



ADUR & WORTHING  
COUNCILS

Key Decision: No

Ward(s) Affected: N/A

**HEAD OF INTERNAL AUDIT'S ANNUAL OPINION REPORTS**

**REPORT BY THE ACTING HEAD OF INTERNAL AUDIT**

**Executive Summary**

**1. Purpose**

- 1.1 This report provides the Members of the Joint Governance Committee with the Head of Internal Audit's opinion reports on the system of internal control at Adur District Council and Worthing Borough Council during 2017/18 and provides a detailed summary of the audit work completed against the 2017/18 audit plan and the key issues identified from this work.

**2. Recommendations**

**2.1 Recommendation One**

That the Committee note the contents of this report.

**3. Background**

- 3.1 Each year a Head of Internal Audit (HoIA) Report is generated to meet the Head of Internal Audit annual reporting requirements set out in the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2011. The HoIA Report is an opinion statement provided for the use of the Councils in support of their Annual Governance Statements.

#### **4. Issues for Consideration**

##### **Head of Internal Audit's Opinions – 2017/18**

**4.1** From the Internal Audit work undertaken in 2017/18, it is our opinion that we can provide **Satisfactory Assurance** that the system of internal control in place at both Adur District Council and Worthing Borough Council for the year ended 31 March 2018 accords with proper practice. We did, however note the following significant control issues:

- The continued lack of IT Disaster Recovery Plans (both Councils), although we acknowledge these are being worked on;
- Further procurement and contract issues, including non-compliance with Council Contract Standing Orders, contract management and information retention (both Councils); and
- Poor control over the identification, variation, post inspection and approval of Housing Repair works (ADC only); and
- A lack of policies and inadequate procedures in respect of the calculation and recovery of financial charges to Leaseholders, particularly for major works (ADC only).

**4.2** Attached as **Appendices 1 and 2** are the Head of Internal Audit's Annual Reports for Adur District Council and Worthing Borough Council for the year 2017/18. A detailed summary of the 2017/18 audits summarised in the HoIA reports is attached as **Appendix 3**.

#### **5. Engagement and Communication**

**5.1** Internal Audit attends monthly meetings with the Chief Financial Officer on progress against the plan. Issues arising and potential plan changes are discussed both at these meetings and whenever necessary.

#### **6 Financial Implications**

**6.1** There are no financial implications arising from this report.

#### **7. Legal Implications**

**7.1** There are no legal matters arising as a result of this report.

#### **Background Papers**

None.

#### **Officer Contact Details:**

Pat Stothard

Acting Head of Internal Audit

Town Hall, Worthing

Tel: 01903 221255

[pat.stothard@mazars.co.uk](mailto:pat.stothard@mazars.co.uk)

## **Sustainability & Risk Assessment**

### **1. Economic**

Matter considered and no issues identified.

### **2. Social**

#### **2.1 Social Value**

Matter considered and no issues identified.

#### **2.2 Equality Issues**

Matter considered and no issues identified.

#### **2.3 Community Safety Issues (Section 17)**

Matter considered and no issues identified.

#### **2.4 Human Rights Issues**

Matter considered and no issues identified.

### **3. Environmental**

Matter considered and no issues identified.

### **4. Governance**

The report does not seek to meet any particular Council priority.





Adur District Council

## Internal Audit Annual Report 2017/18

May 2018

This report and the work connected therewith are subject to the Terms and Conditions of the Engagement Letter dated 18 June 2013 between Worthing Borough and Adur District Councils (through the London Borough of Croydon's Framework Agreement) and Mazars Public Sector Internal Audit Limited.

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### **Status of our reports**

*This report ("Report") was prepared by Mazars Public Sector Internal Audit Limited at the request of Adur District and Worthing Borough Councils and terms for the preparation and scope of the Report have been agreed with them. The matters raised in this Report are only those which came to our attention during our internal audit work. Whilst every care has been taken to ensure that the information provided in this Report is as accurate as possible, Internal Audit have only been able to base findings on the information and documentation provided and consequently no complete guarantee can be given that this Report is necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.*

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*Please refer to the Statement of Responsibility in Appendix 3 of this report for further information about responsibilities, limitations and confidentiality.*

# Introduction

## Purpose of this Report

This report summarises the work that Internal Audit has undertaken and the key control environment themes identified across Adur District Council (the Council) during the 2017/18 financial year, the service for which is provided by Mazars Public Sector Internal Audit Limited<sup>1</sup>.

The purpose of the Annual Internal Audit Report is to meet the Head of Internal Audit annual reporting requirements set out in the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2011. The PSIAS requirements are that the report must include:

- An annual Internal Audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk and control framework (the control environment);
- A summary of the audit work from which the opinion is derived (including reliance placed on the work by other assurance bodies); and
- A statement on conformation with the PSIAS and the results of the Internal Audit quality assurance and improvement programme (QAIP), if applicable.

The report should also include:

- The disclosure of any qualifications to that opinion, together with reasons for the qualification;
- The disclosure of any impairments or restriction in scope;
- A comparison of the work actually undertaken with the work that was planned and a summary of the performance of the Internal Audit function against its performance measures and targets;
- Any issues judged to be particularly relevant to the preparation of the annual governance statement; and
- Progress against any improvement plans resulting from QAIP external assessment.

It should be noted that the Council is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Adur District Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Adur District Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

## Internal Audit Approach

As Internal Audit, our role is to provide an annual assurance statement on the adequacy and effectiveness of the Council's systems of governance, risk management and internal control.

## Overview of Work Done

The Audit Plan for 2017/18 included a total of 33 internal audit projects when it was approved by the Joint Governance Committee in March 2017. We have liaised with senior management throughout the year to ensure that Internal Audit work undertaken continues to focus on the high risk areas and, in the light of new and ongoing developments in the Authority, help ensure the most appropriate use of our resources.

Through this liaison, changes were agreed to the plan during the year, mainly to accommodate audits within Housing Services. At the start of the year the new Head of Housing raised concerns regarding control within her service and as a result a Housing Governance Group was formed. This group has, so far, commissioned four audits, with a further two audits being added to the Plan at the specific request of the Head of Housing. As a result, some internal audit projects have been deleted from the Plan and the timing of a number of other audits has been changed. The final number of projects in the 2017/18 Plan has remained at 33 compared to 31 in the prior year - refer Overall Summary. It should be noted that there were no scope impairments or restrictions in 2017/18.

We generally undertake individual internal audit projects with the overall objective of providing the Members, the Chief Executive and other officers with reasonable, but not absolute, assurance as to the adequacy and effectiveness of the key controls over a number of management's objectives. Other audit projects are geared more towards the provision of specific advice and support to management to enhance the economy, efficiency and effectiveness of the services and functions for which they are responsible. We also undertake IT audits, probity audits and anti-fraud work.

All internal audit reports include our recommendations and agreed actions that, if implemented by management, will enhance the control environment and the operation of the key management controls.

## Compliance with the PSIAS

During our internal audit work we practice the principles of the PSIAS. The PSIAS require periodic self-assessment and an assessment by an external person every five years. During 2016/17 Mazars GRIC – Public Services (Local Government Sector) engaged an external company, Gard Consultancy Services, to complete an External Quality Assessment. The review was conducted in October and November 2016 and our work at Adur District Council was covered as part of the sample of clients examined during the review. The outcome of this external assessment is stated within the resulting report as:

“From the evidence reviewed as part of the external quality assessment, no areas of noncompliance with the Public Sector Internal Audit Standards have been identified that would affect the overall scope or operation of the Internal Audit activity, nor any significant areas of partial non-compliance. Three areas of minor partial compliance and one area, which is a new requirement from 2016, have been identified.

***On this basis, it is our opinion that Mazars GRIC - Public Services conforms to the requirements of the Public Sector Internal Audit Standards and the Local Government Application Note.***

Some practical and pragmatic recommendations to address the minor partial compliance issues and improve overall conformity with the standards have been made”.

This report sets out the results of the work performed as follows:

- **Overall summary** of work performed by Internal Audit including an analysis of report gradings; and
- **Key themes identified** during our work in 2017/18.

In this report, we have drawn on the findings and assessments included in all internal audit reports issued in 2017/18, including those that, at this time, remain in draft. It should be noted therefore that the comments made in respect of any draft reports are still subject to management response. Any changes in assurance on draft reports will be taken into account in the Head of Internal Audit Opinion for 2018/19.

## Overall Summary

As illustrated in the tables below, we have noted a reduction in Adur District Council's control environment during the 2017/18 audit year.

During 2017/18, 16 (69.6%) of internal audit projects were rated 'Satisfactory assurance' compared with 24 (85.6%) in the prior year. No 'Full assurance' opinions were issued in 2017/18 compared to one in 2016/17. We have issued one 'No assurance' opinion as we did in 2016/17. Six reports (26.1%) have been issued with 'limited assurance' opinions compared with two (7.2%) in the previous year.

The No assurance and three of the Limited assurance reports relate to four of the six audits added to the Plan at the request of the Housing Governance Group and Head of Housing, the remaining two audits are still in progress.

Assurance Gradings	Number of Projects									
	2017/18		2016/17		2015/16		2014/15		2013/14	
Full	0	0%	1	3.6%	0	0%	1	2.2%	0	0%
Satisfactory	16	69.6%	24*	85.6%	27	75%	31	67.4%	29	76.3%
Limited	6	26.1%	2*	7.2%	8	22.2%	14	30.4%	9	23.7%
No	1	4.3%	1	3.6%	1	2.8%	0	0%	0	0%
<b>Sub-Total</b>	<b>23</b>		<b>28</b>		<b>36</b>		<b>46</b>		<b>38</b>	
No Opinion Audits	1		3		5		5		3	
<b>Total Audits Delivered</b>	<b>24</b>		<b>31</b>		<b>41</b>		<b>51</b>		<b>41</b>	
Audits still in progress / Deferred	9									
<b>Total</b>	<b>33</b>		<b>31</b>		<b>41</b>		<b>51</b>		<b>41</b>	

\* Revised from 2016/17 Internal Audit Annual Report following issue of final audit reports which were outstanding when the 2016/17 report was produced.

A summary of key findings for all 2017/18 internal audit projects rated as No/Limited is included at Appendix 1.

## Opinion 2017/18

From the Internal Audit work undertaken in compliance with the PSIAS in 2017/18, it is our opinion that we can provide **Satisfactory Assurance** that the system of internal control in place at Adur District Council for the year ended 31 March 2018 accords with proper practice, except for the significant control environment issues as documented in Appendix 1. The assurance can be further broken down between financial and non-financial systems, as follows:



## Key Themes Identified

As Internal Audit continues to apply a risk based approach, our audit projects assess the governance framework, the risk management process as well as the effectiveness of controls across a number of areas. Our findings on these themes are set out below. Overall, we have seen a decline in the control environment especially which has been impacted upon by our findings within the Housing Service and whilst further remedial action needs to take place, we have noted that management has already started addressing our most significant findings.

### Corporate Governance

As part of our work this year, we have again completed an evaluation of the governance arrangements in order to assist the Council and the S151 Officer in the preparing the Annual Governance Statement (AGS) for 2017/18.

As in 2016/17, we have concluded that there is reasonable assurance that the Council's governance arrangements are largely compliant with the best practice guidance on corporate governance issued by CIPFA/SOLACE. This opinion is based on:

- The external auditor's Annual Audit Letter for the year ended 31<sup>st</sup> March 2017, in which Ernst & Young have concluded that "The Governance Statement was consistent with our understanding of the Council" following their work on the consistency of the Council's AGS, and
- Our audit of the Council's corporate governance arrangements that provided an overall Satisfactory assurance rating.

### Risk Management

Based on an internal audit of the Council’s risk management framework, we have concluded that there is reasonable assurance that the Council’s risk management processes are sufficiently formalised and provide information on key risks and issues relating to directorates and the Council as a whole. This opinion is based on:

Assurance provided by the external auditors, Ernst & Young, in their Annual Audit Letter 2016/17, when concluding on the Council’s arrangements for securing economy, efficiency and effectiveness they state “We concluded that you have put in place proper arrangements to secure value for money in your use of resources”, and

- Our audit of the Council’s risk management arrangements that provided an overall Satisfactory assurance rating.

### Information Technology Governance

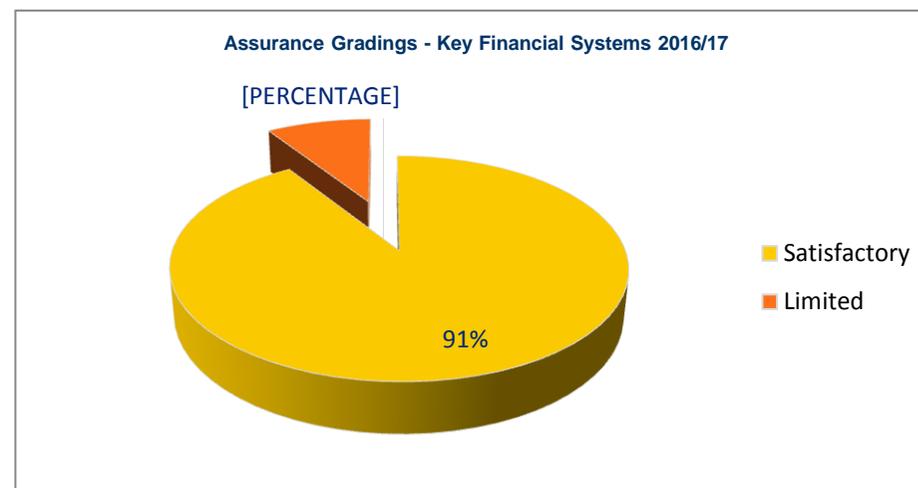
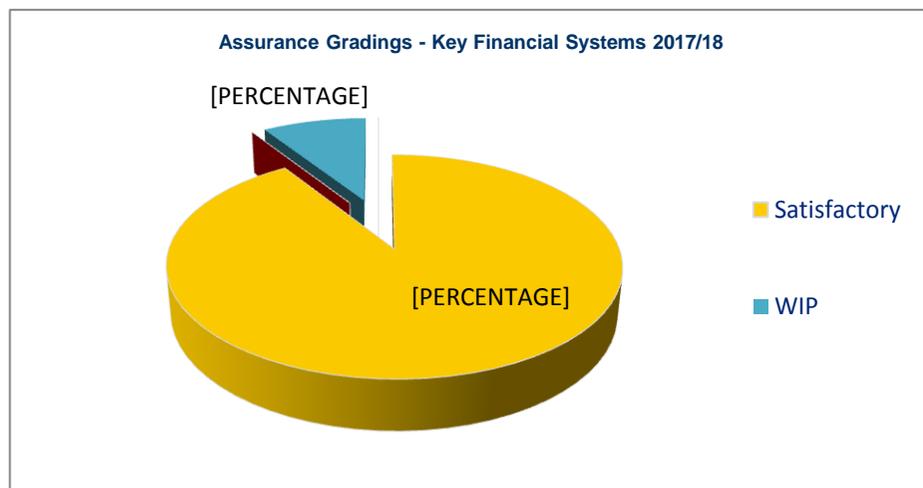
In our opinion the information technology governance of the Council is adequate to support the organisation’s strategies and objectives. This opinion is based on our ongoing programme of computer audits which did not identify any material weaknesses with information technology governance during 2017/18 or from those 2016/17 audits completed since our 2016/17 report was produced.

We still note the continued lack of an IT Disaster Recovery Plan, which was raised in our Annual Internal Audit Report 2012/13 and since. However, we acknowledge that work continues to be undertaken to address this.

### Internal Control - Key Financial Systems

Each year Internal Audit carries out audits of the Council’s key financial systems to provide the Council with assurance that key financial controls in the fundamental systems are operating satisfactorily and support a robust control environment.

The table below summarises the assurance gradings from our audits in this key area:



The control environment around key financial systems during 2017/18 is satisfactory with 10 of the 11 areas examined achieving Satisfactory assurance. One audit area, Fixed Assets, is still work in progress.

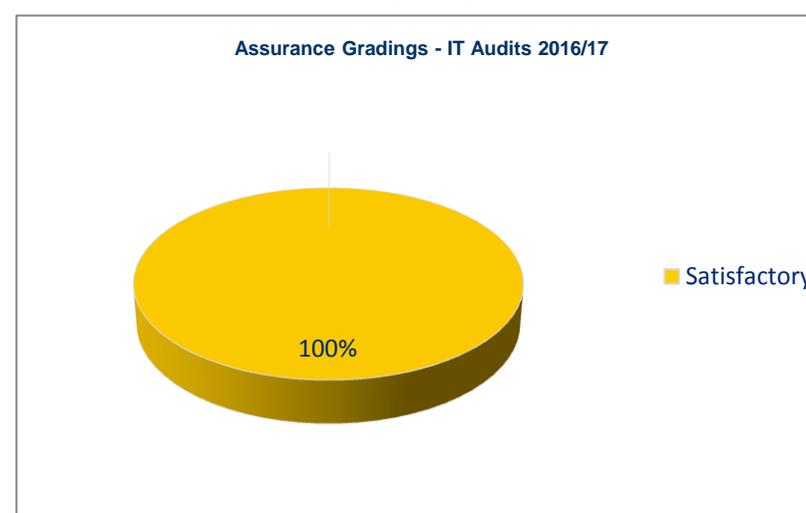
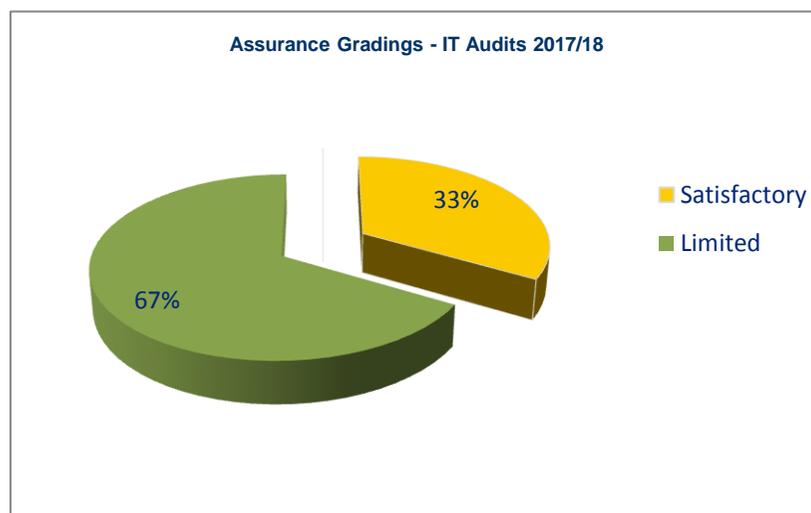
Other key themes arising from our audit work on the key financial systems continue to be non-compliance with routine hygiene controls such as maintenance of up to date procedure notes, approval for write-off of irrecoverable debts and the timely completion of reconciliations.

We have also noted the external auditor's Annual Audit Letter 2016/17, in which Ernst & Young state "As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

Our audit did not identify any controls issues to bring to the attention of the Joint Governance Committee".

### Levels of Assurance – IT Audits

Each year Internal Audit also carries out audits of specific IT systems, the tables below summarise the audit gradings in respect of IT audits:-



The results of our computer audit programme of work during 2017/18 shows that 33% (1 out of 3) audits were graded as Satisfactory assurance and 67% (2 out of 3) audits were graded as Limited assurance. One audit is still to be completed and the grading from this audit will be taken into account in the Head of Internal Audit Opinion for 2018/19. The performance in 2016/17 was 100% Satisfactory assurance (2 out of 2). In both 2016/17 and 2017/18, there was one piece of work where no assurance opinion was given.

## Key Themes

Overall we have identified the following key themes arising from our work this year:

- The continued lack of IT Disaster Recovery Plans, although we acknowledge these are being worked on;
- Further procurement and contract issues, including non-compliance with Council Contract Standing Orders, information retention and contract management, particularly in relation to the Gas Servicing contract for Adur Homes.
- Poor control over the identification, variation, post inspection and approval of Housing Repair works; and
- A lack of policies and inadequate procedures in respect of the calculation and recovery of financial charges to Leaseholders, particularly for major works.

## Performance of Internal Audit

At the start of the contract, a number of performance indicators were formulated to monitor the delivery of the Internal Audit service to the Council. The table below shows the actual and targets for each indicator for the period:

Performance Measure	Target	Actual
Percentage of Internal Audit plan completed	100%	92.6%
Number of draft audit reports/work items complete	33	24*

\*\* Of the nine work items to be completed, three are under review and three are in progress three are yet to be started. These items of audit work will be summarised in our quarterly reports to the Joint Governance Committee when the final reports are issued. The results will be updated in our Annual Internal Audit Report for 2018/19.

## Appendix 1 - Audit Projects with Limited or No Assurance 2017/18

Project	Grading	Summary of Key Findings
Leaseholder Charges	No	<p>Priority 1 recommendations were raised to address the need for:</p> <ul style="list-style-type: none"> <li>- A documented Leasehold Management Policy;</li> <li>- The update of the HMS to indicate which properties have leases which are considered “defective”;</li> <li>- Automatically generated invoices from the HMS;</li> <li>- Updating the leaseholder accounts to accurately reflect that the 2017/18 ground rent has been invoiced;</li> <li>- Establishing debt recovery procedures and undertaking these;</li> <li>- Management monitoring to ensure service standards are being met;</li> <li>- Establishing a laid down procedure to ensure Section 20B notices are issued whenever required;</li> <li>- Reviewing and updating the Section 20B notice to ensure it complies with legislative requirements;</li> <li>- A complete revamp of how major works are invoiced to ensure works are accurately billed;</li> <li>- Effecting a process whereby any potential works, where the costs may not be recoverable, are identified at the earliest opportunity;</li> <li>- Reviewing the Policy in respect of options available to leaseholders for payment of major works;</li> <li>- Effecting an approved process to ensure that any future loans/arrangements are correctly actioned;</li> <li>- Providing consistent information to leaseholders in respect of their long term payment options and the charges that are applied to any loan agreements;</li> <li>- Rationalise and define a Policy detailing where and how documentation to support leaseholders processes is to be retained; and</li> <li>- Rectification of the issue with indexing documents to Information @ Work and scanning outstanding documents to it.</li> </ul>

Project	Grading	Summary of Key Findings
Handyman Services	Limited	<p>Priority 1 recommendations were raised to address the need for:</p> <ul style="list-style-type: none"> <li>- The completion of a Cost v Benefits analysis of the service and decide whether the provision of this non-mandatory service should continue in its current format;</li> <li>- The re-design of the Handyman Service request form to include a Data Protection Fair Processing statement;</li> <li>- A procurement exercise for the provision of the Service;</li> <li>- A DBS check for the acting handyman; and</li> <li>- Contract monitoring arrangements including performance management.</li> </ul>
Human Resources	Limited	<p>Priority 1 recommendations were raised to address the need for:</p> <ul style="list-style-type: none"> <li>- The completion of all relevant checks for starters including the retention of evidence to support the completion of new employee checks (references, qualifications etc);</li> <li>- The completion of Right to Work checks the retention of evidence to support this; and</li> <li>- Introducing a means of centralised formal monitoring for the completion of mandatory training.</li> </ul>
GDPR Gap Assessment	Limited	<p>This audit specifically assessed, at the point of review, the compliance state of the Councils' four key service areas that process the most personal data and sensitive personal data, with the General Data Protection Regulation ('GDPR') which comes into force on 25<sup>th</sup> May 2018 in order to identify any gaps that the Councils could focus on before the Regulations come into effect.</p> <p>Twenty recommendations were made to address gaps in the following areas:</p> <ul style="list-style-type: none"> <li>- Legal Basis for Processing</li> <li>- Rights of Data Subjects</li> <li>- Obligations of Controllers and Processors</li> <li>- Privacy Notices</li> <li>- Security and Data Breach</li> <li>- Data Protection Impact Assessments</li> <li>- Data Protection Officer and Data Protection Governance</li> </ul>

Project	Grading	Summary of Key Findings
Academy Application (draft)	Limited	<p>Priority 1 recommendations were raised to address the need for:</p> <ul style="list-style-type: none"> <li>- Ensuring that each user is provided with a unique account on the application, including database administrator accounts where access should be restricted. Maintaining and reviewing database administrator activity logs on a regular basis.</li> <li>- Formulating a Disaster Recovery Plan (DRP) for the Academy application.</li> </ul>
Housing Repairs (draft)	Limited	<p>Priority 1 recommendations were raised to address the need for:</p> <ul style="list-style-type: none"> <li>- Review of authorisation levels within the HMS system.</li> <li>- Introduction of manager review and authorisation of jobs entered onto the HMS by a Maintenance Officer in order to provide separation of duties.</li> <li>- Accurate identification of SOR items and their quantities when the job is entered and approved to ensure that jobs are accurately described and costed. Retention of documentation to support any quotation and recording where it can be found within the HMS.</li> <li>- Creating and approving job variations where required works differ from the works originally identified, prior to the works being actioned. Documenting this procedure.</li> <li>- Revising the HMS system settings to ensure that the person who raised or authorised the original job cannot authorise the invoice for payment.</li> <li>- Investigating the HMS system to establish why jobs with an invoice value of more than £1k are not automatically being selected for post inspection. Reminding officers of the Post Inspection Policy requirements and the need to schedule PIs in order that they are achieved in line with Post Inspection targets. Recording the reason why a selected Post Inspection has not been completed. Regular production of Post Inspections reports and management review to identify post inspections not completed or actioned within the target dates.</li> <li>- Regular production and review of reports of outstanding jobs to ensure action is taken or the job is cancelled on the HMS.</li> </ul>
Gas Safety Inspections (draft)	Limited	<p>Priority 1 recommendations were raised to address the need for:</p> <ul style="list-style-type: none"> <li>- A more timely process for monitoring of LGSR remedial actions.</li> <li>- Review of the escalation procedure for no access to properties.</li> <li>- Compliance with the Councils' Contract Standing Orders (CSOs) in the employment of Consultants.</li> <li>- Adequately ascertaining service requirements before any procurement process is undertaken in order to ensure that the proper form of procurement takes place in accordance with the Council's CSOs.</li> <li>- Ensuring that officers who are responsible for monitoring contracts make appropriate arrangements for the contract to be re-let or extended in a timescale</li> </ul>

Project	Grading	Summary of Key Findings
		<p>which allows for the process to be fully completed before the current contract expires.</p> <ul style="list-style-type: none"><li>- Maintaining evidence to support how contract RPI increases have been calculated and that the increase has been agreed with the contractor.</li><li>- Following the proper processes where contracts have an option to be extended and retaining evidence to support the extension.</li></ul>

## Appendix 2 - Key to Assurance Levels

### Assurance Gradings

We have four categories by which we classify internal audit assurance over the processes we examine, and these are defined as follows:

Assurance Level	Evaluating and Testing Conclusion
<b>Full</b>	There is a sound system of internal control designed to achieve the Council's objectives The control processes tested are being consistently applied.
<b>Satisfactory</b>	While there is a basically sound system of internal control, there are weaknesses, which put some of the Council's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the Council's objectives at risk.
<b>Limited</b>	Weaknesses in the system of internal controls are such as to put the Council's objectives at risk. The level of non-compliance puts the Council's objectives at risk.
<b>No</b>	Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

## Appendix 3 - Statement of Responsibility

We take responsibility to Adur District & Worthing Borough Councils 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.

This report is confidential and must not be disclosed to any third party or reproduced in whole or in part without our prior written consent. To the fullest extent permitted by law Mazars Public Sector Internal Audit Limited accepts no responsibility and disclaims all liability to any third party who purports to use or rely for any reason whatsoever on the Report, its contents, conclusions, any extract, reinterpretation amendment and/or modification by any third party is entirely at their own risk.

In this document references to Mazars are references to Mazars Public Sector Internal Audit Limited.

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Worthing Borough Council

Internal Audit Annual Report 2017/18

May 2018

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The report should also include:

- The disclosure of any qualifications to that opinion, together with reasons for the qualification;
- The disclosure of any impairments or restriction in scope;
- A comparison of the work actually undertaken with the work that was planned and a summary of the performance of the internal audit function against its performance measures and targets;
- Any issues judged to be particularly relevant to the preparation of the annual governance statement; and
- Progress against any improvement plans resulting from QAIP external assessment.

It should be noted that the Council is responsible for ensuring its' business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Worthing Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Worthing Borough Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

### Internal Audit Approach

As Internal Audit, our role is to provide an annual assurance statement on the adequacy and effectiveness of the Council's systems of governance, risk management and internal control.

## Overview of Work Done

The Audit Plan for 2017/18 included a total of 31 internal audit projects when it was approved by the Joint Governance Committee in March 2017. We have liaised with senior management throughout the year to ensure that internal audit work undertaken continues to focus on the high risk areas and, in the light of new and ongoing developments in the Authority, help ensure the most appropriate use of our resources.

As a result of this liaison, changes were agreed to the Plan during the year. Some internal audit projects have been added to or deleted from the Plan, and the timing of a number of others has been changed. Consequently, the final number of projects for Worthing in 2017/18 was 27 compared to 29 in the prior year - refer Overall Summary. It should be noted that there were no scope impairments or restrictions in 2017/18.

We generally undertake individual internal audit projects with the overall objective of providing the Members, the Chief Executive and other officers with reasonable, but not absolute, assurance as to the adequacy and effectiveness of the key controls over a number of management's objectives. Other audit projects are geared more towards the provision of specific advice and support to management to enhance the economy, efficiency and effectiveness of the services and functions for which they are responsible. We also undertake IT audits, probity audits and anti-fraud work.

All internal audit reports include our recommendations and agreed actions that, if implemented by management, will enhance the control environment and the operation of the key management controls.

## Compliance with the PSIAS

During our internal audit work we practice the principles of the PSIAS. The PSIAS require periodic self-assessment and an assessment by an external person every five years. During 2016/17 Mazars GRIC – Public Services (Local Government Sector) engaged an external company, Gard Consultancy Services, to complete an External Quality Assessment. The review was conducted in October and November 2016 and our work at Adur District Council was covered as part of the sample of clients examined during the review. The outcome of this external assessment is stated within the resulting report as:

“From the evidence reviewed as part of the external quality assessment, no areas of noncompliance with the Public Sector Internal Audit Standards have been identified that would affect the overall scope or operation of the Internal Audit activity, nor any significant areas of partial non-compliance. Three areas of minor partial compliance and one area, which is a new requirement from 2016, have been identified.

***On this basis, it is our opinion that Mazars GRIC - Public Services conforms to the requirements of the Public Sector Internal Audit Standards and the Local Government Application Note.***

Some practical and pragmatic recommendations to address the minor partial compliance issues and improve overall conformity with the standards have been made”.

This report sets out the results of the work performed as follows:

- **Overall summary** of work performed by Internal Audit including an analysis of report gradings; and
- **Key themes identified** during our work in 2017/18.

In this report, we have drawn on the findings and assessments included in all internal audit reports issued in 2017/18, including those that, at this time, remain in draft. It should be noted therefore that the comments made in respect of any draft reports are still subject to management response. Any changes in assurance on draft reports will be taken into account in the Head of Internal Audit Opinion for 2018/19.

## Overall Summary

As illustrated in the tables below, we have noted a slight reduction in Worthing Borough Council's control environment during the audit year. During the 2017/18 year, some 15 (78.9%) of internal audit projects were rated 'Satisfactory assurance' compared with 23 (85.2%) in the prior year. No 'Full assurance' opinion was issued in 2017/18 compared to one in 2016/17.

We are pleased to report that we have not issued any 'No assurance' opinions in 2017/18. We issued four (21.1%) reports with 'limited assurance' opinions compared with three (11.1%) in the previous year.

Assurance Gradings	Number of Projects									
	2017/18		2016/17		2015/16		2014/15		2013/14	
Full	0	0%	1	3.7%	0	0%	1	2.3%	0	0%
Satisfactory	15	78.9%	23*	85.2%	27	79.4%	29	65.9%	28	71.8%
Limited	4	21.1%	3*	11.1%	7	20.6%	14	31.8%	11	28.2%
No	0	0%	0	0%	0	0%	0	0%	0	0%
<b>Sub-Total</b>	<b>19</b>		<b>27</b>		<b>34</b>		<b>44</b>		<b>39</b>	
No Opinion Audits	1		2		5		4		5	
<b>Total Audits Delivered</b>	<b>20</b>		<b>29</b>		<b>39</b>		<b>48</b>		<b>44</b>	
Audits still in progress / Deferred	7									
<b>Total</b>	<b>27</b>		<b>29</b>		<b>39</b>		<b>48</b>		<b>44</b>	

\* Revised from 2016/17 Internal Audit Annual Report following issue of audit reports which were outstanding when the 2016/17 report was produced

A summary of key findings for all 2017/18 Internal Audit projects rated as Limited is included at Appendix 1.

## Opinion 2017/18

From the Internal Audit work undertaken in compliance with the PSIAS in 2017/18, it is our opinion that we can provide **Satisfactory Assurance** that the system of internal control in place at Worthing Borough Council for the year ended 31 March 2018 accords with proper practice, except for the significant control environment issues as documented in Appendix 1. The assurance can be further broken down between financial and non-financial systems, as follows:



## Key Themes Identified

As Internal Audit continues to apply a risk based approach, our audit projects assess the governance framework, the risk management process as well as the effectiveness of controls across a number of areas. Our findings on these themes are set out below. Overall, we have seen an improvement in the control environment and whilst further remedial action needs to take place, we have noted that management has already started addressing our most significant findings.

### Corporate Governance

As part of our work this year, we have again completed an evaluation of the governance arrangements in order to assist the Council and the S151 Officer in preparing the Annual Governance Statement (AGS) for 2017/18.

As in 2016/17, we have concluded that there is reasonable assurance that the Council's governance arrangements are largely compliant with the best practice guidance on corporate governance issued by CIPFA/SOLACE. This opinion is based on:

- The external auditor's Annual Audit Letter for the year ended 31<sup>st</sup> March 2017, in which Ernst & Young have concluded that "The Governance Statement was consistent with our understanding of the Council" following their work on the consistency of the Council's AGS, and
- Our audit of the Council's corporate governance arrangements that provided an overall Satisfactory assurance rating.

**Risk Management**

We have concluded that there is reasonable assurance that the Council’s risk management processes are sufficiently formalised and provide information on key risks and issues relating to directorates and the Council as a whole. This opinion is based on:

- Assurance provided by the external auditors, Ernst & Young, in their Annual Audit Letter 2016/17, when concluding on the Council’s arrangements for securing economy, efficiency and effectiveness they state “We concluded that you have put in place proper arrangements to secure value for money in your use of resources”, and
- Our audit of the Council’s risk management arrangements that provided an overall Satisfactory assurance rating.

**Information Technology Governance**

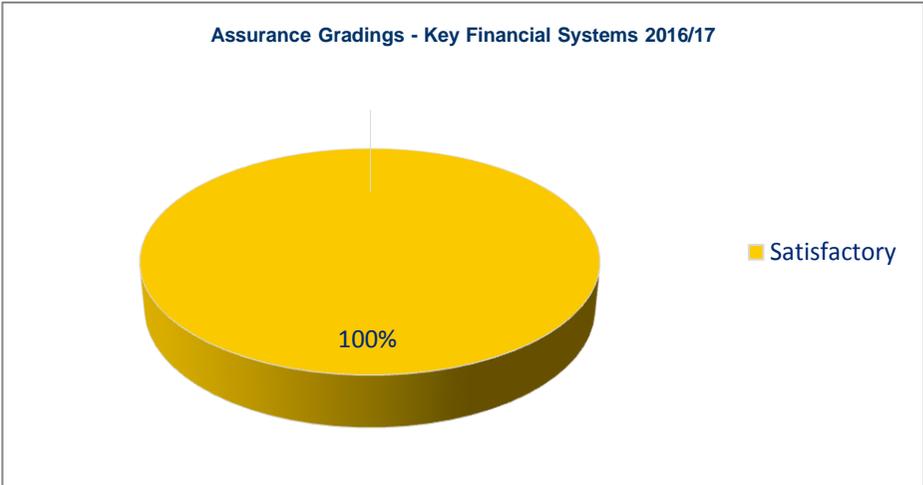
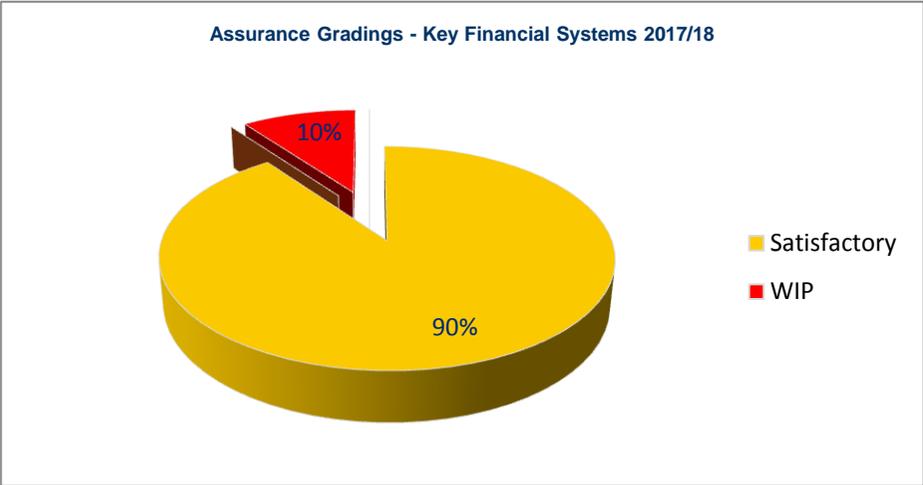
In our opinion the information technology governance of the Council is adequate to support the organisation’s strategies and objectives. This opinion is based on our ongoing programme of computer audits which did not identify any material weaknesses with information technology governance during 2017/18 or from those 2016/17 audits completed since our 2016/17 report was produced.

We still note the continued lack of an IT Disaster Recovery Plan which was raised in our Annual Internal Audit Report 2012/13 and since. However, we acknowledge that work continues to be undertaken to address this.

**Internal Control - Key Financial Systems**

Each year Internal Audit carries out audits of the Council’s key financial systems to provide the Council with assurance that key financial controls in the fundamental systems are operating satisfactorily and support a robust control environment.

The table below summarises the assurance gradings from our audits in this key area:



The control environment around key financial systems during 2017/18 is satisfactory with 10 of the 11 areas examined achieving Satisfactory assurance. One audit area, Fixed Assets, is still work in progress.

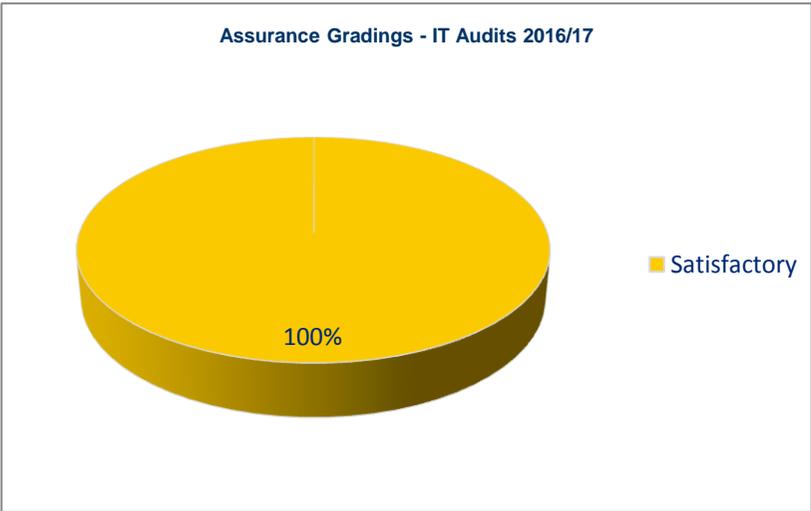
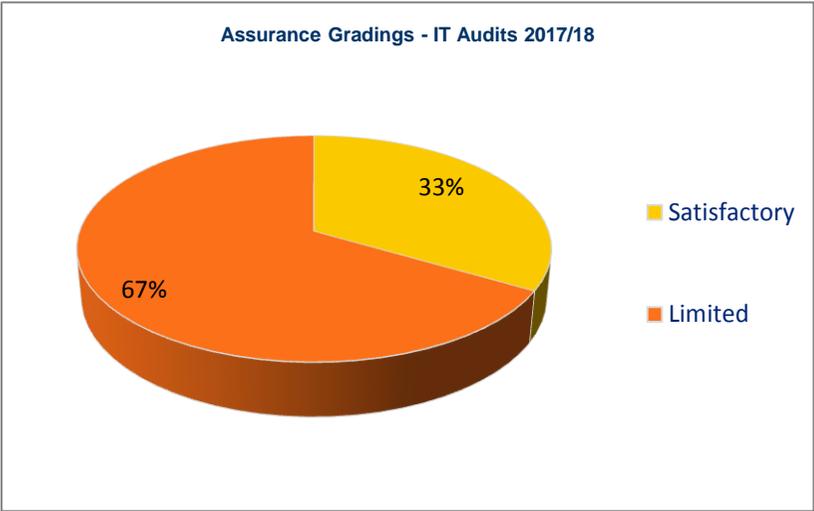
Other key themes arising from our audit work on the key financial systems continue to be non-compliance with routine hygiene controls such as maintenance of up to date procedure notes, approval for write-off of irrecoverable debts and the timely completion of reconciliations.

We have also noted the external auditor’s Annual Audit Letter 2016/17, in which Ernst & Young state “As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

Our audit did not identify any controls issues to bring to the attention of the Joint Governance Committee”.

**Levels of Assurance – IT Audits**

Each year Internal Audit also carries out audits of specific IT systems, the tables below summarise the audit gradings in respect of IT audits:-



The results of our computer audit programme of work during 2017/8 shows that 33% (1 out of 3) audits were graded as Satisfactory assurance and 67% (2 out of 3) audits were graded as Limited assurance. One audit is still to be completed and the grading from this audit will be taken into account in the Head of Internal Audit Opinion for 2018/19. The performance in 2016/17 was 100% Satisfactory assurance (2 out of 2). In both 2016/17 and 2017/18 there was one piece of work where no assurance opinion was given.

**Key Themes**

Overall we have identified the following key themes arising from our work this year:

- The continued lack of IT Disaster Recovery Plans, although we acknowledge these are being worked on; and
- Further procurement and contract issues, including non-compliance with Council Contract Standing Orders, contract management and information retention.

**Performance of Internal Audit**

At the start of the contract, a number of performance indicators were formulated to monitor the delivery of the Internal Audit service to the Council. The table below shows the actual and targets for each indicator for the period:

Performance Measure	Target	Actual
Percentage of Internal Audit plan completed	100%	92.6%
Percentage of draft audit reports issued	27	20**

\*\* Of the 7 audits still to be completed, three are in progress, two are under review and two are yet to be started. The findings of these seven audits will be summarised in our quarterly reports to the Joint Governance Committee when the final reports are issued and the results updated in our Annual Internal Audit Report for 2018/19.

## Appendix 1 - Audit Projects with Limited Assurance 2017/18

Project	Grading	Summary of Key Findings
Handyman Services	Limited	<p>Priority 1 recommendations were raised to address the need for:</p> <ul style="list-style-type: none"> <li>- The completion of a Cost v Benefits analysis of the service and decide whether the provision of this non-mandatory service should continue in its current format;</li> <li>- The re-design of the Handyman Service request form to include a Data Protection Fair Processing statement;</li> <li>- A procurement exercise for the provision of the Service;</li> <li>- A DBS check for the acting handyman; and</li> <li>- Contract monitoring arrangements including performance management.</li> </ul>
Human Resources	Limited	<p>Priority 1 recommendations were raised to address the need for:</p> <ul style="list-style-type: none"> <li>- The completion of all relevant checks for starters including the retention of evidence to support the completion of new employee checks (references, qualifications etc);</li> <li>- The completion of Right to Work checks the retention of evidence to support this; and</li> <li>- Introducing a means of centralised formal monitoring for the completion of mandatory training.</li> </ul>
GDPR Gap Assessment	Limited	<p>This audit specifically assessed, at the point of review, the compliance state of the Councils' four key service areas that process the most personal data and sensitive personal data, with the General Data Protection Regulation ('GDPR') which comes into force on 25<sup>th</sup> May 2018 in order to identify any gaps that the Councils could focus on before the Regulations come into effect.</p> <p>Twenty recommendations were made to address gaps in the following areas:</p> <ul style="list-style-type: none"> <li>- Legal Basis for Processing</li> <li>- Rights of Data Subjects</li> <li>- Obligations of Controllers and Processors</li> <li>- Privacy Notices</li> <li>- Security and Data Breach</li> <li>- Data Protection Impact Assessments</li> </ul>

Project	Grading	Summary of Key Findings
		- Data Protection Officer and Data Protection Governance.
Academy Application (draft)	Limited	Priority 1 recommendations were raised to address the need for: <ul style="list-style-type: none"> <li>- Ensuring that each user is provided with a unique account on the application, including database administrator accounts where access should be restricted.</li> <li>Maintaining and reviewing database administrator activity logs on a regular basis.</li> <li>Formulating a Disaster Recovery Plan (DRP) for the Academy application.</li> </ul>

## Appendix 2 - Key to Assurance Levels

### Assurance Gradings

We have four categories by which we classify internal audit assurance over the processes we examine, and these are defined as follows:

Assurance Level	Evaluating and Testing Conclusion
<b>Full</b>	There is a sound system of internal control designed to achieve the Council's objectives The control processes tested are being consistently applied.
<b>Satisfactory</b>	While there is a basically sound system of internal control, there are weaknesses, which put some of the Council's objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the Council's objectives at risk.
<b>Limited</b>	Weaknesses in the system of internal controls are such as to put the Council's objectives at risk. The level of non-compliance puts the Council's objectives at risk.
<b>No</b>	Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the processes/systems open to error or abuse.

## Appendix 3 - Statement of Responsibility

We take responsibility to Adur District & Worthing Borough Councils 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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In this document references to Mazars are references to Mazars Public Sector Internal Audit Limited.

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Project	Joint	ADC only	WBC only	Field Work complete	Draft Issued	Final Issued	Assurance level	Assurance at previous audit
Leaseholder Charges		*		Y	Y	Y	No	No comparable previous audit
Gas Safety Inspections		*		Y	Y		Limited	
Housing Repairs		*		Y	Y		Limited	
Firewall & Cyber Security	*			Y	Y	Y	Satisfactory	No previous audit
Compliance with the Data Protection Act	*			Y	Y	Y	Satisfactory	No comparable previous audit
Contract Management audit - Voluntary & Community contract	*			Y	Y	Y	Satisfactory	No previous audit
Corporate Governance	*			Y	Y	Y	Satisfactory	Satisfactory
Handyman Service	*			Y	Y	Y	Limited	No previous audit
Homelessness	*			Y	UR			
Budget Management	*			Y	Y	Y	Satisfactory	Satisfactory
Human Resources	*			Y	Y	Y	Limited	Limited
Treasury Management	*			Y	Y	Y	Satisfactory	Satisfactory
Rent Collection and Collection of Arrears		*		Y	Y	Y	Satisfactory	Satisfactory
Cashiering	*			Y	Y	Y	Satisfactory	Satisfactory
Payroll	*			Y	Y	Y	Satisfactory	Satisfactory
ICT Management & Strategy	*			Y	Y	Y	No opinion	No previous audit
GDPR Readiness/Gap Analysis	*			Y	Y	Y	Limited	No comparable previous audit
Creditors	*			Y	Y	Y	Satisfactory	Satisfactory
Debtors	*			Y	Y	Y	Satisfactory	Satisfactory
Revenues (Council Tax & NDR)	*			Y	Y	Y	Satisfactory	Satisfactory
Benefits	*			Y	Y	Y	Satisfactory	Satisfactory
General Ledger	*			Y	Y	Y	Satisfactory	Satisfactory
Capital Accounting	*			Y	Y	Y	Satisfactory	Satisfactory
Academy Application audit	*			Y	Y	UR	Limited	No previous audit
Risk Management	*			Y	Y	Y	Satisfactory	Satisfactory
Fixed Assets	*			Y	UR			
Debt Management	*			WIP				
Garage Management		*		WIP				
Change Management	*			P				
Tax Risk assessments (IR35)	*			WIP				
Decorating Vouchers		*		WIP				
Procurement Compliance	*			WIP				
Mats - Governance & Management arrangements	*			P				

In Planning stage

Work In Progress

Under review