audit testing highlighted that the Council do not maintain a record of the fire-risk assessments for their leased commercial properties. Whilst audit confirmed through review of the Commercial Tenants Handbook that fire-risk assessments (FRA) are the responsibility of the tenant, the Council are unable to gain assurance that their leased properties have adequate fire-safety monitoring arrangements in place.

As such, we have raised a formal recommendation for the Council to implement an FRA register, this is detailed further in Section 04. below. This will enable the Council to monitor fire-risk arrangements for all of their leased commercial properties and to gain assurance that their tenants are complying with the Commercial Tenants Handbook.

3.3 Value for Money

Value for Money (VfM) considerations can arise in various ways and our audit process aims to include an overview of the efficiency of systems and processes in place within the auditable area.

Audit verified that the Council is able to run reports from the wider Government database ePIMS, allowing it to identify commercial leases that are due to expire. Through conversations with the Estates & Asset Manager and Commercial Estates Surveyor, we established that information held on ePIMS is substantial and not always pertinent to the Commercial Estate, as ePIMS captures all details of property owned by the Council. However, the Commercial Estates Surveyor bi-annually runs a report on ePIMS and transfers relevant information to the 'Current Matters' spreadsheet, which is shared and updated fortnightly within the various meetings that occur within the Commercial Estates Function. This is an efficient and effective method utilised by the Council in identifying expiring leases therefore allowing them to act in a proactive manner.

3.4 Sector Comparison

From our experience across our client base, we are seeing pressure on resources, and higher service demands have resulted in challenges to the existing control environment. This often results in increased challenges to the decision-making process where conflicting priorities exist and need to be balanced with effective risk management.

During the course of the audit, we noted that formal KPIs are yet to be established at the Council regarding performance of the Commercial Estate, however steps have been put into place to target this with the formation of the new Extended Leadership Team.

Review across the sector has highlighted that production of a combination of regular reports (typically at least quarterly) with respect to KPIs is good practice, these include: which key strategic objective the KPI is helping to measure, what the current performance is, what the target level of performance is, who is responsible for the delivery of performance, and where the raw data leading to the KPI has been sourced from.

04 Areas for further improvement and action plan

Definitions for the levels of assurance and recommendations used within our reports are included in Appendix A1.

We identified a number of areas where there is scope for improvement in the control environment. The matters arising have been discussed with management. The recommendations are detailed in the management action plan below.

Ref	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
4.1	<p>Key Performance Indicators and Production of Budgets / Forecasts</p> <p><i>Observation:</i> The Asset Management Policy states the Council will capture data to create reports detailing performance of its commercial assets. However, we established through conversations with the Estates & Asset Manager and Commercial Estates Surveyor that currently there are currently no formal KPIs reported on regarding the Commercial Estate.</p> <p>Audit were informed that the Council has taken steps to address this with the formation of a new Extended Leadership Team (at time of Internal Audit). This Team will have the responsibility for establishing formal KPIs for Functions within the Council.</p> <p>The Commercial Estates Function does currently capture the number of vacant units and backlog matters on a dashboard InPhase. However, these are not formally reported on and instead are present on InPhase for staff members to view at their will.</p>	<p>The Council should establish formal KPIs regarding the Commercial Estate and ensure they are monitored and reported on regularly.</p> <p>Similarly, the Council should look to establish regular formal budgets / forecasts, alongside reporting of their KPIs, to enable a clear snapshot of performance of the Commercial Estate.</p> <p>Consideration should be given to how the Council wish to group their properties within the Commercial Estate, therefore allowing KPIs and budgets / forecasts to specifically target such properties.</p>	Medium	<p>Agreed in Part - The Councils Extended Leadership (ELT) Review is now complete and Commercial KPI's will not be included this year they will however be reconsidered next time the Strategic KPI's are reviewed.</p> <p>The Estates and Asset Management Service will continue to capture and record this data and these local KPI's will be presented to the Finance and Audit Committee.</p> <p>Separating out the budget codes for each of the estates in principle has been agreed. This will allow a breakdown of costs to be available for each site and provide a detailed financial understanding for each estate.</p> <p>It is proposed that centralised costs; salaries, accountancy costs etc to be maintained under</p>	<p>1st April 2024</p> <p>Estates & Assets Manager</p> <p>Head of Finance</p>

Ref	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
	<p>Similarly, we established that formal budgets / forecasts are not produced regularly regarding specific types of units and/or plots.</p> <p>Whilst an annual budget is produced for the whole Commercial Estate, budgets and forecasts are only produced on an exception basis regarding specific groups or individual units.</p> <p><i>Risk:</i> Performance information is not discussed on a regular basis leading to management being unaware of financial performance.</p> <p>The lack of regular budgets / forecasts for individual or grouped units could prevent management assessing financial performance of their commercial assets, and affect decision making.</p>			their own 'source' budget and allocated to each site via a proportion formula to be agreed.	
4.2	<p>Debt Recovery Monitoring and Procedures</p> <p><i>Observation:</i> Management of debtors at the Council falls under the remit of the Accounts Team. However, the Council's Debt Recovery Policy outlines that responsibility for taking action to recover outstanding debt lies with the respective budget-holders / Functions, as they are the ultimate owners of the debt.</p> <p>Review of the November 2022 debt report illustrated that the Commercial Estates Function is responsible for almost 30% of</p>	<p>The Council should seek to separate their commercial properties into clear identifiable areas, to allow for clear reporting regarding outstanding debt.</p> <p>This would allow for easier management and provide a clear snapshot of debt positions in relation to specific areas of the Commercial Estate.</p> <p>Furthermore, the Council should investigate the automatic generation of debt management letters on the Civica system, to ensure a consistent</p>	Medium	Agreed - Debt management of the Commercial Estate to be reviewed and the generation of automated debt management letters be considered.	<p>1st April 2024</p> <p>Estates & Assets Manager</p> <p>Head of Finance</p>

Ref	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
	<p>aged debt exceeding 90 days at the Council (roughly £415,000).</p> <p>The Commercial Estates Function also requests separate outstanding debt reports to be produced, categorised by the type of commercial property, to allow for further analysis of outstanding debt.</p> <p>Four separate reports are provided to the Function monthly which capture details such as the debtor, amount of overdue debt and date the invoice was due, however the reports provided to the Commercial Estate Function can sometimes contain superfluous information, often capturing data relating to non-Commercial Estate properties.</p> <p>This contributes to the Commercial Estate having an unclear position regarding their outstanding debt, which can lead to ineffective decisions made in attempts to recover outstanding debt.</p> <p>The Civica system is utilised by the Accounts Team regarding debt management at the Council. Reports are run weekly to identify any outstanding debt and accordingly generate debt-management letters. The first letter is generated and sent to debtors after two weeks has passed from the initial due date. Where this debt is still outstanding, a second and final letter is sent to the debtor a further two weeks following the first.</p>	<p>approach is applied to all overdue invoices.</p>			

Ref	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
	<p>We selected a sample of 10 overdue debts, to confirm debt-management letters were produced in a timely manner.</p> <p>The first debt management letter was produced late in all 10 cases (by between 1 – 12 days), and the second debt management letter was produced late in two instances (by 4 days in both cases).</p> <p><i>Risk:</i> Debt recovery procedures and monitoring is ineffective leading to income not being collected in a timely manner.</p>				
4.3	<p>Electrical Installation Condition Reports (EICR) / Insurance / Fire-Risk Assessment (FRA) Registers</p> <p><i>Observation:</i> The Commercial Tenants Handbook and individual leases clearly state that responsibility for compliance with health and safety regulations are passed onto the tenant once a lease commences.</p> <p>The Commercial Estate function maintains a spreadsheet which holds details of the commercial properties managed and their respective Electrical Installation Condition Reports (EICRs).</p> <p>Audit selected a sample of 15 properties, to confirm whether an up-to-date EICR was held for the selected property, and noted:</p> <ul style="list-style-type: none"> - 2 out of 10 properties did not hold an up-to-date EICR. 	<p>The Council should ensure that each of their commercial properties holds an up-to-date EICR, ensuring tenants are adhering to terms and conditions established within their lease.</p> <p>Similarly, the Council should ensure that adequate insurance arrangements are in place regarding the plots they have leased to tenants.</p> <p>The Council should create and maintain an FRA register, and should clearly document the number of workers their tenant employs.</p> <p>The Council should undertake periodic spot-checks to confirm tenants' compliance and request the written FRAs where applicable.</p>	Medium	<p>Agreed in Part - A process for compliance will be written up and added to the commercial estate process list requiring tenants to self-declare compliance annually.</p> <p>A New Tenant Pack will be circulated, electronically advising the Tenant of their key responsibilities under their lease. and require them to respond – it is envisaged that this will be done using some format of E-signature document.</p>	<p>1st August 2024</p> <p>Estates & Assets Manager</p>

Ref	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
	<p>The remaining five properties related to plots; the Council does not record EICRs for plots as they instead record insurance details as it is the responsibility of the tenant to obtain insurance for buildings built upon the plot of land.</p> <p>Review of the Insurance spreadsheet noted that several properties (6 out of 19) did not hold up-to-date insurance where it was either missing / expired. We queried this with management who informed us that often it can be difficult to obtain confirmation insurance is held as tenants may not be as engaging as others or may not possess the technological competence to provide evidence of insurance arrangements.</p> <p>The Commercial Tenants Handbook states that occupiers must undertake a fire-risk assessment (FRA) and where appropriate, link the assessment to the wider building fire assessment, furthermore a written record must be made where five or more people are employed.</p> <p>However, we noted that the Council does not maintain a record that documents the number of workers their tenants employ and furthermore does not hold a register of fire-risk assessments relating to their leased properties.</p> <p><i>Risk:</i> Tenants do not comply with leases leading to property falling into disrepair or becoming unsafe.</p>				

Ref	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
	Fire safety monitoring arrangements are insufficient or inappropriate leading to loss of life or injury, as well as financial and reputational loss.				
4.4	<p>Update of Process Sheets</p> <p><i>Observation:</i> The Commercial Estates Function uses 'Commercial Process Sheets', which are a series of worksheets on Excel which act as an aide-memoire for protocols that must be followed regarding the issue of leases.</p> <p>Each worksheet does not necessarily relate to another, with specific worksheets followed when they explicitly relate to an applicable lease scenario.</p> <p>The worksheets contain checklists and also contain live hyperlinks that relate to standard forms, e.g. Heads of Terms form.</p> <p>However, audit reviewed the 'Commercial Process Sheets' and found several hyperlinks not active, rendering the worksheets incomplete. Furthermore, the 'Debtors' worksheet was also blank and therefore incomplete.</p> <p><i>Risk:</i> Inconsistencies can arise due to officers not adhering to the approved processes and corporate expectations.</p>	<p>The Council should update all worksheets within the 'Commercial Process Sheets' to ensure each live hyperlink is active and working, to allow staff to access the attached documentation.</p> <p>Furthermore, the Council should work to complete all worksheets, most notably the 'Debtors' worksheet which contains a blank checklist.</p>	Low	Agreed It is intended to use workflow tools that will be available under Office 365 to update the processes and build-in the process.	30 th June 2024 Estates & Assets Manager

Ref	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
4.5	<p>Formal Check-Ins with Tenants</p> <p><i>Observation:</i> Audit noted that the Commercial Estates Surveyor aims to visit each tenant at least once a month, to check-in and provide opportunity to discuss any business issues tenants may be facing. However, these visits are not formally recorded.</p> <p>We established through conversations with management that controls regarding identifying tenants at risk of going out of business, are largely reactive as opposed to detective.</p> <p>Audit learnt that the Council has launched a new Facilities Management Package, TrackPlan, with an aim to standardise and formalise maintenance checks that occur at their units.</p> <p>This software could provide opportunity for the Council to standardise formal check-ins at their tenants, and potentially record notes of such meetings, therefore providing a clear audit trail of when tenants have been contacted.</p> <p><i>Risk:</i> Tenants at risk of going out of business are not identified and action plans put in place do not mitigate any impacts promptly.</p>	<p>The Council should look to establish and record formal check-ins with all tenants to ensure they are aware of any potential business issues and interruptions.</p> <p>Functionality of TrackPlan should be explored to verify whether details of such check-ins can be recorded on the software for ease of use.</p>	Low	<p>Agreed, we will where practical, implement formal quarterly tenant check-ins with frequent, non-formal monitoring to continue.</p> <p>Monitoring will be complimented by the debt monitoring process and provide greater insight into a Tenant's continued viability.</p>	<p>30th June 2024</p> <p>Estates & Assets Manager</p>
4.6	<p>Update to Lease & Rent Management Policy and Commercial Tenants Handbook</p>	<p>The Council should review and complete both policies to ensure they</p>	Low	<p>Agreed It is intended to use workflow tools that will be available under Office 365 to</p>	<p>30th June 2024</p>

Ref	Observation/Risk	Recommendation	Priority	Management response	Timescale/ responsibility
	<p><i>Observation:</i> The Council has a Lease & Rent Management Policy (dated 2022) which outlines standards that must be followed by the Commercial Estate Function in selecting tenants, granting leases, and determining rent levels.</p> <p>The Council also has a Commercial Tenants Handbook in place, which provides guidance to tenants of their roles and responsibilities with respect of their occupancy of commercial premises.</p> <p>Review of both the policy and handbook show that both documents are incomplete, with some sections left completely blank.</p> <p><i>Risk:</i> Inconsistencies can arise due to officers not adhering to the approved processes and corporate expectations</p> <p>Tenants do not comply with leases leading to property falling into disrepair or becoming unsafe.</p>	<p>are fully complete and readily accessible.</p> <p>As planned, the Council should introduce a 'Unit Handover' section within the Commercial Tenants Handbook, to clearly document and evidence the stages that must be complied with to allow for a successful handover.</p>		<p>update the processes and build-in the process.</p>	<p>Estates & Assets Manager</p>

A1 Audit information

Audit Control Schedule	
Client contacts:	Ashley Wilson: Head of Finance Malcolm Evans: Estates & Assets Manager Matt Burns: Commercial Estates Surveyor
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Finish on-site / Exit meeting:	21 March 2023
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Management responses received:	20 June 2023
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Report Distribution List		
Report	Name	Job Title
Draft & Final	Julie Kenny	Director (Corporate and Streetscene Services)
Final	Bill Cullen	Chief Executive
Draft & Final	Ashley Wilson	Head of Finance
Draft & Final	Malcolm Evans	Estates & Assets Manager
Draft & Final	Matt Burns	Commercial Estates Surveyor

Scope and Objectives

Audit objective: Our objective is to evaluate and assess the adequacy and effectiveness of the Council's arrangements for the management of commercial assets.

Our audit considered the following risks relating to the area under review:

- Governance Arrangements:
 - Governance boards and management meetings do not provide the desired direction and transparency to meet the objectives of the Asset Management Plan.
 - Officers in services do not adhere to the approved processes and corporate expectations.
- Financial Management:
 - Budgets and forecasts are not reviewed and updated on a regular basis.
 - Empty properties are not identified and re-let in a timely manner leading to loss of potential income.
 - Debt recovery procedures and monitoring is ineffective leading to income not being collected in a timely manner.
 - Tenants at risk of going out of business are not identified and action plans put in place to mitigate any impacts promptly.
 - Acquisitions and disposals are not supported by an appropriate business case and financial forecasts / modelling.
- Lease Compliance:
 - Tenants do not comply with leases leading to property falling into disrepair or becoming unsafe.
 - Rents and leases are not reviewed on a regular basis and / or have not been agreed formally leading to inappropriate arrangements being in place.
 - Fire safety monitoring arrangements are insufficient or inappropriate leading to loss of life or injury, as well as financial and reputational loss.
- Performance Information:

- Performance information is not discussed on a regular basis leading to management being unaware of financial performance.
- Poor performance is not identified and corrected promptly.

The objective of our audit was to evaluate the adequacy of key controls and the extent to which controls have been applied, with a view to providing an opinion on the extent to which risks in this area are managed. In giving this assessment, it should be noted that assurance cannot be absolute. The most an Internal Audit service can provide is reasonable assurance that there are no major weaknesses in the framework of internal control.

The limitations to this audit were that testing was performed on a sample basis and as a result our work does not provide absolute assurance that material error, loss or fraud does not exist.

Definitions of Assurance Levels	
Level	Description
Substantial	The framework of governance, risk management and control is adequate and effective.
Moderate	Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.
Limited	There are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective.
Unsatisfactory	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

Definitions of Recommendations	
Priority	Description
High (Fundamental)	Significant weakness in governance, risk management and control that if unresolved exposes the organisation to an unacceptable level of residual risk.
Medium (Significant)	Weakness in governance, risk management and control that if unresolved exposes the organisation to a high level of residual risk.
Low (Housekeeping)	Scope for improvement in governance, risk management and control.

Statement of Responsibility

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

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

We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify any circumstances of fraud or irregularity. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. The matters raised in this report are only those which came to our attention during the course of our work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements

should be assessed by you for their full impact before they are implemented. The performance of our work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices.

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