

East Staffordshire Borough Council

Internal Audit Report 2016/17
17_ESC19 Markets
FINAL

May 2017



Bringing public value to life

cw audit
internal audit services

Contents

Section	Page
---------	------

1. What we found in summary	3
2. The context for our review	5
3. What we agreed to do	6
4. Our findings and how management has responded .	7

Appendix 1: Definition of our assurance levels and risk rankings

Appendix 2: Responsibility statements

1. What we found in summary

We have been able to provide significant assurance overall in relation to the control objectives we considered. We found that the Markets team have been making improvements to the operation of the market, involving industry experts to maximise income opportunities and starting benchmarking. Since December, a process has been introduced to obtain a better understanding of prospective tenants backgrounds, experience and financial backing before they take on a unit. Debtors' management now includes the use of debt collection agents. In addition, any rent-free periods negotiated are applied over the entire lease period rather than being given as true rent-free periods at the start of the lease, enabling officers to identify potentially difficult tenants at the start of their lease and take action rather than after they have been in a unit and not contributing rent for a time.

Assurance level

Significant assurance

The key issues that management must address

We did not highlight any high risk issues for management to address, but have set out recommendations regarding a range of issues for potential further management action, including:

- Ensuring a copy of public liability insurance is obtained and filed prior to trading being permitted.
- Ensuring all agreements are completed accurately.
- Opportunity for formal annual rent review, informed by benchmarking with other markets.

Individual control objectives

Key control objectives	Level of assurance				
	Full	Significant	Moderate	Limited	No
1. Suitable arrangements are in place to ensure security of the site in relation to staff and cash/income		✓			
2. Suitable insurance cover is in place in relation to the site/income and in relation to traders		✓			
3. The Council obtains necessary documentation from traders to support any agreement/letting of stalls	✓				
4. Suitable arrangement are in place to promote the premises and attract new traders and other income streams to the Market Hall	✓				
5. Suitable communication measures and promotional campaigns are in place in order to attract visitors to the venue	✓				
6. Suitable agreements and relationship management arrangements are put in place with all traders to support letting of stalls and effective management of the business relationship eg rental charging/recovery and attendance/presence at the market/promotional opportunities.		✓			

Our assurance level and risk rankings are defined in Appendix 1.

2. The context for our review

General background

An internal audit review of the Market / Market Hall has recently been completed. This review was carried out as part of the 2016/17 internal audit plan agreed by the Audit Committee. This was the first internal audit carried out on this service.

The system

The Council operates the Market Hall in Burton Town Centre. The indoor market venue reopened in July 2014 following a £1.5m refurbishment. The Council aims to provide a vibrant market and rents out permanent shop units and pop up stalls. The markets team is responsible for handling both the indoor and outdoor market stall holders and tenants of shops in the Market Hall at Burton. In addition to ensuring stalls and shops are tenanted in order to maximise income, the service also programmes other non-trading events and activities into the Market Hall space which contribute to income generation.

The Council's Medium Term Financial Strategy notes that income and expenditure budgets have been re-analysed for 2016/17 to reflect the current expenditure patterns but that nevertheless, budgeted income levels are likely to be challenging in the short to medium term; as a result a corporate provision has been made to mitigate this risk. The 2016/17 budget provides for income of c£329k and net income of c£119k however the anticipated outturn for the year is a net expenditure in excess of £61k. The challenging trading environment has meant that the budget for income has been reduced by £110k for 2017/18 to £219k.

3. What we agreed to do

The overall objective in undertaking this review was to ensure, through a process of systems evaluation and compliance testing, that there is an appropriate control framework in place to manage the following key risks and to deliver key system control objectives:

The key risks

- Inadequate arrangements for site/staff security result in losses of cash/assets or harm to staff
- Lack of suitable agreements with traders results in financial loss due to inability to enforce rent provisions
- Any losses are unrecoverable due to inadequate insurance cover
- Income is not maximised due to inefficient management of stalls/traders/agreements.
- Promotional activities are not maximised leading to low attendance

System control objectives

- Suitable arrangements are in place to ensure security of the site in relation to staff and cash/income
- Suitable insurance cover is in place in relation to the site/income and in relation to traders
- The Council obtains necessary documentation from traders to support any agreement/letting of stalls
- Suitable arrangements are in place to promote the premises and attract new traders and other income streams to the Market Hall
- Suitable communication measures and promotional campaigns are in place in order to attract visitors to the venue
- Suitable agreements and relationship management arrangements are put in place with all traders to support letting of stalls and effective management of the business relationship eg rental charging/recovery and attendance/presence at the market/promotional opportunities.

The results of this review have been discussed with the SSC Markets and Customer Contacts Manager and Legal Clerk. Actions to resolve control weaknesses have been agreed where necessary and these are shown in Section 4.

We have delivered this review in accordance with the statements made in Appendix 2.

4. Our findings and how management has responded

System Control Objective 1: Suitable arrangements are in place to ensure security of the site in relation to staff and cash/income

Area	Audit Finding	Risk	Risk Ranking	Recommendation	Response	Who and when
1.1 Safe key procedures	There is no written procedure for handling or storing the keys to the safe. When a key-holder goes on holiday, the spare key should be kept in the Customer Contact Centre key safe. However on a recent holiday, one supervisor left the key at home and the cover supervisor therefore did not have access to the spare key.	If the second key holder is unexpectedly not available, it may not be possible to access the safe.	3	A key handling procedure should be produced. Safe keys should always be left in the Customer Contact Centre key safe when staff are not on duty.	A written key-handling procedure will be produced to address the identified issues	Catherine Grimley May 2017
1.2 CCTV coverage	There is no CCTV in the office, so any security faced by staff or damage to the office will not be currently recorded. We are not aware that there have been any security incidents up to now within the market office.	Opportunity to increase security measures for staff / office contents.	4	Management should consider installing an additional CCTV camera in the office.	Management will investigate the cost of installing an additional camera. An alternative would be to consider whether the Council's prospective new lone working system/equipment could be used to provide the same outcome.	Catherine Grimley July 2017

System Control Objective 2: Suitable insurance cover is in place in relation to the site/income and in relation to traders

Area	Audit Finding	Risk	Risk Ranking	Recommendation	Response	Who and when
2.1 Public Liability Insurance	Out of 20 trader details sample tested, in two cases copies of their Public Liability Insurance could not be located, although staff confirmed these would have been seen prior to any booking being taken or lease being granted.	An accident occurs without insurance being in place.	3	Management should ensure a copy of public liability insurance is obtained and filed prior to trading.	Public liability insurance documents will be obtained and stored for all traders prior to the start of trading.	Catherine Grimley – May 2017

System Control Objective 3: The Council obtains necessary documentation from traders to support any agreement/letting of stalls

The information prospective shop unit tenants are required to be produced has recently been revised and a business proposal now has to be completed which includes information on previous trading experience, a summary Business Plan, information on sources of funding for the business and references. We suggest that the effectiveness of this new arrangement should be reviewed after a suitable period.

System Control Objective 4: Suitable arrangements are in place to promote the premises and attract new traders and other income streams to the Market Hall

System Control Objective 5: Suitable communication measures and promotional campaigns are in place in order to attract visitors to the venue

We were able to evidence various steps taken by the service to meet these objectives. For instance:

The Council is a member of NABMA, a special interest group within the Local Government Association which works closely with the Association of Town Centre Management, National Market Traders Federation, and the National Association of Local Councils, to share agendas and develop partnership working. This organisation contains a wealth of specialist advice on running, developing and promoting markets. Staff have made extensive use of this resource including commissioning NABMA to undertake a market health-check in August 2016.

Regular promotion of facilities and advertising in trader journals is undertaken, signs directing people to the market have been put up and events are held on a regular basis.

We have no exceptions to highlight in relation to these control objectives.

System Control Objective 6: Suitable agreements and relationship management arrangements are put in place with all traders to support letting of stalls and effective management of the business relationship eg rental charging/recovery and attendance/presence at the market/promotional opportunities.

Area	Audit Finding	Risk	Risk Ranking	Recommendation	Response	Who and when
6.1 Licence Agreement	A sample of 10 shop unit leases were tested. In one case a licence had been granted instead of a more usual lease agreement. This is a short-term licence arrangement given because of the difficulty in finding a tenant for this first floor unit. The agreement allows for one month's notice if a prospective tenant is found to take the Unit on as a standard lease. There were two errors found in the licence, - the section Licence period "the period from and including [blank] until the date on which this licence is determined in accordance with clause	Increased risk of difficulty in enforcing licence terms.	3	Management should ensure agreements are completed accurately. The case in question should be assessed to determine if further steps should and could be taken to rectify with the licensee the aspects not completed in the licence document.	Additional checks will be taken by management and Legal department prior to documents being issued. Licence issued for the Kandy Factory will be reviewed	Catherine Grimley / Liz Eastaugh May 2017

Area	Audit Finding	Risk	Risk Ranking	Recommendation	Response	Who and when
	4" had not had the date filled in, and the Licensee's Obligation to pay dates had not been completed.					
6.2 Documentation	There is an amount of standard documentation sent out as part of a lease agreement: The Trader Shopfitting Guide; Burton Market Hall Shopper Charter; Burton Market Hall Management Regulations and where appropriate, Food Stuffs Operating Guide. Review of these documents found that they lacked a consistent style and one, the Burton Market Hall Shopper Charter, was still in draft.	Opportunity to ensure trader documentation is as full and professional as possible.	3	Management should review the documentation supplied as part of a new lease and update as necessary to ensure a professional finalised suite of documents is sent to traders.	A task to undertake a review of the documentation issued with leases will be made as part of corporate plan target PLEG01	Catherine Grimley
6.3 Rent Reviews and Benchmarking	<p>Market leases have a clause whereby there can be an annual review of rents and subsequent variation. So far there has not been a systematic process to review rent levels. To undertake a review, wider market rent levels would have to be better understood.</p> <p>A new benchmarking initiative with NABMA is being considered and benchmarking with some other authorities has been undertaken. Unfortunately current benchmarking does not take account of authorities' discounts on the headline rent and service charges which makes meaningful comparison of actual rent and service charges between authorities difficult. Although the pre-</p>	<p>Income from tenants may not be maximised.</p> <p>Opportunity to review and rationalise rents/service charges in light of better benchmarking information.</p>	3	<p>Officers should consider undertaking a formal annual market rent review.</p> <p>To enable meaningful rent reviews, a process of benchmarking ascertaining the discounts given at other comparable markets should be considered.</p> <p>Officers should consider reviewing the level of service charges in the market compared to those at others to understand the reasons for the variation and work to reduce the level of charges if possible.</p>	<p>Management will undertake a formal rent review.</p> <p>Management have joined the APSE benchmarking group for Markets. Being part of this group will enable comparisons to be made regarding rents, service charges and negotiation procedures etc.</p>	<p>Catherine Grimley</p> <p>October 2017</p>

Area	Audit Finding	Risk	Risk Ranking	Recommendation	Response	Who and when
	<p>discounted average rent per square foot at Burton (£23.40) is similar to a nearby Council (£22.46), at Burton discounts can be negotiated up to 9/36 of this headline rent - the maximum negotiating position. Without understanding if similar discounts are available at comparable markets, benchmarking is of limited value. In addition, the service charges per square foot in ESBC at an average of £22.83 are significantly higher than a neighbouring market which has service charges of £15.78 (prior to any discount). This currently makes the service charges as much as the rent for many shop units.</p>					

Appendix 1: Definition of our assurance levels and our risk rankings

Opinion	Assessment rationale
No	The audit highlighted weaknesses in the design or operation of controls that have not only had a significant impact on the delivery of key system objectives, they have also impacted on the delivery of the organisation's strategic objectives. As a result, no assurance can be given on the operation of the system's internal controls to prevent risks from impacting on achievement of both system and strategic objectives.
Limited	The audit highlighted some weaknesses in the design or operation of control that have had a serious impact on the delivery of key system objectives, and could also impact on the delivery of some or all of the organisation's strategic objectives. As a result, only limited assurance can be given on the operation of the system's internal controls to prevent risks from impacting on achievement of the system's objectives.
Moderate	The audit did not highlight any weaknesses that would in overall terms impact on the achievement of the system's key objectives. However, the audit did identify some control weaknesses that have impacted on the delivery of certain system objectives. As a result, only moderate assurance can be given on the design and operation of the system's internal controls to prevent risks from impacting on achievement of the system's objectives.
Significant	The audit did not highlight any weaknesses that would materially impact on the achievement of the system's key objectives. The audit did find some low impact control weaknesses detailed in section four of this report which, if addressed, would improve the overall performance of the system. However these weaknesses do not affect key controls and are unlikely to impair the achievement of the system's objectives. As a result, significant assurance can be given on the design and operation of the system's internal controls to prevent risks from impacting on achievement of the system's objectives.
Full	The audit did not highlight any weaknesses that would impact on the achievement of the system's key objectives. It has therefore been concluded that key controls have been adequately designed and are operating effectively to deliver the key objectives of the system. As a result, full assurance can be given on the operation of the system's internal controls to prevent risks from impacting on achievement of the system's objectives.

Risk ranking	Assessment rationale
1	The system has been subject to high levels of risk that have, prevented the system from meeting its objectives and also impacted on the delivery of the organisation's strategic objectives.
2	The system has been subject to high levels of risk that has, or could, prevent the system from meeting its objectives, and which may also impact on the delivery of some or all of the organisation's strategic objectives.
3	The system has been subject to medium levels of risk that have, or could, impair the system from meeting its objectives.
4	The system has been subject to low levels of risk that has, or could, reduce its operational effectiveness.

Appendix 2: Responsibility statements

Disclosure statement

We have prepared this document solely for your use and, therefore, we believe that it would not be appropriate for it to be made available to third parties. If such a third party were to obtain a copy, without our prior written consent, we would not accept any responsibility for any reliance that they might place upon it. In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 you are required to disclose any information contained in this report, then you will notify CW Audit Services promptly and consult with us prior to disclosing such report. You agree to pay due regard to any representations which we may make in connection with such disclosure and apply any relevant exemptions which may exist under the Act. If, following consultation with us, you disclose this report or any part thereof, it shall ensure that any disclaimer which we have included, or may subsequently wish to include in the information, is reproduced in full in any copies disclosed.

Compliance with applicable standards

Our review of compliance against the applicable audit standards has confirmed that this engagement has been conducted in accordance with the International Standards for the Professional Practice of Internal Auditing. In conducting this assignment we can confirm that there have been no impairments to our independence or objectivity, either as an organisation or as individual auditors involved in delivering this service.

General statement

This report highlights findings on an exception basis and does not therefore include detail of controls that the audit found to be operating satisfactorily. Our opinion provides an overall assessment regarding the level of assurance we can provide regarding the controls operating in the system. The review will feed into the Head of Internal Audit Opinion which in turn forms part of the assurance for the Annual Governance Statement. Implementation of recommendations will be monitored by the Audit Committee.