

ADUR & WORTHING  
COUNCILS

22 May 2018

**Joint Governance Committee**  
**6.30pm on Thursday 31 May 2018**  
**QEII Room, Shoreham Centre, Shoreham-by-Sea**

**Adur District Council:** Councillors George Barton (Chairman), Kevin Boram (Vice-Chairman), David Balfe, Paul Graysmark, Andrew McGregor, Paul Mansfield, Barry Mear and Peter Metcalfe

**Worthing Borough Council:** Councillors Lionel Harman (Chairman), Nigel Morgan (Vice-Chairman), Jim Deen, Louise Murphy, Jane Sim, Bryan Turner, Steve Waight and Steve Wills

**Agenda**

<b>Part A</b>	<b>Page No.</b>
<b>1. Substitute Members</b>	-
Any substitute members should declare their substitution.	
<b>2. Declarations of Interest</b>	-
Members and officers must declare any disclosable pecuniary interests in relation to any business on the agenda. Declarations should also be made at any stage such an interest becomes apparent during the meeting.	
If in doubt contact the Legal or Democratic Services representative for this meeting.	

<b>3. Minutes</b>	To approve the minutes of the Joint Governance Committee meeting held on 27 March 2018, copies of which have been previously circulated.	-
<b>4. Public Question Time</b>	To receive any questions from members of the public.  <i>(Note: Public Question Time will operate for a maximum of 30 minutes.)</i>	-
<b>5. Items Raised Under Urgency Provisions</b>	To consider any items the Chairman of the meeting considers to be urgent.	-
<b>6. Adur and Worthing Progress Reports</b>	To consider a report by the External Auditor, copy attached as item 6.	5
<b>7. Worthing Borough Council Qualification Letter</b>	To consider a report by the External Auditor, copy attached as item 7.	29
<b>8. Certification of claims and returns annual report 2016-17 Worthing Borough Council</b>	To consider a report by the External Auditor, copy attached as item 8.	33
<b>9. Annual Audit Fee Letters</b>	To consider a report by the External Auditor, copy attached as item 9.	43
<b>10. Head of Internal Audit's Annual Opinion Reports</b>	To consider a report by the Acting Head of Internal Audit, copy attached as item 10.	51
<b>11. Annual Governance Statements 2017/18</b>	To consider a report by the Director for Digital & Resources, copy attached as item 11.	85

**12. Audit Enquiries to those Charged with Governance** 127

To consider a report by the Director for Digital & Resources, copy attached as item 12.

**13. Appointment of External Auditor** 137

To consider a report by the Director for Digital & Resources, copy attached as item 13.

**14. Managing investment opportunity and risk when investing in Commercial Property** 143

To consider a report by the Director for Digital & Resources, copy attached as item 14.

**15. Whistleblowing Policy** 163

To consider a report by the Monitoring Officer, copy attached as item 15.

**16. Exclusion of the Press and Public**

In the opinion of the Proper Officer the press and public should be excluded from the meeting for consideration of the following item. Therefore the meeting is asked to consider passing the following resolution:

'that under Section 100A(4) of the Local Government Act 1972, the public and press be excluded from the meeting from the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in the paragraph of Part 1 of Schedule 12A to the Act indicated against the item'

**Part B Exempt Reports - Not for Publication**

**17. 2017/18 review of Member Conduct** 171

To consider an exempt report by the Monitoring Officer, copy attached as item 17.

## Recording of this meeting

The Council will be voice recording the meeting, including public question time. The recording will be available on the Council's website as soon as practicable after the meeting. The Council will not record any discussions in Part B of the agenda where the press and public have been excluded.

For Democratic Services enquiries relating to this meeting please contact:

Neil Terry  
Senior Democratic Services Officer  
01903 221073  
[neil.terry@adur-worthing.gov.uk](mailto:neil.terry@adur-worthing.gov.uk)

For Legal Services enquiries relating to this meeting please contact:

Susan Sale  
Solicitor to the Councils  
01903 221119  
[susan.sale@adur-worthing.gov.uk](mailto:susan.sale@adur-worthing.gov.uk)

The agenda and reports are available on the Councils website, please visit [www.adur-worthing.gov.uk](http://www.adur-worthing.gov.uk)

# **Adur District Council**

Joint Governance Committee Progress Report

May 2018



The Members of the Joint Governance Committee  
Adur District Council  
c/o Worthing Town Hall  
Chapel Road  
Worthing  
West Sussex  
BN11 1HA

18 May 2018

Dear Members,

## **Audit Progress Report**

We are pleased to attach our Audit Progress Report.

This progress report summarises the work we have undertaken since the last meeting of the Joint Governance Committee in March 2018. The purpose of this report is to provide the Committee with an update of our plans for the 2017/18 audit, to ensure they continue to be aligned with your service expectations.

Our audit is undertaken in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.

We welcome the opportunity to discuss this report with you as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully



Paul King  
Associate Partner  
For and on behalf of Ernst & Young LLP  
Enc.



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the [PSAA website](http://www.psaa.co.uk) (www.psaa.co.uk)

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The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

# 2017/18 audit

## Financial statements audit

We issued our 2017/18 Audit Plan in January 2018 where we outlined how we intend to carry out our responsibilities as auditor, including our proposed audit approach.

Our interim procedures have confirmed that the risks identified in the Revised Audit Plan (following the verbal update in January) remain appropriate. These were:

- Risk of Management Override
- Valuation of land and buildings
- Pension asset/liability valuation
- Earlier deadline for the production of financial statements
- A Value for Money Conclusion risk regarding the Council's ability to plan its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions.

## Second Interim Visit

We completed our interim procedures as planned and have not identified any additional risks that we need to make the Committee aware of, from our work performed to date.

## Post Statements Audit

Following the discussion held at the 27 March 2018 Joint Audit Committee meeting as part of presenting our audit plan, we have set out in Appendix 1 the key messages which we are communicating consistently to all authorities with regard to the earlier timetable for accounts production and audit completion for 2017/18. We would be happy to discuss this again at the 31 May 2018 Joint Audit Committee meeting if you would like to do so.

In view of the faster close this year, as compared to previous years, whereby the Council will have to publish its audited statement of accounts by 31 July 2018 for the 2017/18 financial year, we are looking to start our post statements work on the 2017/18 statement of accounts at the beginning of June 2018. Our post statements visit is scheduled to be completed by mid-July 2018.

We will continue to use the client portal to request working papers and evidence for samples and in view of faster close, quick responses from officers will be critical to meeting the required deadline. We discussed the impact of any delays on the audit at the last Committee.

We are continuing to work with officers to reduce likelihood of any delays and have put in place escalation procedures to avoid issues affecting the audit timing.

We will continue to use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular payroll and journal entries and the data requests for this have already been responded to by officers.

We will also review and report to the National Audit Office, to the extent and in the form required by them, on your whole of government accounts return.

We plan to present our audit results report, setting out the findings of our work and overall conclusions, to the Joint Governance Committee on 31 July 2018.

### **Value for Money Assessment**

We have completed our planning work and have started our detailed work and expect to complete this by the end of our post statements audit visit. We plan to report the results of this work to the Joint Governance Committee on 31 July 2018.

The Committee requested that we discuss the plans of the Council to invest to generate revenue. We met with the Chief Financial Officer on 15 March to discuss this issue. The Council has a high level investment strategy and the detailed supporting strategy is still being developed. However, we found that the Council has proper procedures in place to assess the merits of purchases of property.

The Council is focussing on industrial and office investments, as more risks have been identified with regards to residential property investments. The Council uses a risk matrix to verify if a property meets the quality standards that they require in order to invest reliably. This matrix includes overall categories that are then broken down into sub criteria, for example, the sub criteria for the category of location are:

- Quality of the location (town, city, area) with regard to the property use
- Quality of the individual situation of the property within the macro location, with regard to the property use
- Quality of the building compared to the Industry standard Grade A for the property type

Detailed comments are required to be made against each sub criteria and a rating is provided based on a weighted property score. A property will be expected to score at least 140 out of 200 (70%) on the matrix to be considered for investment, unless there are other economic or wider benefits to be delivered within or to the county.

The Chief Financial Officer has been asked by this Committee to prepare a paper on the financial implications of this investment policy. We will review this as part of our value for money procedures when it is available.

### **Housing Benefit Certification 2017/18**

We met with the Head of Revenues & Benefits in April 2018 to further the discussion of the extended testing required for the housing benefit certification based on errors identified in the prior year. Under the PSAA guidelines, the Council is required to perform this additional testing in the mandatory workbooks and EY is required to review their findings and perform any extrapolations as required. To aid the Council in completing this additional testing, EY have provided training in completion of our workbooks, in order to reduce the potential issues in reviewing this work.

We commenced our initial testing of the housing benefit certificate in April 2018. We were unable to complete the testing in the time available and plan to finish the testing after completion of the 2017/18 audit in August 2018. We will review the work performed to date with the Head of Revenues & Benefits in June 2018 and agree if any further extended testing is required over and above that already identified.

# Appendix 1 - Faster Close Key Messages

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July.

These changes provide risks for both the preparers and the auditors of the financial statements:

- The Council now has less time to prepare the financial statements and supporting working papers. Risks to the Council include internal quality assurance arrangements, late working papers, and slippage in delivering data for analytics work in format and to the timescales required.
- As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within the same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- Good quality draft financial statements and supporting working papers by the agreed deadline, including analytics data;
- Appropriate Council staff to be available throughout the agreed audit period; and
- Complete and prompt responses to audit questions and information requests.

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may include postponing your audit until later in the summer and redeploying the team to other work to meet deadlines elsewhere.

Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

To support the Council we have:

- Worked with the Council to engage early to facilitate early substantive testing where appropriate.
- Facilitated faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.
- Worked with the Council to implement EY Client Portal, this:
  - Streamlines our audit requests through a reduction of emails and improved means of communication;

- Provides on -demand visibility into the status of audit requests and the overall audit status;
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- Agreed the team and timing of each element of our work with you.
- Agreed the supporting working papers that we require to complete our audit and how these are being requested.

## Timetable

For the 2017/18 financial year, the timetable for preparation and approval of accounts is brought forward to a draft accounts deadline of 31 May and an audit deadline of 31 July. In planning our work for 2017/18 we have planned our audit to meet these revised deadlines. We set out below a timetable showing the key stages of the audit, including the value for money work, and the deliverables we will provide to you through the 2017/18 committee cycle.

Audit phase	EY Timetable	Deliverable	Report to Committee	Status
High level planning	<b>April 2017</b>	Audit Fee Letter	2017	Completed
Risk assessment and setting of scope of audit	<b>January 2018</b>	Audit Plan	January 2018	Completed
Interim substantive testing of transactions	<b>February / March 2018</b>	Progress Report	May 2018	This document.
Year-end audit	<b>June / July 2018</b>	Audit results report to those charged with governance Audit report (including our opinion on the financial statements and a conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources) Whole of Government Accounts Submission to NAO based on their group audit instructions Audit Completion certificate	July 2018	Work is planned to start at the beginning of June 2018 and be completed by mid-July.

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## Ernst & Young LLP

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# Worthing Borough Council

Joint Governance Committee Progress Report

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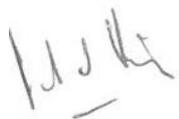
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# 2016/17 audit

## **Housing Benefit Certification**

We completed our testing of the Council's 2016/17 Housing Benefit claim in March 2018. We are presenting the results of our work in the 2016/17 certification report as a separate agenda item at this.

# Appendix 1 - Faster Close Key Messages

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working world

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SO14 3QB

Department for Work and Pensions  
Housing Benefit Unit  
Room B120D  
Warbreck House  
Blackpool  
Lancashire  
FY2 0UZ

28 March 2018

Ref:  
Your ref:

Direct line: 020 7951 2000

Email: Pking1@uk.ey.com

Dear Sir/Madam

**Worthing Borough Council Housing benefit subsidy claim for the year ended  
31 March 2017 (Form MPF720A) Qualification Letter referred to in the  
Auditor's Certificate dated 26 March 2018**

Details of the matters giving rise to my qualification of the above claim are set out in the  
Appendix to this letter.

The factual content of my qualification has been agreed with officers of the Authority.

No amendments have been made to the claim for the issues raised in this qualification letter.

Yours faithfully

Paul King  
Associate Partner  
Ernst & Young LLP  
United Kingdom

### **Appendix – detailed qualification issues**

Cell 121: Overpaid Rent Allowances (Prior Years) Eligible Overpayments

Cell Total: £444,321

Cell Population: 861

Headline Cell (94): £36,074,282

Testing of the initial sample of Rent Allowance cases identified one case where benefit was underpaid by £1,786 as a result of partner income in cell 121 being incorrectly calculated.

Given the nature of the population and the errors found, an additional random sample of 40 cases containing subsidy in cell 121 was tested to confirm whether partner earnings had been correctly calculated. It was agreed with the Council that this sample would be selected from all cases within cell 121 as it was not possible to determine which cases within the population contain partner earnings from relevant system reports.

This additional testing identified two further errors in the calculation of partner income within cell 121:

- One case where benefit had been overpaid by £241. Partner income had been understated in the calculation of the overpayment in cell 121, meaning that the prior year overpayment was understated. One case where benefit had been underpaid by £33.12.
- As there is no eligibility to subsidy for benefit which has not been paid, the underpayments identified in the initial and 40+ samples do not affect subsidy and therefore have not been classified as errors for subsidy purposes.

The effect of the overpayment error is to understate prior year overpayments in the subsidy claim with the understatement impacting cell 120, as the error arose from a mistake by the LA. There is no impact on cell 094.

The result of my testing is set out in the table below:

Sample	Movement / brief note of error	Original cell total:	Sample error:	Sample value:	Percentage error rate:	Cell adjustment
		[SP]	[SE]	[SV]	[SE/SV]	[SE/SV x CT]
Initial sample - 20 cases	Miscalculation of partner earnings.	444,321	0	3,242		
Additional Sample - 40 cases	Miscalculation of partner earnings.	444,321	241	14,154	1.7%	
<b>Combined Sample - 60 cases</b>	<b>Miscalculation of partner earnings.</b>	<b>444,321</b>	<b>241</b>	<b>17,396</b>	<b>1.39%</b>	<b>6,156</b>
Adjustment						6,156

Total corresponding adjustment	Cell 120 is understated.					6,156
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The percentage error rate in my sample reflects the individual cases selected. The value of the errors range from £33.12 to £1,786 and the benefit periods range from 1 to 4 weeks. Similar findings have not been included in my qualification letters in previous years.

Given the nature of the population and the variation in the errors found, it is unlikely that even significant additional work will result in amendments to the claim form that will allow me to conclude that it is fairly stated.



# Certification of claims and returns annual report 2016-17

Worthing Borough Council

April 2018

Ernst & Young LLP



The Members  
Joint Governance Committee  
Worthing Borough Council  
The Shoreham Centre  
Pond Road  
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16 April 2018  
Ref: WBC/HB/2016-17

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Dear Members

## **Certification of claims and returns annual report 2016-17 Worthing Borough Council**

We are pleased to report on our certification and other assurance work. This report summarises the results of our work on Worthing Borough Council's 2016-17 claims.

### **Scope of work**

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

For 2016-17, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

### **Summary**

Section 1 of this report outlines the results of our 2016-17 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £36,213,775. We did not meet the submission deadline due to a delay in the provision of information to support our testing, and disagreement over whether additional 40+ testing was required in respect of an error identified. Further details are recorded in section 1 below. We issued a qualification letter and details of the qualification matters are also included in section 1. Our certification work found errors, but these did not require amendments to the claim form.



Fees for certification and other returns work are summarised in section 2. The housing benefits subsidy claim fees for 2016-17 were published by the Public Sector Audit Appointments Ltd (PSAA) in March 2016 and are now available on the PSAA's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

We welcome the opportunity to discuss the contents of this report with you at the Joint Governance Committee meeting in May.

Yours faithfully

Paul King  
Associate Partner  
Ernst & Young LLP  
Enc

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## 1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£36,213,775
Amended/Not amended	Not Amended
Qualification letter	Yes
Fee – 2016-17	£10,716
Fee – 2015-16	£8,184

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete two samples of 20 cases for authorities without an Housing Revenue Account (HRA), covering Non-HRA Rent Rebate and Rent Allowance cases, plus an undefined sample of Modified Scheme Cases, where each of these are applicable to the Council.

Auditors must complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of previous year's claims.

A summary of the key issues found is shown below:

### Rent Allowances

Testing of the initial sample identified one case where benefit was underpaid by £1,786 as a result of partner income in cell 121 (Eligible Prior Year Overpayments) being incorrectly calculated.

We raised and agreed this error with the Head of Revenues and Benefits on 9 October 2017. While the error was agreed, the Head of Revenues and Benefits did not agree that extended (40+) testing was required.

During the audit, responses to our queries and questions were not always timely. Agreement to carry out the 40+ testing was not reached until 15 January 2018 when PSAA confirmed that the error did require extended testing. The completed testing was provided for audit on 15 February 2018 and audit work completed in subsequent weeks, and the claim certified on 28 March 2018.

The extended testing identified two further errors in the calculation of partner income within cell 121:

- One case where benefit had been overpaid by £241. Partner income had been understated in the calculation of the overpayment in cell 121, meaning that the prior year overpayment was understated.
- One case where benefit had been underpaid by £33.12. As there is no eligibility to subsidy for benefit which has not been paid, the underpayments identified in the initial and extended testing samples do not affect subsidy and therefore were not classified as errors for subsidy purposes.

The effect of the overpayment error is to understate prior year overpayments in the subsidy claim with the understatement impacting cell 120 (LA error and administrative delay overpayments), as the error arise from a mistake by the authority. This error was extrapolated across the total value for Cell 121 and produced an error of £6,156.

We also noted delays to responses to number of our other questions for which we needed a response to be able to complete our testing. These were raised as they identified in our testing in October and November 2017 and summarised upon completion of all other procedures at the end of our site visit in November. Responses to these questions were not provided until 23 February 2018.

### **Extrapolations**

The total of the extrapolations and errors in the qualification letter had the effect of increasing prior year LA error and administrative delay overpayments by £6,156, therefore indicating that the Council was over-claiming subsidy for the period.

Where extrapolations impact the LA error and administrative delay overpayments balance, the DWP usually require that the extrapolation amount is repaid to the DWP.

The DWP review the combined LA error and administrative delay overpayments balance, taking the subsidy claim form value and the value of our extrapolations and, where this breaches the upper threshold, the total LA error and administrative delay overpayments incurred during the year are required to be repaid to the DWP. The LA error and administrative delay overpayments upper threshold was £190,705. The total extrapolation effect on the LA error and administrative delay overpayments is £6,156. This is below both the upper and lower threshold (£169,516), and therefore the Council is entitled to full relevant subsidy on this amount.

## 2. 2016-17 certification fees

The PSAA determine a scale fee each year for the audit of claims and returns. For 2016-17, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) in March 2016 and are now available on the PSAA's website ([www.psa.co.uk](http://www.psa.co.uk)).

Claim or return	2016-17	2016-17	2015-16
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	10,716*	6,716	8,184
<b>Total:</b>	10,716	6,716	8,184

*\*Actual fee for 2016-17 includes an additional £4,000 scale fee variation to account for the additional time and resources needed to reach agreement on the need for extended testing, resolving longstanding queries and incurring an additional site visit to review the 40+ work in February/March 2018. This additional fee is subject to agreement with the Council and also review and determination by PSAA*

Indicative fees for 2016-17 housing benefit subsidy certification work are based on final 2014-15 certification fees. PSAA reduced scale audit fees and indicative certification fees for most audited bodies by 25 per cent based on the fees applicable for 2014-15.

### 3. Looking forward

#### 2017/18

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to (PSAA) by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2017/18 is £8,184. This was set by PSAA and is based on final 2015/16 certification fees.

Details of individual indicative fees are available at the following web address:  
<https://www.psa.co.uk/audit-fees/201718-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

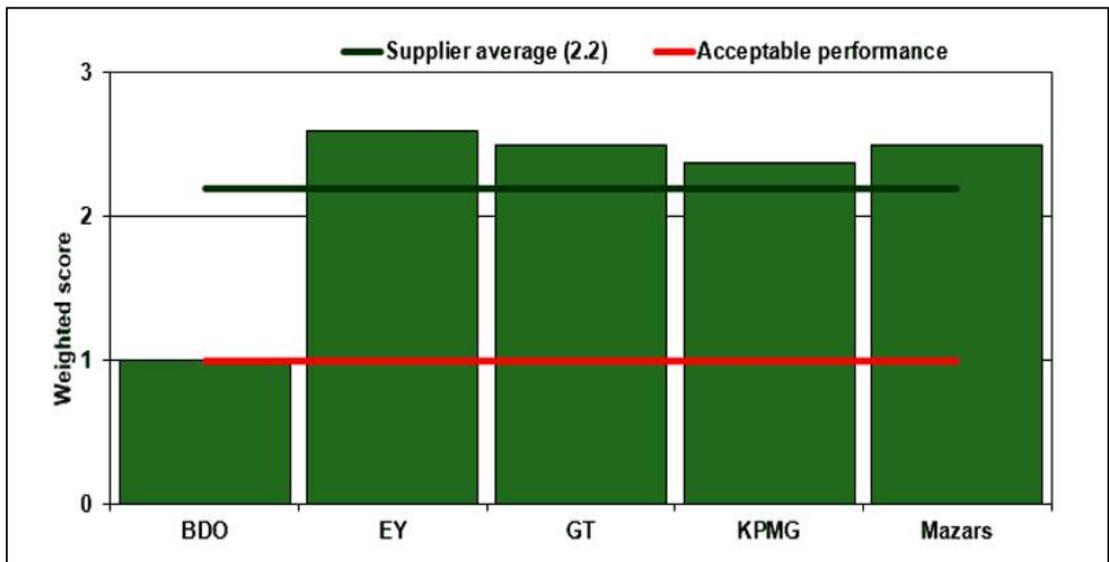
We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Chief Finance Officer before seeking any such variation.

#### 2018/19

From 2018/19, the Council will be responsible for appointing their own reporting accountant to undertake the certification of the housing benefit subsidy claim in accordance with the Housing Benefit Assurance Process (HBAP) requirements that are being established by the DWP. DWP's HBAP guidance was published in March 2018.

We would be pleased to undertake this work for you, and can provide a competitive quotation for this work.

We currently provide HB subsidy certification to 106 clients, through our specialist Government & Public Sector team. We provide a quality service, and are proud that in the PSAA's latest Annual Regulatory and Compliance Report (July 2017) we score the highest of all providers, with an average score of 2.6 (out of 3).



Additionally, as we have been appointed by PSAA in December 2017 as your statutory auditor we can provide a comprehensive assurance service, making efficiencies for you and building on the knowledge and relationship we have established with your Housing Benefits service.

EY | Assurance | Tax | Transactions | Advisory

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Chief Executive  
c/o Worthing Borough Council  
Town Hall, Chapel Road , Worthing  
West Sussex, BN11 1HA

23 April 2018

Direct line: 01189 281556

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Dear Alex

## **Annual Audit 2018/19**

We are writing to confirm the audit that we propose to undertake for the 2018/19 financial year at Adur District Council

From 2018/19, new arrangements for local auditor appointment set out in the Local Audit and Accountability Act 2014 apply for principal local government and police bodies. These audited bodies are responsible for making their own arrangements for the audit of the accounts and certification of the housing benefit subsidy claim. Public Sector Audit Appointments Ltd (PSAA) has appointed auditors for bodies that have opted into the national scheme. Appointments were made for the duration of the five-year appointing period, covering the audits of the accounts for 2018/19 to 2022/23. Appointments for all bodies that had opted into the appointing person scheme before 7 March 2017 were confirmed, following consultation, in December 2017.

### **Indicative audit fee**

For the 2018/19 financial year, PSAA has set the scale fee for each audited body that have opted into its national auditor appointment scheme. Following consultation on its Work Programme and Scale of Fees, PSAA has reduced the 2018/19 scale audit fee for all opted-in bodies by 23 per cent from the fees applicable for 2017/18.

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies.

The audit fee covers the:

- Audit of the financial statements
- Value for money conclusion
- Whole of Government accounts.

For Adur District Council our indicative fee is set at the scale fee level. This indicative fee is based on certain assumptions, including:

- The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year
- Officers meeting the agreed timetable of deliverables;
- The operating effectiveness of the internal controls for the key processes identified within our audit strategy;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by Adur District Council;
- There is an effective control environment; and
- Prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

As we have not yet completed our audit for 2017/18, our audit planning process for 2018/19 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

### Summary of fees

	Indicative fee 2018/19 £	Planned fee 2017/18 £	Actual fee 2016/17 £
Total Code audit fee	37,054	48,122	48,122
Certification of housing benefit subsidy claim	N/a	27,019	12,230
Non-audit work:			
Certification of pooling of housing capital receipts subsidy claims for 2014/15, 2015/16 and 2016/17	N/a	12,000	N/a

The appointment of an auditor to certify the Council's 2018/19 housing benefit subsidy claim is not covered by the PSAA appointment, hence is shown as not applicable here.

Any additional work that we may agree to undertake (outside of the Code of Audit Practice) will be separately negotiated and agreed with you in advance.

### Billing

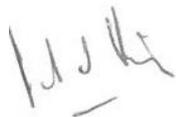
The indicative audit fee will be billed in four quarterly instalments of 9,263.

## **Audit plan**

Our plan is expected to be issued in December 2018. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks and any changes in fee. It will also set out the significant risks identified in relation to the value for money conclusion. Should we need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Chief Financial Officer and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Joint Governance Committee.

We are committed to providing you with a high quality service. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact me as your Engagement Lead. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London, SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute.

Yours sincerely



Paul King  
Associate Partner

For and on behalf of Ernst & Young LLP

cc. Sarah Gobey, Chief Financial Officer  
Cllr George Barton, Chair of the Joint Governance Committee



Alex Bailey  
Chief Executive  
Worthing Borough Council  
Town Hall, Chapel Road , Worthing  
West Sussex, BN11 1HA

23 April 2018

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Dear Alex

## **Annual Audit 2018/19**

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### **Indicative audit fee**

For the 2018/19 financial year, PSAA has set the scale fee for each audited body that have opted into its national auditor appointment scheme. Following consultation on its Work Programme and Scale of Fees, PSAA has reduced the 2018/19 scale audit fee for all opted-in bodies by 23 per cent from the fees applicable for 2017/18.

The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies.

The audit fee covers the:

- Audit of the financial statements
- Value for money conclusion
- Whole of Government accounts.

For Worthing Borough Council our indicative fee is set at the scale fee level. This indicative fee is based on certain assumptions, including:

- The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year
- Officers meeting the agreed timetable of deliverables;
- The operating effectiveness of the internal controls for the key processes identified within our audit strategy;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by Worthing Borough Council;
- There is an effective control environment; and
- Prompt responses are provided to our draft reports.

Meeting these assumptions will help ensure the delivery of our audit at the indicative audit fee which is set out in the table below.

As we have not yet completed our audit for 2017/18, our audit planning process for 2018/19 will continue as the year progresses. Fees will be reviewed and updated as necessary, within the parameters of our contract.

### Summary of fees

	Indicative fee 2018/19 £	Planned fee 2017/18 £	Actual fee 2016/17 £
Total Code audit fee	36,311	47,157	47,157
Certification of housing benefit subsidy claim	N/a	8,184	10,698

The appointment of an auditor to certify the Council's 2018/19 housing benefit subsidy claim is not covered by the PSAA appointment, hence is shown as not applicable here.

Any additional work that we may agree to undertake (outside of the Code of Audit Practice) will be separately negotiated and agreed with you in advance.

### Billing

The indicative audit fee will be billed in four quarterly instalments of £9,078

### Audit plan

Our plan is expected to be issued in December 2018. This will communicate any significant financial statement risks identified, planned audit procedures to respond to those risks and any changes in fee. It will also set out the significant risks identified in relation to the value for money conclusion. Should we

need to make any significant amendments to the audit fee during the course of the audit, we will discuss this in the first instance with the Chief Financial Officer and, if necessary, prepare a report outlining the reasons for the fee change for discussion with the Joint Governance Committee.

We are committed to providing you with a high quality service. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, please contact me as your Engagement Lead. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London, SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute.

Yours sincerely



Paul King

Associate Partner

For and on behalf of Ernst & Young LLP

cc. Sarah Gobey, Chief Financial Officer

Cllr Elizabeth Sparkes, Chair of the Joint Governance Committee





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:**

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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.*

*The Report was prepared solely for the use and benefit of Adur District and Worthing Borough Councils and 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. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.*

*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.

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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

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### Information Technology Governance

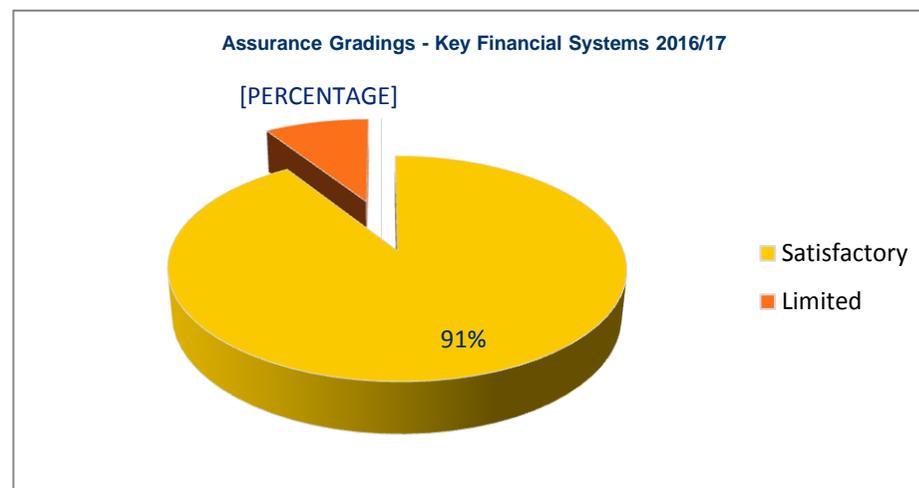
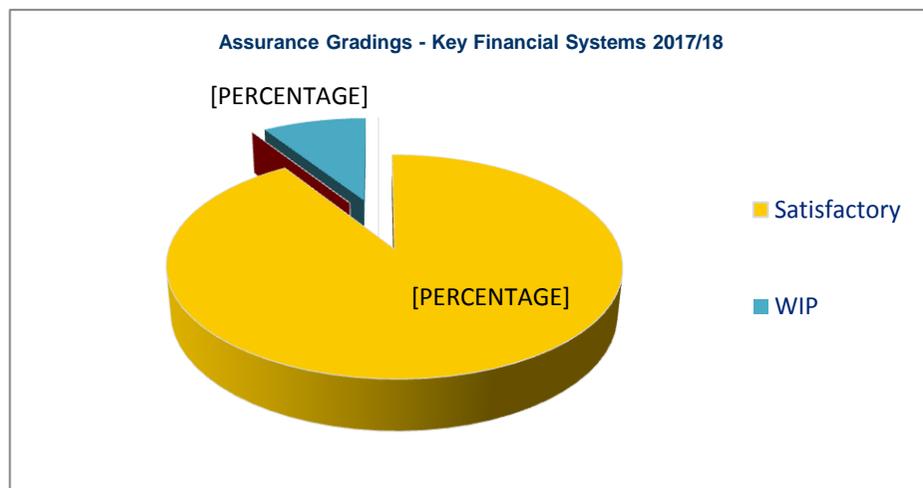
In our opinion the information technology governance of the Council is adequate to support the organisation’s strategies and objectives. This opinion is based on our ongoing programme of computer audits which did not identify any material weaknesses with information technology governance during 2017/18 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.

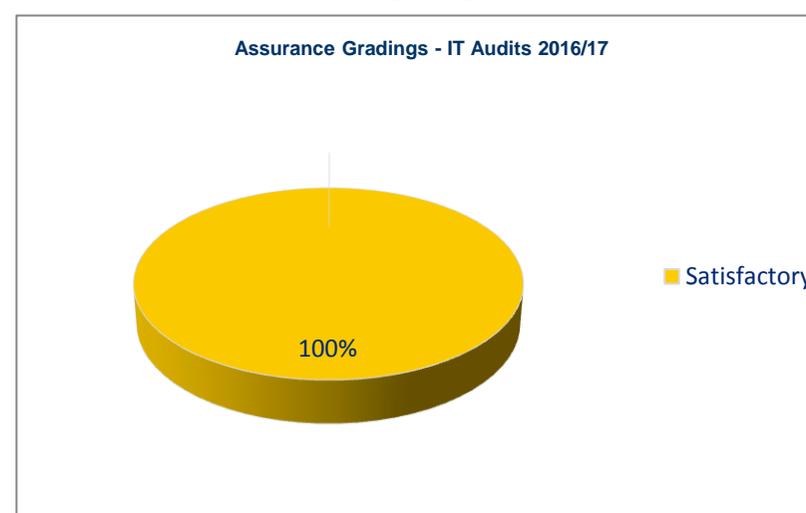
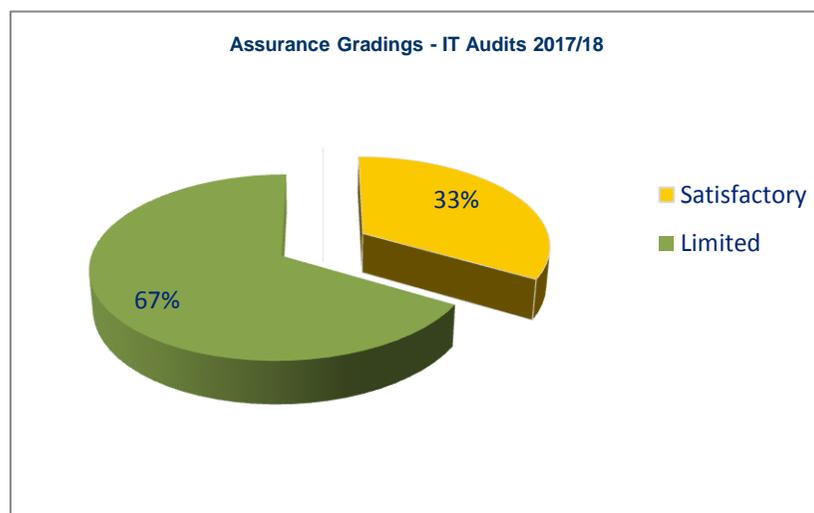
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We have also noted the external auditor's Annual Audit Letter 2016/17, in which Ernst & Young state "As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing 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.</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>
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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Mazars Public Sector Internal Audit Limited is a subsidiary of Mazars LLP. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales to carry out company audit work.





# Worthing Borough 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.*

*The Report was prepared solely for the use and benefit of Adur District and Worthing Borough Councils and 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. Accordingly, any reliance placed on the Report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.*

*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 Worthing Borough 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. 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:



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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.

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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:

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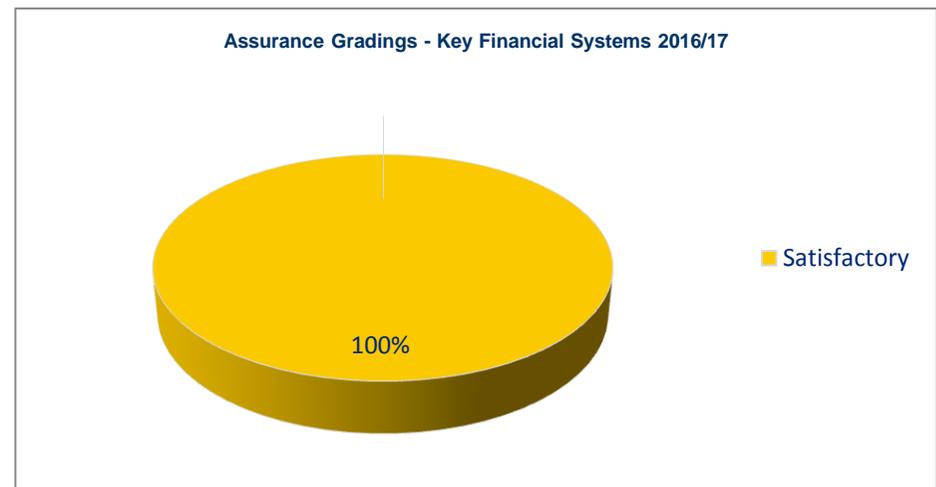
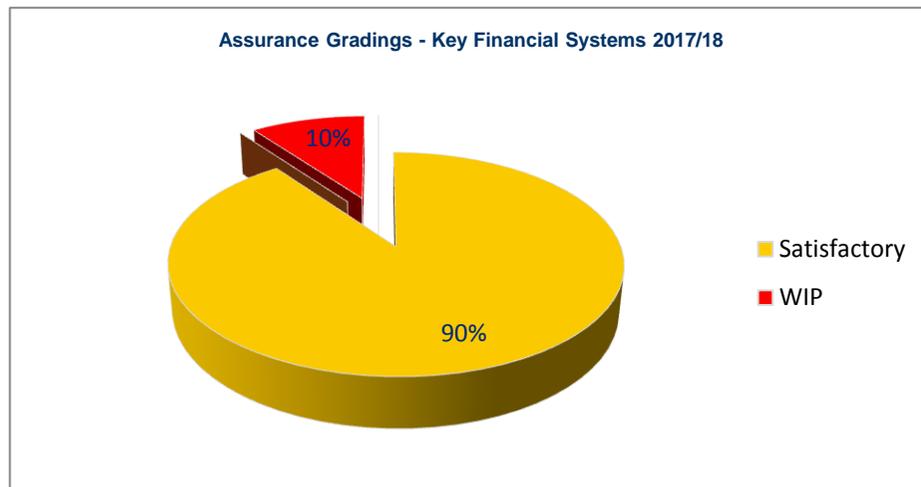
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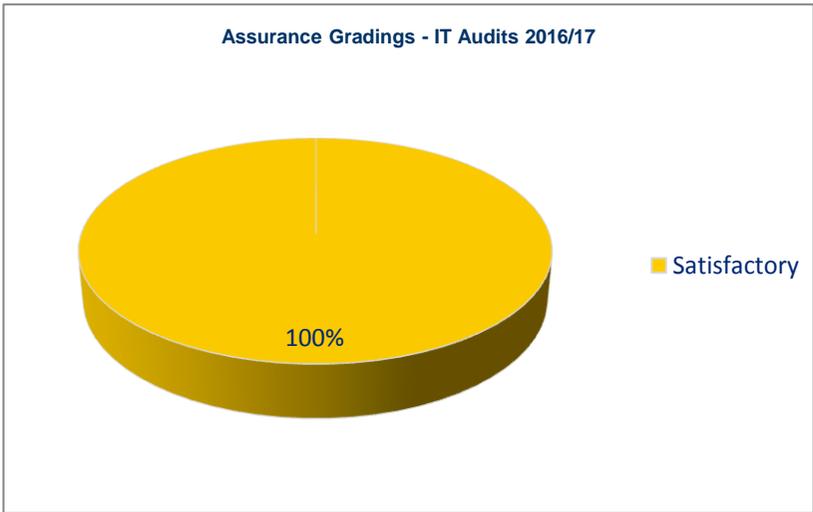
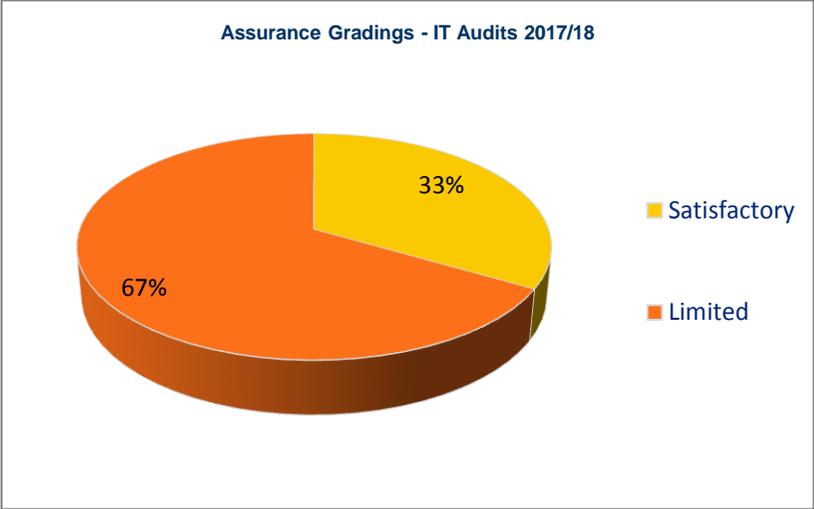
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We have also noted the external auditor’s Annual Audit Letter 2016/17, in which Ernst & Young state “As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing 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



## The Annual Governance Statements 2017/18 – Review and Approval

### Report by the Director for Digital and Resources

#### EXECUTIVE SUMMARY

##### 1. Purpose

- 1.1 To review and agree the Annual Governance Statements for 2017/18.

##### 2. Recommendations

- 2.1 The Joint Governance Committee is asked to:
- (a) note the evidence of compliance with the Code of Corporate Governance and the Action Plan produced to deal with any issues arising from these requirements as set out in Appendix A.
  - (b) approve the Annual Governance Statements for each Council as set out in Appendix B and C to this report

##### 3.0 Background

- 3.1 Corporate governance is the responsibility of all of us and can be defined as:

*“How local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.” - CIPFA/SOLACE*

- 3.2 In late 2007 CIPFA/SOLACE published a framework and guidance on delivering good governance in local government. This framework has recently been updated with revised principles.

### 3.0 Background

3.3 The following are the six core principles in relation to local government as set out in the new framework:

- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
- Ensuring openness and comprehensive stakeholder engagement;
- Defining outcomes in terms of sustainable economic, social, and environmental benefits;
- Determining the interventions necessary to optimise the achievement of the intended outcomes;
- Developing the Council's capability, including the capability of its leadership and the individuals within it;
- Managing risks and performance through robust internal control and strong public financial management
- Implementing good practices in transparency reporting and audit to deliver effective accountability

3.4 The 2007 framework required the production of a Code of Corporate Governance. This was agreed by the former Constitution and Audit Committee in Adur and the former Governance and Audit Committee in Worthing and approved by both Councils in July 2008.

3.5 The revision to the framework is designed to help local government take responsibility for developing and shaping an informed approach to governance, aimed at achieving the highest standards in a measured and proportionate way. The Framework is intended to assist authorities individually in reviewing and accounting for their own unique approach. The overall aim is to ensure that:

- resources are directed in accordance with agreed policy and according to priorities
- there is sound and inclusive decision making
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

3.6 The Annual Governance Statement is a comment on the totality of good corporate governance, and it is a statutory requirement for this statement to be published annually. The Accounts and Audit Regulations 2015 required the publication of the Annual Governance Statement, following consideration of the Statement of Internal Control. The Council's Head of Internal Audit (from Mazars) will provide a written annual report to those charged with governance timed to support the annual governance statement. The Annual Governance Statement must be approved before the Statement of Accounts is approved.

### 3.0 Background

3.7 The Code of Practice on Local Authority Accounting suggests that it is best practice to have the Annual Governance Statement published with Statement of Accounts.

### 4.0 Annual Governance Statements 2017/18

4.1 These are key corporate documents and the most senior member and the most senior officer (Leader and Chief Executive) have joint responsibility as signatories for its accuracy and completeness. The Leader of the each Council and the Chief Executive as signatories of the respective Annual Governance Statements need to ensure that they accurately reflect the governance framework for which they are responsible. The guidance advises that it should be owned by all senior officers and members of the authority and that it is essential that there is buy in at the top level of the organisation.

4.2 In order to achieve this they are likely to rely on many sources of assurance, such as:

- ◆ directors and managers;
- ◆ the responsible financial officer;
- ◆ the monitoring officer;
- ◆ members;
- ◆ the head of internal audit;
- ◆ performance and risk management;
- ◆ third parties, e.g. partnerships;
- ◆ external audit and other review agencies

4.3 The rough guide to preparing the Annual Governance Statement shows "*the need for a review body in the process, such as an audit committee or scrutiny role who should be charged with critically reviewing the AGS and its supporting documentation*". The constitution indicates that this function should be dealt with by this Committee, and this is seen as the most satisfactory means of meeting the requirements for a critical review of the Annual Governance Statement.

4.4 There is no definitive way of producing the Annual Governance Statement. Professional guidance indicates that at the centre of the review process should be a corporate group who will be given ultimate responsibility for drafting the statement, evaluating assurances and the supporting evidence. This group should review whether or not there is consistency with existing policies and the authorities' governance framework.

#### **4.0 Annual Governance Statements 2017/18**

4.5 An officer working group are responsible for ensuring that the Annual Governance Statements accurately reflect the governance arrangements of the two Councils. The membership of the group comprises of:

- Monitoring Officer
- Section 151 Officer
- Organisational Development Officer
- Head of Wellbeing
- Democratic Services Manager
- Head of Business and Technical Services
- Policy Officer

4.6 A reference group of Councillors is used to give feedback on the preparation of the draft statement:

- the Leader of both Councils
- the Executive Member for Resources
- the Chair of the Joint Overview and Scrutiny Committee
- the Chair and Members of the Joint Governance Committee

4.7 As part of the review process, each of the Councillors referred to in paragraph 3.6 above were written to in April 2017 seeking feedback on issues which may have a bearing on the completion of the review of the Annual Governance Statement. Any responses received as part of the 2017 review process have been incorporated into the proposed statements.

4.8 The Officer's Governance Working Group has reviewed the current framework and action plan on issues required to improve or strengthen the Council's Governance Framework. The outcome of the review is shown in attached Governance Action Plan Progress Report as set out in the attached Appendix B. The traffic light system of reporting has been used to identify progress on dealing with the actions, and identifying any new action to take forward.

4.9 Following the identification of issues within the Housing Repair service last year by Internal Audit, an officer working group was convened to review a number of processes and procedures associated with the Housing Revenue Account. The work of the group has highlighted a number of issues requiring disclosure in the Annual Governance Report.

## **5.0 Internal Audit Annual Report 2017/18**

- 5.1 Each year the Head of Internal Audit (from Mazars who provide the Councils Internal Audit Service) produces an Internal Audit Annual Report which summarises the work that Internal Audit has undertaken during the previous financial year and the control environment key themes which have been identified across the authority. The purpose of this report is to provide an annual assurance statement on the adequacy and effectiveness of the Authority's systems of governance, risk management and internal control. A report is produced separately for Adur District Council and Worthing Borough Council.
- 5.2 For 2017/18 the Head of Internal Audit's Internal Audit Annual reports state that based on the Internal Audit work undertaken in 2017/18, it is the Head of Internal Audit's opinion that they can provide Satisfactory Assurance that the system of internal control in place at both Adur District and Worthing Borough Councils for the year ended 31<sup>st</sup> March 2018 accords with proper practice, except for the control environment issues as documented in Appendix 1 to that report (See separate report on this agenda). The assurance is broken down further between financial and non-financial systems where the Head of Internal Audit has commented as follows: "Our overall opinion is that internal controls within financial and operational systems operating throughout the year are fundamentally sound."
- 5.3 For the 2017/18 Internal Audit Annual Report, the Head of Internal is also required to give an opinion on Information Technology Governance and in his report has stated "In our opinion the information technology governance of the Councils is adequate to support the organisation's strategies and objectives".
- 5.4 The following are extracts from the Head of Internal Audit's (Mazars) Internal Audit Annual Report.

### **Adur District Council**

"We have noted a reduction in Adur District Council's control environment during the audit year. During the 2017/18 year, some 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 'Nil assurance' opinion in 2017/18 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 3 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 the Head of Housing, the remaining two audits are still in progress."

### **Worthing Borough Council**

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 22 (81.5%) in the prior year. No 'Full assurance' opinions were issued in 2017/18 compared to one in 2016/17. We are pleased to report that we have not issued any 'Nil assurance' opinions in 2017/18. We issued 4 (21.1%) reports with 'limited assurance' opinions compared with 3 (11.1%) in the previous year.

## **5.0 Internal Audit Annual Report 2017/18**

5.5 Key themes arising from the internal audit work across the Councils relate to:

- The continued lack of IT Disaster Recovery Plans, although it is acknowledged that this is being worked on.
- Further procurement and contract issues, including non-compliance with Council Contract Standing Orders, contract management and information retention.

In addition, the Head of Internal Audit has identified the following issues which related solely to Adur District Council:

- Poor control over the identification, variation, post inspection and approval of works to Adur Homes void properties.
- A lack of policies and inadequate procedures in respect of the calculation and recovery of financial charges to Leaseholders, particularly for major works.

Your officers suggest that the above items are significant and should be incorporated into the Annual Governance Statements.

## **6.0 Legal Implications**

6.1 Paragraph 6 of the Accounts and Audit Regulations 2015 sets out the legal requirements for each authority to produce an Annual Governance Statement (AGS). The Annual Governance Statement is a comment on the totality of good corporate governance, and it is a requirement for this statement to be published alongside the statutory annual statement of accounts. The draft Annual Governance Statement for Adur District Council is attached to this report as Appendix C, and for Worthing at Appendix D. There is no longer a requirement to approve a separate AGS for the Joint Committee which no longer has a separate Statement of Accounts.

6.2 The Head of Legal Services in her role as the Council's Monitoring Officer has been closely involved in the preparation, review and publication of the Action Plan and the draft Annual Governance Statement.

## **7.0 Financial Implications**

7.1 There are no direct costs or other financial implications involved with the production of these statements.

7.2 The Chief Financial Officer in her role as the Council's S.151 Officer has been closely involved in the preparation, review and publication of the Action Plan and the draft Annual Governance Statement.

## Local Government Act 1972

**Background Papers:** Delivering Good Governance in Local Government Framework & Guidance Notes for English Authorities; CIPFA/SOLACE 2007

Delivering Good Governance in Local Government Framework & Guidance Notes for English Authorities; CIPFA/SOLACE 2016

Accounts and Audit Regulations 2011  
Accounts and Audit Regulations 2015

The role of the Chief Financial Officer in public service organisations - CIPFA

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## 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 contains an annual review of the Councils' governance arrangements.

## A. Behaving with integrity, demonstrating a strong commitment to ethical values, and respecting the rule of law

Action Code	Title	Description	Assigned To	Due Date	Latest Note	Performance Status
A1/01	Behaving with integrity	Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation	Susan Sale	Ongoing	The Councils each have an up to date Code of Conduct for Members and an Officers Code of Conduct.  The Code of Conduct is reviewed regularly.	Progressing well (Green)
A1/02	Behaving with integrity	Ensuring members take the lead in establishing specific standard operating principles or values of the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles).	Susan Sale / Amy Newham	Ongoing	The Joint Governance Committee is responsible for approving the Code of Conduct for members. Adherence to the Code of Conduct is part of the Terms and Conditions for all staff.  To supplement this, there is a 'Staff and Managers Behaviours Standard'.  The Council also has a suite of policies to address concerns regarding compliance with the Council's expected standards, including: <ul style="list-style-type: none"> <li>• Sickness Management</li> <li>• Disciplinary</li> <li>• Performance Support</li> </ul>	Progressing well (Green)
A1/04	Behaving with integrity	Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively	Susan Sale / Sarah Gobey / Heidi Christmas	Ongoing	The Council has up to date registers of interests, gifts and hospitality.  The Whistleblowing policy is in place and has been made available. A updated version of the policy is due to be considered by the Joint Governance Committee in May 2018	Progressing well (Green)

## A. Behaving with integrity, demonstrating a strong commitment to ethical values, and respecting the rule of law

Action Code	Title	Description	Assigned To	Due Date	Latest Note	Performance Status
A2/03	Demonstrating strong commitment to ethical values	Developing and maintaining robust policies and procedures which place emphasis on agreed ethical values.	Sarah Gobey/ Roger Dennis	30 <sup>th</sup> June 2018	A new procurement strategy was considered by the Joint Strategic Committee in June 2017 which outlines the Councils approach to sustainable procurement which fully considers social value. An update of the progress against this strategy is due to be considered by the Committee in June	Progressing well (Green)
A2/04	Demonstrating strong commitment to ethical values	Statement of business ethics communicates commitment to ethical values to external suppliers	Sarah Gobey / Roger Dennis	30 <sup>th</sup> June 2018	A procurement charter which illustrates the Councils' commitments to responsible procurement and social value has been drafted and will be tabled at JSC for approval in June 2018. Upon adoption we will encourage key suppliers to sign up the charter.	Being closely monitored (Amber)
A3/02	Respecting the rule of law	Creating conditions to ensure that the statutory officers, other key post holders and members are able to fulfil their responsibilities in accordance with legislative and regulatory requirements	Paul Brewer	Ongoing	The CFO is not a member of the Corporate Leadership team and the Councils do not comply with the recommended guidance on the role of the Chief Financial Officer in Local Government.  However the CFO does have access to the Chief Executive and the leadership team as needed. The CFO has regular meetings with the CEO.	Being closely monitored (Amber)

## B. Ensuring openness and comprehensive stakeholder engagement

Action Code	Title	Description	Assigned To	Due Date	Latest Note	Performance Status
B1/01	Engaging comprehensively with institutional stakeholders	Openness	Sarah Gobey / Emma Thomas	31 <sup>st</sup> May 2018	Within the new framework there is a requirement for an Annual Report.  The Council will develop the 'narrative report' contained within the Statement of Accounts to meet the key requirements of an Annual Report as part of the 2017/18 statement of accounts.	Being closely monitored (Amber)

## B. Ensuring openness and comprehensive stakeholder engagement

Action Code	Title	Description	Assigned To	Due Date	Latest Note	Performance Status
B1/01	Engaging comprehensively with institutional stakeholders	Engaging comprehensively with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainable	Alan Higgins/ Jacqui Cooke/ Mike Gilson	31 <sup>st</sup> March 2018	<p><i>Platforms for our Places</i> is underpinned by the need to work with and develop our relationship with our partners and stakeholders to deliver specific commitments and develop our places more generally. Partners we will or are engaging with to deliver specific projects and activities are identified.</p> <p><i>Platforms for our Places</i> also makes a specific commitment to review the Councils' community engagement principles - this work is currently being undertaken and being lead by the Head of Wellbeing and the Chief Executive's Policy Officer. In addition there are a variety of commitments about developing our role as a trusted partner with partners and stakeholders.</p> <p>The Council does not currently have a formal written communications strategy. However we have a dynamic strategic approach which ensures openness and engagement by reaching a wider audience than ever before. On average our stories are read 80,000 times a week.</p>	Being closely monitored (Amber)

## C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

Action Code	Title	Description	Assigned To	Due Date	Latest Note	Performance Status
C1 /01	Defining outcomes	Having a clear vision which is an agreed formal statement of the organisation's purpose and intended outcomes containing appropriate performance indicators, which provides the basis for the organisation's overall strategy, planning and other decisions	Alan Higgins	Ongoing	<p>The commitments and activities identified in <i>Platforms for our Places</i> is currently being reviewed.</p> <p>A risk and sustainability assessment has replaced the schedule of other matter in the report templates for the Joint Strategic Committee, Joint Overview and Scrutiny Committee and Joint Governance Committee, which considers economic, social, environmental and governance issues on a matter being considered.</p> <p>The performance framework associated with <i>Platforms for our Places</i> will be further developed in light of changes to the business planning processes.</p>	Progressing well (Green)

## ADUR &amp; WORTHING GOVERNANCE PROGRESS REPORT 2017/18

## E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

Action Code	Title	Description	Assigned To	Due Date	Latest Note	Performance Status
E1/02	Developing the entity's capacity	Improving resource use through the appropriate application of techniques such as benchmarking and other options in order to determine how the authority's resources are allocated so that outcomes are achieved effectively and efficiently.	Paul Brewer	Ongoing	VFM opinion audit judgement reviewed on an annual basis and the opinion is positive.  A number of services are regionally benchmarked and others nationally e.g. Adur Homes, Fraud, Leisure. Cost comparisons with other Councils undertaken.  VFM measured as part of procurement.	Progressing well(Green)
E1/04	Developing the entity's capacity	Developing and maintaining an effective workforce plan to enhance strategic allocation of resources	Heidi Christmas / Amy Newham	31 <sup>st</sup> March 2019	During 2018/19 a workforce plan will be developed. This will also be used to address succession planning and talent management.  New talent management initiatives are currently being rolled out including a new management training programme.	Being closely monitored (Amber)
E2/02	Developing the capability of the entity's leadership and other individuals	Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making body  - Scheme of delegations is updated at least annually in the light of legal and organisational changes	Susan Sale	Ongoing	Scheme of delegations has been revised and a record of the amendments has been reviewed by the Joint Governance Committee.  Refreshed Standing Orders recommended to Council for approval at JGC March 2017.	Progressing well(Green)
			Sarah Gobey/ Susan Sale	Ongoing	Training continues to be rolled out to all officers involved in procuring items of £5k or more from September onwards.  A new toolkit will be rolled out shortly to assist managers in complying with the Contract Standing Orders and in delivering the outcomes sought in Platforms for our Places.	Progressing well(Green)

## E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

Action Code	Title	Description	Assigned To	Due Date	Latest Note	Performance Status
E2/02	Developing the capability of the entity's leadership and other individuals	- To review and refresh the financial regulations.	Sarah Gobey	Ongoing	Revised financial regulations were approved by Joint Governance and Audit Committee in March 2014 and subsequently approved by both Councils in April.  There is an annual review to pick up any outstanding audit recommendations and if appropriate revised regulations are taken to Committee for approval.	Being closely monitored (Amber)

Action Code	Title	Description	Assigned To	Due Date	Latest Note	Performance Status
E2 / 04	Developing the capability of the Councils leadership and other individuals	Ensuring members have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis	Mary D'Arcy / Susan Sale	Ongoing	Evaluation of the effectiveness of member training currently being completed for discussion between Head of Wellbeing and Leaders (as portfolio holders for Member Services). A revised training plan is currently being considered.  Member training includes skills in areas of chairmanship, standards. Planning, licensing and finance.  The councils have introduced a new member induction programme from May 2018 with a new programme of on-going member development,	Progressing well(Green)
E2/08	Developing the capability of the entity's leadership and other individuals	Taking steps to consider the leadership's own effectiveness and ensuring leasers are open to constructive feedback from peer review and inspections.  - Reviewing individual member performance on a regular basis taking account of their attendance and considering any training or development needs.	Mary D'Arcy	Ongoing	There is no formal process for carrying out development reviews for Members.  A new training programme has been developed for all members which will be rolled out over the forthcoming year.  Democratic Services also ensure that planning and licensing training is kept up to date which ensures that performance in determination of quasi-judicial determinations is good.	Being closely monitored(Amber)

**E. Developing the entity's capacity, including the capability of its leadership and the individuals within it**

Action Code	Title	Description	Assigned To	Due Date	Latest Note	Performance Status
E2/09	Developing the capability of the entity's leadership and other individuals	Holding staff to account through regular performance reviews which take account of training or development needs	Heidi Christmas	Ongoing	<p>A new 1-2-1 and appraisal process has been developed. The new process includes regular consideration of training needs and wellbeing issues.</p> <p>A compulsory training programme on the new process is being rolled out to all managers.</p> <p>All Heads of Service have recently completed training plans for their teams which seeks to ensure that training needs are being addressed.</p>	Being closely monitored (Amber)

**F. Managing risks and performance through robust internal control and strong public financial management**

Action Code	Title	Description	Assigned To	Due Date	Latest Note	Performance Status
F2/02	Managing Performance	Monitoring service delivery effectively including planning, specification, execution and independent post implementation review.	Paul Brewer / Mark Lowe	Ongoing	Performance is reported regularly to CLT via the performance dashboard	Progressing well (Green)
F2/03	Managing Performance	Ensuring an effective scrutiny or oversight function is in place which encourages constructive challenge and debate on policies and objectives before, during, and after decisions are made thereby enhancing the organisation's performance.	Paul Brewer / Mark Lowe	Annual / Ongoing	Annual report on scrutiny produced providing evidence of improvements of changes resulting from the work of the Joint Overview and Scrutiny Committee. An annual report for the work of JOSOC is next due to be considered by the committee on the 21 <sup>st</sup> June 2018.	Progressing well (Green)

**F. Managing risks and performance through robust internal control and strong public financial management**

Action Code	Title	Description	Assigned To	Due Date	Latest Note	Performance Status
F2/05	Managing Performance	<p>Ensuring there is consistency between specification stages and post implementation reporting</p> <ul style="list-style-type: none"> <li>- Good procurement and contract management arrangements are in place</li> </ul>	Sarah Gobey/ Roger Dennis	Ongoing	<p>The Contract Standing Orders have been reviewed and a new training programme continues to be rolled out .</p> <p>Procurement and Social Value toolkits have been developed to help staff purchase wisely and deliver additional social benefits to our residents and communities.</p> <p>Guidance on contract and supplier relationship management has been developed and will be supported through an ongoing officer training programme.</p>	Progressing well (Green)
F3/05	Robust Internal control	<p>Ensuring an audit committee or equivalent group or function which is independent of the executive and accountable to the governing body:</p> <ul style="list-style-type: none"> <li>- provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment</li> </ul>	Sarah Gobey	Ongoing	<p>Effective audit scrutiny in place. Councillors can attend training. Continuing developing knowledge and skills of the Councillors.</p> <p>A review of the effectiveness of the Audit Committee was last considered by the Joint Governance Committee in June 2017.</p>	Progressing well (Green)

F. Managing risks and performance through robust internal control and strong public financial management

Action Code	Title	Description	Assigned To	Due Date	Latest Note	Performance Status
F3/05	Robust Internal control	- that its recommendations are listened to and acted upon	Sarah Gobey / Pat Stothart	Ongoing	<p>Head of Internal Audit is now reporting to Corporate Leadership Teams to raise profile of issues. List of outstanding recommendations is being circulated to Heads of Service for review and action.</p> <p>Heads of Service not responding to audit queries are now being asked to attend JGC.</p> <p>A new audit recommendation tracking system has been developed with assistance from the digital team. This will enable better tracking of audit recommendations in the future.</p>	Progressing well(Green)
F4/01	Managing data	Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data	Paul Brewer/ Jan Jonker	Ongoing	<p>The Councils are actively reviewing their policies and procedures in readiness for GDPR (25th May 2018), which will result in a new suite of policies.</p> <p>GDPR Leads have been assigned to advise &amp; guide each service area across the Councils, and a GDPR consultant has been brought in to ensure policies and procedures are accurate and proportionate for the safe collection, storage, sharing, and use of personal data.</p> <p>Two audits have been carried out to assess our readiness of specific services and e-Training has been rolled out to all employees to ensure the Councils' staff understand GDPR requirements and their obligations in respect to storing and processing personal data.</p>	Being closely monitored (Amber)
F4/02	Managing data	Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies.	Paul Brewer/ Jan Jonker	Ongoing	<p>In line with PSN changes, GCF services were unbundled, giving authorities the freedom to implement their own solutions, whilst meeting the requirements of PSN code of connection. GCSX Mail is provided through our secure Google mail solution, which was applied in May 2017 and a dedicated GCSX circuit is used for communications with Government bodies.</p> <p>In March 2018 a PSN Health Check was carried out, the initial feedback from this was positive. The Councils are in the process of carrying out and planning remedial action in readiness for the PSN submission at the end of May 18.</p> <p>The Councils implemented a new DNS (Domain Name Service) through an approved National Cyber Security Centre (NCSC) facility in 2017. (NCSC) facility as soon as it is available (May/June2017)</p>	Progressing well (Green)

**G. Implementing good practices in transparency reporting and audit to deliver effective accountability**

Action Code	Title	Description	Assigned To	Due Date	Latest Note	Performance Status
G2/02	Implementing good practices in reporting	Reporting at least annually on performance, value for money and the stewardship of its assets	Sarah Gobey / Emma Thomas	31 <sup>st</sup> May 2018 and then on-going	Formal annual report which includes key points raised by scrutineers and service users' feedback on service delivery is now required  This is a new requirement introduced in 2016/17. The narrative report will be further developed to meet the requirements of an annual report.	Progressing well (Green)

## **ADUR DISTRICT COUNCIL ANNUAL GOVERNANCE STATEMENT**

### ***SCOPE OF RESPONSIBILITY***

Adur District Council is responsible for ensuring that 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. The 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.

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government 2016 (the Framework). The Framework expects that local authorities will put in place proper arrangements for the governance of their affairs and which facilitate the effective exercise of functions and ensures that the responsibilities set out above are met.

At least once a year, Local Authorities are statutorily required to review their governance arrangements. The preparation and publication of an Annual Governance Statement in accordance with the Framework fulfils this requirement.

A copy of the code is on our website at [www.adur.gov.uk](http://www.adur.gov.uk) or [www.adur-worthing.gov.uk](http://www.adur-worthing.gov.uk) or can be obtained from the Council. This statement explains how Adur District Council has complied with the code and also meets the requirements of regulation 6 of the Accounts and Audit Regulations 2015 in relation to the publication of a statement on internal control.

### ***THE PURPOSE OF THE GOVERNANCE FRAMEWORK***

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the financial year ended 31<sup>st</sup> March 2018 and up to the date of approval of the statement of accounts.

### ***THE GOVERNANCE FRAMEWORK***

The key elements of the systems and processes that comprise the Council's governance arrangements are summarised below:

# ADUR DISTRICT COUNCIL ANNUAL GOVERNANCE STATEMENT

## Key elements of the Council's Governance Framework

### Council, Executive and Leader

- Provides leadership and develops the Council's vision of its purpose and intended outcome for residents and service users.
- Develops the vision into objectives for the Council and its partnerships

### Decision making

- All decisions are made in the open
- Decisions are recorded on the Council website
- The scheme of delegations which details the decision making arrangements is regularly updated
- The monitoring Officer ensures that all decisions made comply with relevant laws and regulations

### Risk Management

- Risk registers identify both operational and strategic risks
- Key risks and opportunities are considered by the Corporate Leadership Team every quarter
- Risks and opportunities are reported to the Joint Governance Committee every quarter and inform the work of the internal audit team

### Scrutiny and Review

- The Joint Overview and Scrutiny Committee reviews Council policy and can challenge the decisions made.
- The Joint Governance Committee undertakes all of the core functions of an audit committee.
- The Joint Governance Committee is responsible for review and approving the Council's Governance arrangements and undertakes the role of a Standards Committee ensuring that members comply with the Code of Conduct

### Corporate Leadership Team

- The Council's Corporate Leadership Team comprises of the Chief Executive and three Directors who are responsible for the delivery of the Council's aims and objectives
- The head of paid service is the Chief Executive who is responsible for all Council Staff and leading an effective Corporate Leadership Team.
- CLT seeks advice from the Council's Chief Financial Officer who is responsible for safeguarding the Council's financial position
- CLT seeks advice from the Monitoring Officer who is the Head of Legal Services. They are responsible for enduring legality and promoting high standards of public conduct.

The operation of this authority's governance framework is described in the sections below. This sets out how the Council has complied with the seven principles set out in the new Framework during 2017/18.

# ADUR DISTRICT COUNCIL ANNUAL GOVERNANCE STATEMENT

## **THE OPERATION OF THE GOVERNANCE FRAMEWORK**

The governance framework gives the Members and the Organisation, in a number of ways, the confidence and certainty that what needs to be done is being done. The chart below provides a high level overview of the Council's key responsibilities, how they are met and the means by which assurance is delivered.

WHAT WE NEED TO DO	HOW WE DO IT
<p><b>Principle A</b> Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law</p>	<ul style="list-style-type: none"> <li>• The Constitution</li> <li>• The Monitoring Officer</li> <li>• Section 151 Officer</li> <li>• Codes of conduct</li> <li>• Whistleblowing Policy</li> <li>• Bribery Act 2010 policy guidance</li> <li>• Corporate anti-fraud work</li> <li>• Procurement Strategy</li> </ul>
<p><b>Principle B</b> Ensuring openness and comprehensive stakeholder engagement</p>	<ul style="list-style-type: none"> <li>• Consultations</li> <li>• Terms of reference for partnerships</li> <li>• Freedom of information requests</li> <li>• Complaints procedure</li> </ul>
<p><b>Principle C</b> Defining outcomes in terms of sustainable economic, social, and environmental benefits</p>	<ul style="list-style-type: none"> <li>• Organisational goals</li> <li>• Service planning</li> <li>• Performance Management</li> <li>• Community Strategy</li> <li>• Procurement Strategy</li> </ul>
<p><b>Principle D</b> Determining the interventions necessary to optimise the achievement of the intended outcomes</p>	<ul style="list-style-type: none"> <li>• Service planning</li> <li>• Performance Management</li> <li>• Options appraisals</li> <li>• Whole life costing</li> </ul>
<p><b>Principle E</b> Developing the Council's capability, including the capability of its leadership and the individuals within it</p>	<ul style="list-style-type: none"> <li>• Robust interview and selection process</li> <li>• Training and development</li> <li>• Workforce planning</li> <li>• Succession planning</li> <li>• Performance development reviews</li> <li>• Talent management</li> <li>• HR Policies &amp; procedures</li> </ul>
<p><b>Principle F</b> Managing risks and performance through robust internal control and strong public financial management</p>	<ul style="list-style-type: none"> <li>• Effective member scrutiny function</li> <li>• Financial management and MTFP</li> <li>• Corporate risk register</li> <li>• Annual audit plan</li> <li>• Information Security policies</li> <li>• Compliance with the requirements of the Public Service Network (PSN)</li> </ul>
<p><b>Principle G</b> Implementing good practices in transparency reporting and audit to deliver effective accountability</p>	<ul style="list-style-type: none"> <li>• Reports are held on the website</li> <li>• Annual audited financial statements are publically available</li> <li>• Annual Governance Statement</li> <li>• Effective Internal Audit Service</li> </ul>

# ADUR DISTRICT COUNCIL ANNUAL GOVERNANCE STATEMENT

## ***THE OPERATION OF THE GOVERNANCE FRAMEWORK***

### **HOW WE KNOW WHAT NEEDS TO BE DONE IS BEING DONE**

Joint Governance Committee function and self-assessment;  
Corporate Governance Group; Scrutiny Reviews;  
Review of progress made in addressing issues; Performance monitoring;  
Review of compliance with corporate governance controls;  
Review of accounts; Employee opinion surveys; Internal audits and external audits;  
Inspections and recommendations made by external agencies.

The following sections look at how the Council delivers governance principles in more detail:

#### **A. BEHAVING WITH INTEGRITY, DEMONSTRATING STRONG COMMITMENT TO ETHICAL VALUES, AND RESPECTING THE RULE OF LAW**

##### ***The Constitution***

The constitution sets out the how the Council operates; the roles and responsibilities of members, officers and the scrutiny and review functions; how decisions are made; and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. Although there is no longer a statutory requirement, this Council continues with this arrangement internally and is in the process of updating the constitution to ensure it reflects current practice. As well as working together as a single organisation and with our neighbour Worthing borough Council, members and officers continue to improve their working relations with other organisations, both locally and sub-nationally, to achieve a common purpose of improved efficiency and effectiveness.

##### ***The Monitoring Officer***

The Monitoring Officer is a statutory function and ensures that the Council, its officers, and its elected members, maintain the highest standards of conduct in all they do. The Monitoring Officer ensures that the Council is compliant with laws and regulations, as well as internal policies and procedures. She is also responsible for matters relating to the conduct of Councillors and Officers, and for monitoring and reviewing the operation of the Council's Constitution.

##### ***Section 151 Officer***

Whilst all Council Members and Officers have a general financial responsibility, the s151 of the Local Government Act 1972 specifies that one Officer in particular must be responsible for the financial administration of the organisation and that this Officer must be CCAB qualified. This is typically the highest ranking qualified finance officer and in this Council this is Sarah Gobey, who is also the Chief Financial Officer.

# ADUR DISTRICT COUNCIL ANNUAL GOVERNANCE STATEMENT

## ***THE OPERATION OF THE GOVERNANCE FRAMEWORK***

### **A. BEHAVING WITH INTEGRITY, DEMONSTRATING STRONG COMMITMENT TO ETHICAL VALUES, AND RESPECTING THE RULE OF LAW**

#### ***Codes of Conduct***

Codes of Conduct exist for both staff and members.

All Councillors have to keep to a Code of Conduct to ensure that they maintain the high ethical standards the public expect from them. If a complainant reveals that a potential breach of this Code has taken place, Adur District Council or Worthing Borough Council may refer the allegations for investigation or decide to take other action.

On joining the Council, Officers are provided with a contract outlining the terms and conditions of their appointment. All staff must declare any financial interests, gifts or hospitality on a public register. Additionally, members are expected to declare any interests at the start of every meeting that they attend in accordance with Standing Orders. Members and officers are required to comply with approved policies.

#### ***Whistleblowing***

The Council is committed to achieving the highest possible standards of openness and accountability in all of its practices. The Council's Whistleblowing policy (revised in 2014) <http://awintranet/media/media.125134.en.pdf> sets out the options and associated procedures for Council staff to raise concerns about potentially illegal, unethical or immoral practice and summarises expectations around handling the matter.

#### ***Anti-fraud, bribery and corruption***

The Council is committed to protecting any funds and property to which it has been entrusted and expects the highest standards of conduct from Members and Officers regarding the administration of financial affairs.

The Councils have a Corporate Anti-Fraud Team which acts to minimise the risk of fraud, bribery, corruption and dishonesty and recommends procedures for dealing with actual or expected fraud.

Guidance and policies for staff on the Bribery Act 2010 and the Prevention of Money Laundering are found on the intranet.

# ADUR DISTRICT COUNCIL ANNUAL GOVERNANCE STATEMENT

## ***THE OPERATION OF THE GOVERNANCE FRAMEWORK***

### **B. ENSURING OPENNESS AND COMPREHENSIVE STAKEHOLDER ENGAGEMENT**

#### ***Transparency***

The Council and its decisions are open and accessible to the community, service users, partners and its staff.

All reports requiring a decision are considered by appropriately qualified legal, and finance staff with expertise in the particular function area before they are progressed to the relevant Committee or group. This Council wants to ensure that equality considerations are embedded in the decision-making and applied to everything the Council does. To meet this responsibility, equality impact assessments are carried out on all major council services, functions, projects and policies in order to better understand whether they impact on people who are protected under the Equality Act 2010 in order to genuinely influence decision making.

All reports and details of decisions made can be found on the Council's website at <https://www.adur-worthing.gov.uk/meetings-and-decisions/>

#### ***Freedom of Information enquiries***

The Freedom of Information Act 2000 (Fol) gives anyone the right to ask for any information held by a public authority, which includes this Council, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so.

#### ***Engagement and communication***

It is recognised that people need information about what decisions are being taken locally, and how public money is being spent in order to hold the council to account for the services they provide. The views of customers are at the heart of the council's service delivery arrangements.

Adur and Worthing Councils have developed a Consultation Policy which can be found at [About consultation in Adur & Worthing - Adur & Worthing Councils](#) which reflects the council's ambition to enable and empower communities to shape the places within which they live and work, influence formal decision making and make informed choices around the services they receive.

To be effective this policy aims to inspire and support a genuine two-way dialogue with all sections of the community and other stakeholders. There are a number of ways people can get involved and connect with the council. Current consultations can be found on the Councils website at [www.adur-worthing.gov.uk](http://www.adur-worthing.gov.uk). Local people have the option to engage in a dialogue through: social media sites (including Facebook and twitter), petition schemes, stakeholder forums, tenant associations, council meetings (open to the public), and their local Councillor.

#### ***Consultations***

Internally, a consultation toolkit has been developed to guide council staff through the consultation process. The agreed process ensures that engagement activity is relevant, accessible, transparent and responsive. To increase awareness, consultations are proactively promoted. A list of current district-wide consultations is available on the council website.

# ADUR DISTRICT COUNCIL ANNUAL GOVERNANCE STATEMENT

## ***THE OPERATION OF THE GOVERNANCE FRAMEWORK***

### **B. ENSURING OPENNESS AND COMPREHENSIVE STAKEHOLDER ENGAGEMENT**

#### ***Complaints***

There is a clear and transparent complaints procedure for dealing with complaints. The Council operates a three-stage complaints procedure and promises to acknowledge complaints within 5 working days and respond fully within 10 working days for first-stage complaints, and 15 working days for second-stage complaints. If complainants remain dissatisfied they have the right to refer the matter to the Local Government Ombudsman.

#### ***Partnership working***

In addition to the partnership between Adur and Worthing (<http://www.adur-worthing.gov.uk/about-the-councils/partnership-working/>), this Council is involved in a number of different partnerships, at different levels – each with their own set of terms of reference for effective joint working.

### **C. DEFINING OUTCOMES IN TERMS OF SUSTAINABLE ECONOMIC, SOCIAL, AND ENVIRONMENTAL BENEFITS**

#### ***Joint Corporate Priorities***

The Councils have recently agreed a new plan 'Platforms for our Places' that sets out Adur & Worthing Councils' ambition for our places' and our communities' prosperity and wellbeing over three years (2017-2020).

The Councils have agreed programmes of work for 2017/18 under five themes or 'Platforms' which set out their aspirations for the town.

- **Our financial economies**
- **Our social economies**
- **Stewarding our natural resources**
- **Services and solutions for our places**
- **Leadership of our places**

Further details of how these priorities will be achieved are included in a programme of work which can be found on the internet at [Platforms for our Places - Adur & Worthing Councils](#)

The Council has received regular reports on the progress in delivering the outcomes set out within Platforms for our Places. There is a mid-term review underway, and strategic actions are being assessed and refreshed for approval in July 2018.

#### ***Community Strategy***

The Waves Ahead Partnership is a strategic partnership for Adur and Worthing. The Partnership, non-statutory since 2010, is made up of key interested parties from the public and private sectors, community, voluntary and faith-based groups and local residents. The aim is to work more effectively through collaboration, adding value to local initiatives, projects and ideas.

# ADUR DISTRICT COUNCIL ANNUAL GOVERNANCE STATEMENT

## ***THE OPERATION OF THE GOVERNANCE FRAMEWORK***

### **C. DEFINING OUTCOMES IN TERMS OF SUSTAINABLE ECONOMIC, SOCIAL, AND ENVIRONMENTAL BENEFITS**

#### ***Community Strategy***

Together, partners have produced a collective vision for future which is captured in the Waves Ahead Sustainable Community Strategy. The Strategy has four themes:

- better health and wellbeing for all
- feeling safe and included
- strengthening the local economy and improving job prospects
- a better place to live, work and enjoy, with quality amenities.

This strategy can be found on the internet at <http://www.wavesahead.org.uk/>

### **D. DETERMINING THE INTERVENTIONS NECESSARY TO OPTIMISE THE ACHIEVEMENT OF THE INTENDED OUTCOMES**

#### ***Service planning and performance management***

In order to secure these outcomes for residents and service users, the Council needs to respond to some tough challenges. Through partnership working, increasing income from commercial activity and efficiency savings the Council has made significant savings over the past five years and needs to find a further £1.7m by 2022/23 in a climate of reducing funding from Central Government and rising demand for many of the Councils services. This means that it is important that, whilst we focus on achieving the organisational goal and aspirations, we continue to plan services in detail on an annual basis, focusing on challenges over the coming year but also considering the medium term horizon.

The Heads of Service are responsible for preparing service plans that include detail on: core business that must be delivered; plans for improvement, development and disinvestment; financial planning; arrangements for addressing key governance issues; key service risks and management/mitigation activity and arrangements for robust performance management within the service.

### **E. DEVELOPING THE COUNCIL'S CAPABILITY, INCLUDING THE CAPABILITY OF ITS LEADERSHIP AND THE INDIVIDUALS WITHIN IT**

#### ***Recruitment and induction***

The Council operates a robust interview and selection process to ensure that Officers are only appointed if they have the right levels of skills and experience to effectively fulfil their role. If working with children and/or vulnerable adults they will be subject to an enhanced criminal records check prior to appointment. New Officers receive induction which provides information about how the organisation works, policies and health and safety. Newly elected Councillors are required to attend an induction which includes information on: roles and responsibilities; political management and decision-making; financial management and processes; health and safety; information governance; and safeguarding.

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# ADUR DISTRICT COUNCIL ANNUAL GOVERNANCE STATEMENT

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## ***THE OPERATION OF THE GOVERNANCE FRAMEWORK***

### **E. DEVELOPING THE COUNCIL'S CAPABILITY, INCLUDING THE CAPABILITY OF ITS LEADERSHIP AND THE INDIVIDUALS WITHIN IT**

#### ***Training and development***

All Officers are required to complete a number of mandatory e-learning courses including health and safety, equalities and diversity, financial rules, and information governance. Officers and Members have access to a range of IS, technical, soft skills and job specific training courses. Compulsory training is provided for Members who sit on the following committees: Governance, Licensing Committee, and the Planning Committee. Other member-led training is available to Councillors through Democratic Services and Learning and Development. The package of support available gives Members the opportunity to build on existing skills and knowledge in order to carry out their roles effectively.

#### ***Performance development and review***

All Officers receive regular one to ones with their Manager in order to monitor workload and performance and Managers are required to carry out a performance development review on an annual basis, which seeks to identify future training and development needs. Services consider workforce plans as part of the annual business planning process. Our service plans paint a picture of what we want to achieve; workforce planning helps to establish the nature of the workforce needed to deliver that vision, and produce a plan to fill the gaps. This helps to ensure we have the right people, with the right skills, in the right jobs, at the right time.

### **F. MANAGING RISKS AND PERFORMANCE THROUGH ROBUST INTERNAL CONTROL AND STRONG PUBLIC FINANCIAL MANAGEMENT**

#### ***Effective scrutiny***

The Council operates Joint Overview and Scrutiny Committee (JOSC) governed by its own terms of reference. It is important that JOSC acts effectively as one of their key tasks is to review and challenge the policy decisions that are taken by Executive or the Joint Strategic Committee. Topics that are chosen to be 'scrutinised' are looked at in depth by a cross party panel of Councillors. They assess how the Council is performing and see whether they are providing the best possible, cost effective service for people in the city. The JOSC's findings are reported to the Joint Strategic Committee or Executive and may result in changes to the way in which services are delivered.

#### ***Financial management***

The Chief Financial Officer is responsible for leading the promotion and delivery of good financial management so that public money is safeguarded at all times, ensuring that budgets are agreed in advance and are robust, that value for money is provided by our services, and that the finance function is fit for purpose. She advises on financial matters to both the Executive and full Council and is actively involved in ensuring that the authority's strategic objectives are delivered sustainably in line with long term financial goals. The s151 Officer together with finance team ensure that new policies or service proposals are costed, financially appraised, fully financed and identifies the key assumptions and financial risks that face the council.

# ADUR DISTRICT COUNCIL ANNUAL GOVERNANCE STATEMENT

## ***THE OPERATION OF THE GOVERNANCE FRAMEWORK***

### **F. MANAGING RISKS AND PERFORMANCE THROUGH ROBUST INTERNAL CONTROL AND STRONG PUBLIC FINANCIAL MANAGEMENT**

#### ***Financial management***

Financial Regulations were revised in 2013/14 by the s151 Officer so that the Council can meet all of its responsibilities under various laws. They set the framework on how we manage our financial dealings and are part of our Constitution. They also set the financial standards that will ensure consistency of approach and the controls needed to minimise risks. The s151 Officer has a statutory duty to report any unlawful financial activity or failure to set or keep to a balanced budget. She also has a number of statutory powers in order to allow this role to be carried out, such as the right to insist that the local authority makes sufficient financial provision for the cost of internal audit.

#### ***Risk management***

All significant risks (defined as something that may result in failure in service delivery, significant financial loss, non-achievement of key objectives, damage to health, legal action or reputational damage) must be logged on a Corporate Risk Register, profiled (as high/medium/low), and mitigating measures/assurances must be put in place. These risks are regularly reported to CLT and the Joint Governance Committee.

### **G. IMPLEMENTING GOOD PRACTICES IN TRANSPARENCY REPORTING AND AUDIT TO DELIVER EFFECTIVE ACCOUNTABILITY**

#### ***Joint Governance Committee***

As its name suggests, the Joint Governance Committee has the responsibility for receiving many reports that deal with issues that are key to good governance. The Committee undertakes the core functions of an Audit Committee identified in CIPFA's practical guidance. The group has an agreed set of terms of reference, which sets out their roles and responsibilities of its members.

#### ***Internal audit***

The Head of Internal audit is a qualified accountant who has full access to senior management and the Joint Governance Committee (which fulfils the role of an audit committee). The audit team is properly resourced. The Council is in compliance with the CIPFA statement on the Role of the Head of Internal Audit (2010).

The Head of internal Audit provides an independent and objective annual opinion on the effectiveness of internal control, risk management and governance each year. This is carried out by the Internal Audit team in accordance with the Public Sector Internal Audit Standards.

# ADUR DISTRICT COUNCIL ANNUAL GOVERNANCE STATEMENT

## **THE OPERATION OF THE GOVERNANCE FRAMEWORK**

### **G. IMPLEMENTING GOOD PRACTICES IN TRANSPARENCY REPORTING AND AUDIT TO DELIVER EFFECTIVE ACCOUNTABILITY**

#### ***Annual accounts***

The Council publishes full audited accounts each year which are published on the website at <https://www.adur-worthing.gov.uk/about-the-councils/finance/statement-of-accounts/> .

## **REVIEW OF EFFECTIVENESS**

Adur District Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the Council who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by relevant stakeholders, the external auditors and other review agencies and inspectorates.

The Council has procedures in place to ensure the maintenance and review of the effectiveness of the governance framework, which includes reports to and reviews by the following:

- the Joint Strategic Committee, Executives, the Joint Governance Committee, and the Joint Overview and Scrutiny Committee.
- internal and external audit
- other explicit review/assurance mechanisms.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Joint Governance Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

## **SIGNIFICANT GOVERNANCE ISSUES**

There are three significant governance issues either identified by red status on the Governance Action Plan or from the Internal Audit Annual Report or via a report from the Monitoring Officer;

### **i) Procurement and contract management procedures and processes:**

The Council identified the need to improve its future procurement and contract management arrangements following an in depth review of contact procedures and contract management arrangements. Actions are being taken to remedy the situation by way of:

- A programme of training on contract standing orders and contract management;
- Development of contract management guidance; and
- A corporate review of procurement.

# ADUR DISTRICT COUNCIL ANNUAL GOVERNANCE STATEMENT

## **SIGNIFICANT GOVERNANCE ISSUES**

ii) Lack of an ICT Disaster Recovery Plan.

The Council identified this as a key priority following an in-depth review of an IT failure. There is now a high level plan in place which considers major causes of failure. The disaster recovery plan is due to be tested in June 2018. If successful, this issue can be removed from future Annual Governance Statements.

iii) Housing management procedures and processes;

The Council identified the need to improve its management of the Housing Repairs Service and other key housing management policies and processes such as those governing leaseholder charges following an in depth review. An internal working group was convened. To support the work of this group, several additional audits were commissioned from the Internal Audit team by the working group in conjunction with the Head of Housing. Actions are being taken to improve the service by way of:

- Improvements to the internal control environment to ensure that all works are properly commissioned and paid for;
- A major review of all the inspection regimes.
- A review of the staffing and management of the service.
- A review of the contractual arrangements for the housing repairs service including letting new contracts for services where appropriate.
- A review of all of the policies and procedures relating to service and leaseholder charges
- A new digital repairs management system which will radically improve communications with tenants, and provide the ability to easily and comprehensively monitor service levels and drive further improvement.

## **OTHER ISSUES**

The Governance Action Plan has been updated to deal with any issues brought forward from the 2017 review together with any issues which have been identified during the current review.

The governance requirements as detailed in the 'Statement on the Role of the Chief Financial Officer in Public Services' are that:

- the Chief Financial Officer should be professionally qualified,
- report directly to the Chief Executive and
- be a member of the leadership team, with a status at least equivalent to other members.

The position within Adur and Worthing Councils does not wholly conform to the above statement. The Section 151 Officer does not report directly to the Chief Executive, but reports to one of the Directors in line with the reporting requirements for all Heads of Service. The Section 151 Officer is not a member of the Council's Corporate Leadership Team and does not have the same status as the other members, but has full access to the Chief Executive via regular meetings and the Corporate Leadership Team where necessary.

# ADUR DISTRICT COUNCIL ANNUAL GOVERNANCE STATEMENT

## ***PROPOSED ACTION***

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed: \_\_\_\_\_

Councillor Neil Parkin  
Leader of the Council  
Adur District Council



Dated:

Signed: \_\_\_\_\_

Alex Bailey  
Chief Executive of  
Adur & Worthing Councils



Dated:

## **WORTHING BOROUGH COUNCIL ANNUAL GOVERNANCE STATEMENT**

### ***SCOPE OF RESPONSIBILITY***

Worthing Borough Council is responsible for ensuring that 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. The 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.

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government 2016 (the Framework). The Framework expects that local authorities will put in place proper arrangements for the governance of their affairs and which facilitate the effective exercise of functions and ensures that the responsibilities set out above are met.

At least once a year, Local Authorities are statutorily required to review their governance arrangements. The preparation and publication of an Annual Governance Statement in accordance with the Framework fulfils this requirement.

A copy of the code is on our website at [www.adur.gov.uk](http://www.adur.gov.uk) or [www.adur-worthing.gov.uk](http://www.adur-worthing.gov.uk) or can be obtained from the Council. This statement explains how Worthing Borough Council has complied with the code and also meets the requirements of regulation 6 of the Accounts and Audit Regulations 2015 in relation to the publication of a statement on internal control.

### ***THE PURPOSE OF THE GOVERNANCE FRAMEWORK***

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the financial year ended 31<sup>st</sup> March 2017 and up to the date of approval of the statement of accounts.

### ***THE GOVERNANCE FRAMEWORK***

The key elements of the systems and processes that comprise the Council's governance arrangements are summarised below:

# WORTHING BOROUGH COUNCIL ANNUAL GOVERNANCE STATEMENT

## Key elements of the Council's Governance Framework

### Council, Executive and Leader

- Provides leadership and develops the Council's vision of its purpose and intended outcome for residents and service users.
- Develops the vision into objectives for the Council and its partnerships

### Decision making

- All decisions are made in the open
- Decisions are recorded on the Council website
- The scheme of delegations which details the decision making arrangements is regularly updated
- The monitoring Officer ensures that all decisions made comply with relevant laws and regulations

### Risk Management

- Risk registers identify both operational and strategic risks
- Key risks and opportunities are considered by the Corporate Leadership Team every quarter
- Risks and opportunities are reported to the Joint Governance Committee every quarter and inform the work of the internal audit team

### Scrutiny and Review

- The Joint overview and Scrutiny Committee reviews Council policy and can challenge the decisions made.
- The Joint Governance Committee undertakes all of the core functions of an audit committee.
- The Joint Governance Committee is responsible for review and approving the Council's Governance arrangements and undertakes the role of a Standards Committee ensuring that members comply with the Code of Conduct

### Corporate Leadership Team

- The Council's Corporate Leadership Team comprises of the Chief Executive and three Directors who are responsible for the delivery of the Council's aims and objectives
- The head of paid service is the Chief Executive who is responsible for all Council Staff and leading an effective Corporate Leadership Team.
- CLT seeks advice from the Council's Chief Financial Officer who is responsible for safeguarding the Council's financial position
- CLT seeks advice from the Monitoring Officer who is the Head of Legal Services. They are responsible for enduring legality and promoting high standards of public conduct.

The operation of this authority's governance framework is described in the sections below. This sets out how the Council has complied with the seven principles set out in the new Framework during 2017/18.

# WORTHING BOROUGH COUNCIL ANNUAL GOVERNANCE STATEMENT

## **THE OPERATION OF THE GOVERNANCE FRAMEWORK**

The governance framework gives the Members and the Organisation, in a number of ways, the confidence and certainty that what needs to be done is being done. The chart below provides a high level overview of the Council's key responsibilities, how they are met and the means by which assurance is delivered.

WHAT WE NEED TO DO	HOW WE DO IT
<p><b>Principle A</b> Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law</p>	<ul style="list-style-type: none"> <li>• The Constitution</li> <li>• The Monitoring Officer</li> <li>• Section 151 Officer</li> <li>• Codes of conduct</li> <li>• Whistleblowing Policy</li> <li>• Bribery Act 2010 policy guidance</li> <li>• Corporate anti-fraud work</li> <li>• Procurement Strategy</li> </ul>
<p><b>Principle B</b> Ensuring openness and comprehensive stakeholder engagement</p>	<ul style="list-style-type: none"> <li>• Consultations</li> <li>• Terms of reference for partnerships</li> <li>• Freedom of information requests</li> <li>• Complaints procedure</li> </ul>
<p><b>Principle C</b> Defining outcomes in terms of sustainable economic, social, and environmental benefits</p>	<ul style="list-style-type: none"> <li>• Organisational goals</li> <li>• Service planning</li> <li>• Performance Management</li> <li>• Community Strategy</li> <li>• Procurement Strategy</li> </ul>
<p><b>Principle D</b> Determining the interventions necessary to optimise the achievement of the intended outcomes</p>	<ul style="list-style-type: none"> <li>• Service planning</li> <li>• Performance Management</li> <li>• Options appraisals</li> <li>• Whole life costing</li> </ul>
<p><b>Principle E</b> Developing the Council's capability, including the capability of its leadership and the individuals within it</p>	<ul style="list-style-type: none"> <li>• Robust interview and selection process</li> <li>• Training and development</li> <li>• Workforce planning</li> <li>• Succession planning</li> <li>• Performance development reviews</li> <li>• Talent management</li> <li>• HR Policies &amp; procedures</li> </ul>
<p><b>Principle F</b> Managing risks and performance through robust internal control and strong public financial management</p>	<ul style="list-style-type: none"> <li>• Effective member scrutiny function</li> <li>• Financial management and MTFP</li> <li>• Corporate risk register</li> <li>• Annual audit plan</li> <li>• Information Security policies</li> <li>• Compliance with the requirements of the Public Service Network (PSN)</li> </ul>
<p><b>Principle G</b> Implementing good practices in transparency reporting and audit to deliver effective accountability</p>	<ul style="list-style-type: none"> <li>• Reports are held on the website</li> <li>• Annual audited financial statements are publically available</li> <li>• Annual Governance Statement</li> <li>• Effective Internal Audit Service</li> </ul>

# WORTHING BOROUGH COUNCIL ANNUAL GOVERNANCE STATEMENT

## ***THE OPERATION OF THE GOVERNANCE FRAMEWORK***

### **HOW WE KNOW WHAT NEEDS TO BE DONE IS BEING DONE**

Joint Governance Committee function and self-assessment;  
Corporate Governance Group; Scrutiny Reviews;  
Review of progress made in addressing issues; Performance monitoring;  
Review of compliance with corporate governance controls;  
Review of accounts; Employee opinion surveys; Internal audits and external audits;  
Inspections and recommendations made by external agencies.

The following sections look at how the Council delivers governance principles in more detail:

#### **A. BEHAVING WITH INTEGRITY, DEMONSTRATING STRONG COMMITMENT TO ETHICAL VALUES, AND RESPECTING THE RULE OF LAW**

##### ***The Constitution***

The constitution sets out the how the Council operates; the roles and responsibilities of members, officers and the scrutiny and review functions; how decisions are made; and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. Although there is no longer a statutory requirement, this Council continues with this arrangement internally and is in the process of updating the constitution to ensure it reflects current practice. As well as working together as a single organisation and with our neighbour Worthing borough Council, members and officers continue to improve their working relations with other organisations, both locally and sub-nationally, to achieve a common purpose of improved efficiency and effectiveness.

##### ***The Monitoring Officer***

The Monitoring Officer is a statutory function and ensures that the Council, its officers, and its elected members, maintain the highest standards of conduct in all they do. The Monitoring Officer ensures that the Council is compliant with laws and regulations, as well as internal policies and procedures. She is also responsible for matters relating to the conduct of Councillors and Officers, and for monitoring and reviewing the operation of the Council's Constitution.

##### ***Section 151 Officer***

Whilst all Council Members and Officers have a general financial responsibility, the s151 of the Local Government Act 1972 specifies that one Officer in particular must be responsible for the financial administration of the organisation and that this Officer must be CCAB qualified. This is typically the highest ranking qualified finance officer and in this Council this is Sarah Gobey, who is also the Chief Financial Officer.

# WORTHING BOROUGH COUNCIL ANNUAL GOVERNANCE STATEMENT

## ***THE OPERATION OF THE GOVERNANCE FRAMEWORK***

### **A. BEHAVING WITH INTEGRITY, DEMONSTRATING STRONG COMMITMENT TO ETHICAL VALUES, AND RESPECTING THE RULE OF LAW**

#### ***Codes of Conduct***

Codes of Conduct exist for both staff and members.

All Councillors have to keep to a Code of Conduct to ensure that they maintain the high ethical standards the public expect from them. If a complainant reveals that a potential breach of this Code has taken place, Adur District Council or Worthing Borough Council may refer the allegations for investigation or decide to take other action.

On joining the Council, Officers are provided with a contract outlining the terms and conditions of their appointment. All staff must declare any financial interests, gifts or hospitality on a public register. Additionally, members are expected to declare any interests at the start of every meeting that they attend in accordance with Standing Orders. Members and officers are required to comply with approved policies.

#### ***Whistleblowing***

The Council is committed to achieving the highest possible standards of openness and accountability in all of its practices. The Council's Whistleblowing policy (revised in 2014) <http://awintranet/media/media.125134.en.pdf> sets out the options and associated procedures for Council staff to raise concerns about potentially illegal, unethical or immoral practice and summarises expectations around handling the matter.

#### ***Anti-fraud, bribery and corruption***

The Council is committed to protecting any funds and property to which it has been entrusted and expects the highest standards of conduct from Members and Officers regarding the administration of financial affairs.

The Councils have a Corporate Anti-Fraud Team which acts to minimise the risk of fraud, bribery, corruption and dishonesty and recommends procedures for dealing with actual or expected fraud.

Guidance and policies for staff on the Bribery Act 2010 and the Prevention of Money Laundering are found on the intranet.

### **B. ENSURING OPENNESS AND COMPREHENSIVE STAKEHOLDER ENGAGEMENT**

#### ***Transparency***

The Council and its decisions are open and accessible to the community, service users, partners and its staff.

# WORTHING BOROUGH COUNCIL ANNUAL GOVERNANCE STATEMENT

## ***THE OPERATION OF THE GOVERNANCE FRAMEWORK***

### **B. ENSURING OPENNESS AND COMPREHENSIVE STAKEHOLDER ENGAGEMENT**

#### ***Transparency***

All reports requiring a decision are considered by appropriately qualified legal, and finance staff with expertise in the particular function area before they are progressed to the relevant Committee or group. This Council wants to ensure that equality considerations are embedded in the decision-making and applied to everything the Council does. To meet this responsibility, equality impact assessments are carried out on all major council services, functions, projects and policies in order to better understand whether they impact on people who are protected under the Equality Act 2010 in order to genuinely influence decision making.

All reports and details of decisions made can be found on the Council's website at <https://www.adur-worthing.gov.uk/meetings-and-decisions/>

#### ***Freedom of Information enquiries***

The Freedom of Information Act 2000 (Fol) gives anyone the right to ask for any information held by a public authority, which includes this Council, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so.

#### ***Engagement and communication***

It is recognised that people need information about what decisions are being taken locally, and how public money is being spent in order to hold the council to account for the services they provide. The views of customers are at the heart of the council's service delivery arrangements.

Adur and Worthing Councils have developed a Consultation Policy which can be found at [About consultation in Adur & Worthing - Adur & Worthing Councils](#) which reflects the council's ambition to enable and empower communities to shape the places within which they live and work, influence formal decision making and make informed choices around the services they receive.

To be effective this policy aims to inspire and support a genuine two-way dialogue with all sections of the community and other stakeholders. There are a number of ways people can get involved and connect with the council. Current consultations can be found on the Councils website at [www.adur-worthing.gov.uk](http://www.adur-worthing.gov.uk). Local people have the option to engage in a dialogue through: social media sites (including Facebook and twitter), petition schemes, stakeholder forums, council meetings (open to the public), and their local Councillor.

#### ***Consultations***

Internally, a consultation toolkit has been developed to guide council staff through the consultation process. The agreed process ensures that engagement activity is relevant, accessible, transparent and responsive. To increase awareness, consultations are proactively promoted. A list of current district-wide consultations is available on the council website.

# WORTHING BOROUGH COUNCIL ANNUAL GOVERNANCE STATEMENT

## **THE OPERATION OF THE GOVERNANCE FRAMEWORK**

### **B. ENSURING OPENNESS AND COMPREHENSIVE STAKEHOLDER ENGAGEMENT**

#### ***Complaints***

There is a clear and transparent complaints procedure for dealing with complaints. The Council operates a three-stage complaints procedure and promises to acknowledge complaints within 5 working days and respond fully within 10 working days for first-stage complaints, and 15 working days for second-stage complaints. If complainants remain dissatisfied they have the right to refer the matter to the Local Government Ombudsman.

#### ***Partnership working***

In addition to the partnership between Adur and Worthing (<http://www.adur-worthing.gov.uk/about-the-councils/partnership-working/>), this Council is involved in a number of different partnerships, at different levels – each with their own set of terms of reference for effective joint working.

### **C. DEFINING OUTCOMES IN TERMS OF SUSTAINABLE ECONOMIC, SOCIAL, AND ENVIRONMENTAL BENEFITS**

#### ***Joint Corporate Priorities***

The Councils have recently agreed a new plan 'Platforms for our Places' that sets out Adur & Worthing Councils' ambition for our places' and our communities' prosperity and wellbeing over three years (2017-2020).

The Councils have agreed programmes of work for 2017/18 under five themes or 'Platforms' which set out their aspirations for the town.

- **Our financial economies**
- **Our social economies**
- **Stewarding our natural resources**
- **Services and solutions for our places**
- **Leadership of our places**

Further details of how these priorities will be achieved are included in a programme of work which can be found on the internet at [Platforms for our Places - Adur & Worthing Councils](#)

The Council has received regular reports on the progress in delivering the outcomes set out within Platforms for our Places. There is a mid-term review underway, and strategic actions are being assessed and refreshed for approval in July 2018.

#### ***Community Strategy***

The Waves Ahead Partnership is a strategic partnership for Adur and Worthing. The Partnership, non-statutory since 2010, is made up of key interested parties from the public and private sectors, community, voluntary and faith-based groups and local residents. The aim is to work more effectively through collaboration, adding value to local initiatives, projects and ideas.

# WORTHING BOROUGH COUNCIL ANNUAL GOVERNANCE STATEMENT

## ***THE OPERATION OF THE GOVERNANCE FRAMEWORK***

### **C. DEFINING OUTCOMES IN TERMS OF SUSTAINABLE ECONOMIC, SOCIAL, AND ENVIRONMENTAL BENEFITS**

#### ***Community Strategy***

Together, partners have produced a collective vision for future which is captured in the Waves Ahead Sustainable Community Strategy. The Strategy has four themes:

- better health and wellbeing for all
- feeling safe and included
- strengthening the local economy and improving job prospects
- a better place to live, work and enjoy, with quality amenities.

This strategy can be found on the internet at <http://www.wavesahead.org.uk/>

### **D. DETERMINING THE INTERVENTIONS NECESSARY TO OPTIMISE THE ACHIEVEMENT OF THE INTENDED OUTCOMES**

#### ***Service planning and performance management***

In order to secure these outcomes for residents and service users, the Council needs to respond to some tough challenges. Through partnership working and efficiency savings the Council has made significant savings over the past five years and needs to find a further £1.9m by 2021/22 in a climate of reducing funding from Central Government and rising demand for many of the Councils services. This means that it is important that, whilst we focus on achieving the organisational goal and aspirations, we continue to plan services in detail on an annual basis, focusing on challenges over the coming year but also considering the medium term horizon.

The Heads of Service are responsible for preparing service plans that include detail on: core business that must be delivered; plans for improvement, development and disinvestment; financial planning; arrangements for addressing key governance issues; key service risks and management/mitigation activity and arrangements for robust performance management within the service.

### **E. DEVELOPING THE COUNCIL'S CAPABILITY, INCLUDING THE CAPABILITY OF ITS LEADERSHIP AND THE INDIVIDUALS WITHIN IT**

#### ***Recruitment and induction***

The Council operates a robust interview and selection process to ensure that Officers are only appointed if they have the right levels of skills and experience to effectively fulfil their role. If working with children and/or vulnerable adults they will be subject to an enhanced criminal records check prior to appointment. New Officers receive induction which provides information about how the organisation works, policies and health and safety. Newly elected Councillors are required to attend an induction which includes information on: roles and responsibilities; political management and decision-making; financial management and processes; health and safety; information governance; and safeguarding.

# WORTHING BOROUGH COUNCIL ANNUAL GOVERNANCE STATEMENT

## ***THE OPERATION OF THE GOVERNANCE FRAMEWORK***

### **E. DEVELOPING THE COUNCIL'S CAPABILITY, INCLUDING THE CAPABILITY OF ITS LEADERSHIP AND THE INDIVIDUALS WITHIN IT**

#### ***Training and development***

All Officers are required to complete a number of mandatory e-learning courses including health and safety, equalities and diversity, financial rules, and information governance. Officers and Members have access to a range of IS, technical, soft skills and job specific training courses. Compulsory training is provided for Members who sit on the following committees: Governance, Licensing Committee, and the Planning Committee. Other member-led training is available to Councillors through Democratic Services and Learning and Development. The package of support available gives Members the opportunity to build on existing skills and knowledge in order to carry out their roles effectively.

#### ***Performance development and review***

All Officers receive regular one to ones with their Manager in order to monitor workload and performance and Managers are required to carry out a performance development review on an annual basis, which seeks to identify future training and development needs. Services consider workforce plans as part of the annual business planning process. Our service plans paint a picture of what we want to achieve; workforce planning helps to establish the nature of the workforce needed to deliver that vision, and produce a plan to fill the gaps. This helps to ensure we have the right people, with the right skills, in the right jobs, at the right time.

### **F. MANAGING RISKS AND PERFORMANCE THROUGH ROBUST INTERNAL CONTROL AND STRONG PUBLIC FINANCIAL MANAGEMENT**

#### ***Effective scrutiny***

The Council operates Joint Overview and Scrutiny Committee (JOSC) governed by its own terms of reference. It is important that JOSC acts effectively as one of their key tasks is to review and challenge the policy decisions that are taken by Executive or the Joint Strategic Committee. Topics that are chosen to be 'scrutinised' are looked at in depth by a cross party panel of Councillors. They assess how the Council is performing and see whether they are providing the best possible, cost effective service for people in the city. The JOSC's findings are reported to the Joint Strategic Committee or Executive and may result in changes to the way in which services are delivered.

#### ***Financial management***

The Chief Financial Officer is responsible for leading the promotion and delivery of good financial management so that public money is safeguarded at all times, ensuring that budgets are agreed in advance and are robust, that value for money is provided by our services, and that the finance function is fit for purpose. She advises on financial matters to both the Executive and full Council and is actively involved in ensuring that the authority's strategic objectives are delivered sustainably in line with long term financial goals. The s151 Officer together with finance team ensure that new policies or service proposals are costed, financially appraised, fully financed and identifies the key assumptions and financial risks that face the council.

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# WORTHING BOROUGH COUNCIL ANNUAL GOVERNANCE STATEMENT

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## ***THE OPERATION OF THE GOVERNANCE FRAMEWORK***

### **F. MANAGING RISKS AND PERFORMANCE THROUGH ROBUST INTERNAL CONTROL AND STRONG PUBLIC FINANCIAL MANAGEMENT**

#### ***Financial management***

Financial Regulations were last fully revised in 2013/14 by the s151 Officer so that the Council can meet all of its responsibilities under various laws and are annually reviewed. They set the framework on how we manage our financial dealings and are part of our Constitution. They also set the financial standards that will ensure consistency of approach and the controls needed to minimise risks. The s151 Officer has a statutory duty to report any unlawful financial activity or failure to set or keep to a balanced budget. She also has a number of statutory powers in order to allow this role to be carried out, such as the right to insist that the local authority makes sufficient financial provision for the cost of internal audit.

#### ***Risk management***

All significant risks (defined as something that may result in failure in service delivery, significant financial loss, non-achievement of key objectives, damage to health, legal action or reputational damage) must be logged on a Corporate Risk Register, profiled (as high/medium/low), and mitigating measures/assurances must be put in place. These risks are regularly reported to CLT and the Joint Governance Committee.

### **G. IMPLEMENTING GOOD PRACTICES IN TRANSPARENCY REPORTING AND AUDIT TO DELIVER EFFECTIVE ACCOUNTABILITY**

#### ***Joint Governance Committee***

As its name suggests, the Joint Governance Committee has the responsibility for receiving many reports that deal with issues that are key to good governance. The Committee undertakes the core functions of an Audit Committee identified in CIPFA's practical guidance. The group has an agreed set of terms of reference, which sets out their roles and responsibilities of its members.

#### ***Internal audit***

The Head of Internal audit is a qualified accountant who has full access to senior management and the Joint Governance Committee (which fulfils the role of an audit committee). The audit team is properly resourced. The Council is in compliance with the CIPFA statement on the Role of the Head of Internal Audit (2010).

The Head of internal Audit provides an independent and objective annual opinion on the effectiveness of internal control, risk management and governance each year. This is carried out by the Internal Audit team in accordance with the Public Sector Internal Audit Standards.

# WORTHING BOROUGH COUNCIL ANNUAL GOVERNANCE STATEMENT

## **THE OPERATION OF THE GOVERNANCE FRAMEWORK**

### **G. IMPLEMENTING GOOD PRACTICES IN TRANSPARENCY REPORTING AND AUDIT TO DELIVER EFFECTIVE ACCOUNTABILITY**

#### ***Annual accounts***

The Council publishes full audited accounts each year which are published on the website at <https://www.adur-worthing.gov.uk/about-the-councils/finance/statement-of-accounts/> .

## **REVIEW OF EFFECTIVENESS**

Worthing Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the Council who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by relevant stakeholders, the external auditors and other review agencies and inspectorates.

The Council has procedures in place to ensure the maintenance and review of the effectiveness of the governance framework, which includes reports to and reviews by the following:

- the Joint Strategic Committee, Executives, the Joint Governance Committee, and the Joint Overview and Scrutiny Committee.
- internal and external audit
- other explicit review/assurance mechanisms.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Joint Governance Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

## **SIGNIFICANT GOVERNANCE ISSUES**

There are two significant governance issues either identified by red status on the Governance Action Plan or from the Internal Audit Annual Report or via a report from the Monitoring Officer;

### **i) Procurement and contract management procedures and processes:**

The Council identified the need to improve its future procurement and contract management arrangements following an in depth review of contact procedures and contract management arrangements. Actions are being taken to remedy the situation by way of:

- A programme of training on contract standing orders and contract management;
- Development of contract management guidance; and
- A corporate review of procurement.

# WORTHING BOROUGH COUNCIL ANNUAL GOVERNANCE STATEMENT

## **SIGNIFICANT GOVERNANCE ISSUES**

ii) Lack of an ICT Disaster Recovery Plan.

The Council identified this as a key priority following an in-depth review of an IT failure. There is now a high level plan in place which considers major causes of failure. The disaster recovery plan is due to be tested in June 2018. If successful, this issue can be removed from future Annual Governance Statements.

## **OTHER ISSUES**

The Governance Action Plan has been updated to deal with any issues brought forward from the 2017 review together with any issues which have been identified during the current review.

The governance requirements as detailed in the 'Statement on the Role of the Chief Financial Officer in Public Services' are that:

- the Chief Financial Officer should be professionally qualified,
- report directly to the Chief Executive; and
- be a member of the leadership team, with a status at least equivalent to other members.

The position within Adur and Worthing Councils does not wholly conform to the above statement. The Section 151 Officer does not report directly to the Chief Executive, but reports to one of the Directors in line with the reporting requirements for all Heads of Service. The Section 151 Officer is not a member of the Council's Corporate Leadership Team and does not have the same status as the other members, but has full access to the Chief Executive via regular meetings and the Corporate Leadership Team where necessary.

## **PROPOSED ACTION**

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed: \_\_\_\_\_

Councillor Daniel Humphreys  
Leader of the Council  
Worthing Borough Council



Signed: \_\_\_\_\_

Alex Bailey  
Chief Executive of  
Adur & Worthing Councils



Dated: \_\_\_\_\_

Dated: \_\_\_\_\_



## Audit Enquiries to those Charged with Governance

### Report by the Director for Digital and Resources

#### EXECUTIVE SUMMARY

##### 1. PURPOSE

- 1.1 Our external auditors, Ernst and Young, have asked that the Committee considers a letter about how the Joint Governance Committee gains assurance from management regarding the financial governance arrangements of the Councils. The Chairmen of the Committee have received two letters, one for Adur District Council, and one the Worthing Borough Council. The letter to Adur District Council is attached as Appendix 1, which is identical to the letter to Worthing Borough Council.
- 1.2 To assist the Committee in its deliberation of the letter, attached at Appendix 2 is information pertinent to each of the questions raised. This can form the basis of a formal response.

##### 2. RECOMMENDATIONS

- 2.1 The Joint Governance Committee is asked to consider and agree the response to the audit letter

##### 3.0. BACKGROUND

- 3.1 The audit of the Council's financial statements is guided by International Standards of Auditing (ISAs). In order to comply with a number of these ISA's, each year the Chairmen of the Joint Governance Committee are written to by the Council's external auditor. The purpose of this letter is to obtain an understanding on how those charged with governance (the Joint Governance Committee) exercise oversight of management's processes in relation to fraud, laws and regulations and going concern.
- 3.2 It is proposed that the Committee discusses its proposed response to the letter Members should be aware that the Committee is also asked to comment on whether the Councils are a 'going concern'. This is addressed separately below.

## **4.0 GOING CONCERN**

4.1 In accounting, "going concern" refers to an organisations' ability to continue functioning as a business entity. For the Councils, it is the responsibility of the Joint Governance Committee to assess whether the going concern assumption is appropriate when preparing the financial statements. The Councils are required to disclose in the notes to the Financial Statements whether there are any factors that may put the organisations' status as a going concern in doubt.

4.2 In forming the opinion on whether the Councils and the Joint Committee are 'going concerns' it is important to note the following:

- the budgets reported to Councils and the Joint Strategic Committee were balanced in 2017/18 and 2018/19.
- The budget monitoring and outturn reports show that the Councils continue to spend within the overall budget set or only marginally above the budget set.
- Both Councils have a reasonable level of reserves.

Consequently, the Committee should have no concerns about whether the Councils and the Joint Committee are going concerns.

## **5.0 LEGAL IMPLICATIONS**

5.1 This report concerns the audit of the Statements of Accounts which will be prepared in accordance with statutory instrument number 2015/234, the Accounts and Audit (England) Regulations 2015 and the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, based on International Financial Reporting Standards (IFRS).

## **6.0 FINANCIAL IMPLICATIONS**

6.1 There are no financial implications arising from this report.

### **Local Government Act 1972**

#### **Background Papers:**

Reports to the Joint Strategic Committee

#### **Contact Officer:**

Sarah Gobey – Chief Financial Officer

Direct Dialling No: (01903) 221221

Email: [sarah.gobey@adur-worthing.gov.uk](mailto:sarah.gobey@adur-worthing.gov.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 addresses governance questions raised by our external auditors.



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Councillor George Barton  
Adur District Council,  
c/o Worthing Town Hall,  
Chapel Road,  
Worthing,  
West Sussex,  
BN11 1HA

28<sup>th</sup> February 2018

Ref: ADC/EY1718/PK

Direct line: 0118 928 1556

Email: PKing1@uk.ey.com

Dear George,

Re: Adur District Council

### Understanding how the Joint Governance Committee gains assurance from management

Auditing standards require us to formally update our understanding of your arrangements for oversight of management processes and arrangements annually. Therefore, I am writing to ask that you please provide a response to the following questions.

1) How does the Joint Governance Committee, as 'those charged with governance' at the Authority, exercise oversight of management's processes in relation to:

- undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);
- identifying and responding to risks of fraud in the Authority, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
- communicating to employees its view on business practice and ethical behavior (for example by updating, communicating and monitoring against the Authority code of conduct);
- encouraging employees to report their concerns about fraud; and
- communicating to you the processes for identifying and responding to fraud or error?

2) How does the Joint Governance Committee oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control?

3) Is the Committee aware of any:

- breaches of, or deficiencies in, internal control; and
- actual, suspected or alleged frauds during 2017/18?

4) Is the Joint Governance Committee aware of any organisational or management pressure to meet financial or operating targets?

5) How does the Joint Governance Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2017/18?



6) Is the Joint Governance Committee aware of any actual or potential litigation or claims that would affect the financial statements?

7) How does the Joint Governance Committee satisfy itself that it is appropriate to adopt the going concern basis in preparing the financial statements?

I should be grateful if you could respond either in writing or by e-mail by 30<sup>th</sup> April 2018.

Thank you for your assistance. If you have any queries in respect of this letter please contact Hannah Lill at [HLill@uk.ey.com](mailto:HLill@uk.ey.com).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Paul King', with a horizontal line underneath.

Paul King

Associate Partner

For and on behalf of Ernst & Young LLP

QUESTION	PROPOSED RESPONSE
<p><b>1. How does the Joint Governance &amp; Audit Committee, as ‘those charged with governance’ exercise oversight of management's processes in relation to:</b></p> <ul style="list-style-type: none"> <li>• undertaking an assessment of the risk that the financial statements might be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments)?</li>   <li>• identifying and responding to risks of fraud, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist?;</li>   <li>• communicating to employees its view on business practice and ethical behavior (for example by updating, communicating and monitoring against the Authority’s code of conduct); and</li> </ul>	<p>The Joint Governance Committee have received regular reports from the Head of Internal Audit in relation to the operation of the control environment which is used to inform the Committee’s view of management processes.</p> <p>Management has assessed that the risk of material fraud affecting the financial statements is very low. There is a fundamentally sound system of internal control operating as reported by the Head of Internal Audit to the Councils and no evidence of material fraud.</p> <p>The Joint Governance Committee has oversight of this. It receives regular reports from the Head of Internal Audit including:</p> <ul style="list-style-type: none"> <li>• The Internal Audit Plan is presented to the Committee to consider and approve. This takes into account the risks associated with individual services and processes, and the frequency with which services are subjected to audit.</li> <li>• Internal audit provide the committee with regular reports on the audits undertaken together with details of any limited assurance audits;</li> <li>• The Head of Internal audit produces an annual report for the Committee.</li> </ul> <p>In addition, the Committee approves the Council’s Annual Governance Statement ensuring that assurances from many sources across the Councils are provided which underpin the draft (AGS) for the Leader and the Chief Executive to review and sign.</p> <p>The Joint Governance Committee has oversight of this. The Councils have a code of conduct which is approved by the Committee. The Committee is also aware that Democratic Services keeps a register of Officer and Member interests.</p>



QUESTION	PROPOSED RESPONSE
<p><b>4. Is there is any organisational or management pressure to meet financial or operating targets?</b></p>	<p>Officers are asked to monitor budgets and report to members over or under spends in a transparent manner, they will be questioned on any over or under performance against budget.</p> <p>However, there is no undue organisational or management pressure to meet financial or operating targets. There are no staff incentives for meeting financial or operating targets.</p>
<p><b>5. How does the Joint Governance Committee gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance in 2016/17?</b></p>	<ul style="list-style-type: none"> <li>▪ The Councils Legal Service Team lead by the Monitoring Office has a general advisory role to all Council Services as supplemented by specialist legal advice when necessary;</li> <li>▪ All reports must be reviewed by the legal officers and include a legal implications paragraph before any decision is made;</li> <li>▪ A legal officer is present at all meetings of the Council to ensure that Council operates within the law;</li> <li>▪ Legal issues are considered as part of audit work;</li> <li>▪ Committee approves the constitution, delegations, financial regulations and contract standing orders which provide guidance on procedural matters to ensure Council operates within the law.</li> <li>▪ Training is arranged by the legal team on new legislation and matters of particular significance.</li> </ul> <p>The Committee is not aware of any instances of non-compliance other than those brought to our attention through the work of internal audit or by the monitoring officer.</p>
<p><b>6. Is the Joint Governance Committee aware of any actual or potential litigation or claims that would affect the financial statements?</b></p>	<p>There are currently no actual or potential litigation claims that would affect the financial statements.</p>

QUESTION	PROPOSED RESPONSE
<p>7. How does the Joint Governance Committee satisfy itself that it is appropriate to adopt the 'going concern' basis in preparing the financial statements</p>	<p>The Committee considers the overall financial information available to it. These include:</p> <ul style="list-style-type: none"> <li>• The annual revenue budget;</li> <li>• The Councils track record in spending within the budgets set;</li> <li>• The Councils' levels of reserves.</li> </ul> <p>The Committee has carried out this assessment and we are of the opinion that the Councils' and the Joint Committee have the ability to continue as a going concern.</p>





ADUR & WORTHING  
COUNCILS

Key Decision: No

Ward(s) Affected: All

**Appointment of External Auditor**

**Report by the Director for Digital & Resources**

**1.0 PURPOSE**

**1.1** This report updates the Audit Committee on the process of appointing external auditors from 2018/19 onwards and on the Housing Benefit Assurance. The Joint Governance Committee is responsible for monitoring our auditing arrangements.

**2.0 RECOMMENDATIONS**

**2.1** The Joint Governance Committee is recommended to note:

- i) that the Council will engage Ernst & Young LLP as the Council's external auditor for Housing Benefit Subsidy Assurance from 2018/19 for five years.
- ii) the agreed fee arrangements

### **3.0 BACKGROUND**

- 3.1 The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5th October 2015 the Secretary of State for Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.
- 3.2 Following the demise of the Audit Commission, new arrangements were needed for the appointment of external auditors. The Local Audit and Accountability Act 2014 gave the Councils two options:
- i) to either opt in to the Appointing Person regime; or
  - ii) to establish an auditor panel and conduct their own procurement exercise.
- 3.3 Public Sector Audit Appointments Limited (PSAA) is an independent, not for profit company limited by guarantee, established by the LGA for the purpose of procuring external auditors on behalf of Local Government.
- 3.4 Public Sector Audit Appointments Limited (PSAA) has been specified as the sector-led appointing body under the Local Audit (Appointing Person) Regulations 2015. Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that the decision to opt-in must be made by the authority meeting as a whole, i.e. Full Council. The Councils opted into this arrangement at their meetings in February 2017 following a recommendation from the Joint Governance Committee. The Council opted into the appointing person arrangements in order to benefit from a national sector-led body which is able to deliver high quality, economic and efficient external audit arrangements.
- 3.5 The Council's current external auditor is Ernst & Young (EY) LLP, this appointment having been made under a contract let by the Audit Commission. Following closure of the Audit Commission, the contract is currently managed by the PSAA with delegated authority from the MHCLG.
- 3.6 EY LLP have been re-appointed by PSAA as the Council's auditor from 2018/19 onwards for the core accounts audit.

3.6 The PSAA can only procure the audit of the Council's main accounts and Housing Benefit Subsidy audit is outside of the framework and the Council must make separate appointments

#### **4.0 ISSUES FOR CONSIDERATION**

4.1 Due to the wording in the Local Audit and Accountability Act 2014 the Council must make a separate appointment for the purposes of the audit of Housing Benefit Subsidy, which the Department for Work and Pensions (DWP) refers to as assurance. The DWP refers to the auditor as an accountant.

4.2 The appointment of the accountant (auditor) must be notified to the DWP, by 1 March preceding the financial year, who will make a tripartite engagement arrangement with the council. The appointment can only be made from the large firms registered with the Institute of Chartered Accountants of England and Wales to carry out work on public sector accounts. For 2018/19, the first year of the new arrangements, Local Authorities must notify DWP of the appointment of this reporting accountant by 2nd July 2018.

4.3 As this is an issue that affects all District and Borough Councils within the County area, the new auditor arrangements were considered across the County. The Head of Finance, Revenues and Benefits for Crawley Borough Council led a project to identify an appropriate arrangement on behalf of all of the Councils in West Sussex.

4.4 The Housing Benefit Subsidy audit requires auditors who have a detailed understanding of the benefits system. As the main audit of the accounts requires systems work and testing of the Housing Benefit Subsidy claim which is also a feature of the Housing Benefit Subsidy claim audit, it is not cost effective in terms for both financial and staffing resources of the Council to have a separate appointment from the firm that PSAA have appointed to undertake the main Statement of Accounts work. Therefore, the Head of Finance, Revenues and Benefits from Crawley Borough Council on behalf of all of the Councils in the County has negotiated with the Statement of Accounts auditor EY LLP to carry out this work.

4.5 The fees have been agreed at £14,506 per annum for Adur District Council and £10,860 per annum for Worthing Borough Council. Where additional work is required as a result of testing (40+ testing) or the DWP further mandated work this will be in the region of £2,500 but will vary between £1,000 and £4,000 depending on the level and nature of this additional

testing. This additional fee if required would be agreed annually in advance with the auditor.

## 5.0 ENGAGEMENT AND COMMUNICATION

5.1 All Chief Financial Officers within the County area discussed the most appropriate and cost effective options for dealing with Housing Benefit audit work on behalf of the County area.

## 6.0 FINANCIAL IMPLICATIONS

6.1 The overall cost of audit between 2017/18 and 2018/19 is shown in the table below:

	Adur		Worthing	
	2017/18 £	2018/19 £	2017/18 £	2018/19 £
Core audit	48,124	37,054	47,156	36,311
Housing Benefit assurance	27,020	14,506	8,184	10,860
<b>Total</b>	<b>75,144</b>	<b>51,560</b>	<b>55,340</b>	<b>47,171</b>

6.2 Contract Standing Orders allow for a direct award of this nature due to the specialist nature of the audit work being undertaken (Standing Order 8.6).

## 7.0 LEGAL IMPLICATIONS

7.1 The Local Audit and Accountability Act 2014 gave the Councils two options: to either opt in to the Appointing Person regime; or to establish an auditor panel and conduct their own procurement exercise.

7.2 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that the decision to opt-in to the Appointing Person regime must be made by Full Council. The legislation provides that the Council must make a separate appointment for the purposes of the audit of Housing Benefit Subsidy.

7.3 The terms of reference of the Joint Governance Committee in the Council's constitution includes responsibility for audit and accounts activity and

specifically “Power to undertake responsibilities with regard to external auditors under the Local Audit and Accountability Act 2014.

### **Background Papers**

Audit Fee letters from EY

E-mails and correspondence from the Head of Finance, Revenues and Benefits from Crawley Borough Council.

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

Sarah Gobey

Chief Financial Officer

01903 221221

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## **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**  
Matters considered and no issues identified.
- 4. Governance**  
The report concerns the appointment of the external auditor for the housing benefit subsidy audit.



ADUR & WORTHING  
COUNCILS

Key Decision [Yes/No]

Ward(s) Affected: All

**Managing investment opportunity and risk when investing in Commercial Property**

**Report by the Director for Digital and Resources**

**Executive Summary**

**1. Purpose**

- 1.1 The Joint Governance Committee requested, at its meeting of the 30th January 2018, a report detailing how the Council was managing risk in the acquisition of property.
- 1.2 The report also briefs Members on the implications of the changes to both the regulatory framework and the associated guidance.

**2. Recommendations**

- 2.1 The Joint Governance Committee is recommended to note the approach to investing in property and the implications of the new prudential code and regulatory framework

**3. Context**

- 3.1 Councils are under increasing financial pressure from falling government funding. Adur and Worthing Councils have seen income from Government grants fall dramatically over the past few years whilst addressing a number of unavoidable cost pressures. Consequently the Councils have had to make significant annual budget reductions to balance the budget:

	<b>Adur £m</b>	<b>Worthing £m</b>
2014/15	0.6	1.4
2015/16	0.5	0.9
2016/17	1.2	1.6
2017/18	1.1	1.7
2018/19	1.4	2.0
<b>Total saving made</b>	<b>4.8</b>	<b>7.6</b>

3.2 In response to the unprecedented financial pressures that all Councils are addressing, a number of new initiatives have been developed across the sector including:

- Partnership working
- Asset rationalisation
- Locally initiated reorganisation e.g Cornwall
- Commercialisation
- Business and digital transformation

3.3 More recently, as part of the commercialisation agenda, many Councils have been investing in commercial property to provide sustainable income streams. This can either be directly via the purchase or development of property or indirectly via investment in property funds.

3.4 Councils have owned commercial property for decades which was built or acquired in the past to support the development of the local economy. The more recent change has been the decision to acquire property to produce sustainable income streams for the future and thereby protect core services.

3.5 The attractiveness of this as an option for Councils is in part due to the low borrowing rates that Councils can access, but also due to the unique regulatory framework that Councils operate in. Unlike the private sector, any fall in the value of the property due to market changes is not a cost to the revenue budget. The principal risk to the revenue budget will be lost rental income and potential liability for business rates due to void properties.

3.6 Over the past few years there has been significant financial activity in this area by some Councils. Examples of significant property transactions by Local Government include:

- Canterbury City Council's acquisition of a 50% stake in Whitefriars from the Canada Pension Plan Investment Board for £79m;
- Merseyway shopping centre, which was bought by the Stockport Council for £80m.
- Northumberland County Council bought Manor Walks in Cramlington for

£78m.

- 3.7 HM Treasury has become increasingly concerned about the scale of commercial property acquisition backed by borrowing by some Councils. The concerns are twofold: firstly, the impact on the Public Sector Borrowing Requirement of such extensive borrowing activity; and secondly the level of risk that Councils may be exposed to. MHCLG have recently issued revised investment guidance and new guidance about the need to set aside for the repayment of debt within the annual budget (Minimum Revenue Provision). This has been mirrored by a new Prudential Code issued by the Chartered Institute of Public Finance and Accountancy.

#### **4. Legislative and regulatory framework**

- 4.1 The Local Government Act 2003 (section 16) defines capital expenditure as expenditure which falls to be capitalised in accordance with proper practices. The Local Authority Accounting Code of Practice 2017/18 specifies that this includes the acquisition of property, plant and equipment. Consequently, the purchase of commercial property is statutorily defined as capital expenditure.

- 4.2 The Council has the statutory ability to borrow, again this is detailed in the Local Government Act 2003. Such borrowing can be used to finance the capital programme.

- 4.3 The Council has historically been prohibited from borrowing solely to make a profit through investments. This was detailed within the Investment Guidance which Councils must adhere to.

#### **4.4 Minimum Revenue Provision (MRP)**

- 4.4.1 The Council must set aside a specific sum each year from the annual revenue budget for the repayment of General Fund debt. This is known as the Minimum Revenue Provision and is a requirement of the Secretary of State which is issued under section 21(1A) of the Local Government Act 2003. This is held on the balance sheet pending the repayment of debt.

- 4.4.2 Councils have been obliged to set aside sums from the revenue budget for the repayments of debt for some time. The amount that the Councils set aside has to be calculated on a prudent basis and the policy governing the calculation of the MRP must be approved annually by Council. Adur and Worthing Councils' current policies are detailed in the Joint Treasury Management Strategy Statement and Annual Investment Strategy 2018/19 to 2020/21. The policies are approved by the Councils in February of each year.

- 4.4.3 The Councils' current policies specify that:

- i) The Councils will use an annuity calculation to assess the amount of MRP to be set aside each year.
- ii) MRP relating to built assets under construction will be set aside once the asset is completed.
- iii) For loans made to RSL's for housing purposes, the MRP set aside will

mirror the repayments of the debt.

4.4.4 The Government has recently issued revised guidance on the Minimum Revenue Provision. This details the methods that can be used to calculate the MRP and the maximum asset lives that can be used. For borrowing that is not supported through government grant, Councils have the freedom to choose from two different methods:

- i) Annuity method
- ii) Depreciation method

The new guidance specifies the maximum life that can be used which depends on the class of asset.

#### 4.4.5 ***Implications for commercial property***

Previously, the guidance permitted Councils not to set aside funds for the repayment of debt associated with investment properties. This was the case where Councils had opted to use the depreciation method for calculating the MRP. Depreciation is not generally charged on investment properties which meant that these Councils could opt not to make MRP provision for any commercial property purchased.

This loophole has now been closed, although Adur and Worthing Councils never exploited this gap in the guidance having opted to use the annuity method.

The recent statutory guidance issued by MHCLG has strengthened this requirement and clarified the position with respect to investment properties (commercial property investments). Councils must provide for the repayment of debt over the lifetime of the investment property, and the maximum life that may be used is 50 years.

Whilst the new guidance is applicable from the 1st April 2019, the Councils currently fully complied with this revised guidance from 1st April 2018.

#### 4.5 **Investment Guidance**

4.5.1 The Government has published a new statutory guidance on local government investments. The new edition applies in England only and for accounting periods starting on or after 1st April 2018. This is statutory guidance issued by the Secretary of State under section 15(1)(a) of the Local Government Act 2003.

4.5.2 The guidance was published in February 2018. Consequently the additional disclosures now required do not need to be included in the 2018-19 Annual Investment Strategy if it is not practical or cost effective to do so. Councils have the flexibility to include the additional disclosures in full in the first Strategy presented to full Council after 1st April 2018.

- 4.5.3 The changes made to the Guidance reflect changes in patterns of local authority behaviour. Some Councils are investing in non-financial assets, with the primary aim of generating profit to support front-line services. Others are entering into very long term investments or providing loans to local enterprises or third sector entities as part of regeneration or economic growth projects that are in line with their wider role for regeneration and place making.
- 4.5.4 In addition, the National Audit Office and the Public Accounts Committee have raised a number of concerns about local authority behaviour that this guidance aims to address. These are:
- Local authorities are exposing themselves to too much financial risk through borrowing and investment decisions;
  - There is not enough transparency to understand the exposure that local authorities have as a result of borrowing and investment decisions; and
  - Members do not always have sufficient expertise to understand the complex transactions that they have ultimate responsibility for approving.
- 4.5.5 Consequently, the definition of an investment has now been extended to cover all of the financial assets of a local authority (including lending) as well as other non-financial assets that the organisation holds primarily or partially to generate a profit; for example, investment property portfolios. This excludes loans made for housing purposes to Registered Social Landlords where the Councils have specific powers to make such loans (Section 24 of the Local Government Act 1988)
- 4.5.6 As part of the guidance, the Councils are required to have least one Investment Strategy (“the Strategy”). This Strategy should meet all the disclosures and reporting requirements specified in this guidance. For Adur and Worthing Councils, there will be two separate elements to the Strategy:
- i) The annual treasury management investment strategy which covers all cash investments
  - ii) The annual property investment strategy which covers the Council approaches to investing in property

The annual Treasury Management Investment Strategy was approved by the Councils in February 2018.

The annual property investment strategy has been drafted and, pending member consultation, is due to be considered by the Joint Strategic Committee in July 2018 and approved by the respective Councils later on in the same month..

#### 4.5.7 ***Borrowing in advance of need***

The guidance emphasises that Councils must not borrow more than or in advance of their needs purely in order to profit from the investment of the extra sums borrowed. As the definition of investment has now been extended to include investment properties, this prohibition would also apply to borrowing to fund investments in commercial property.

However, in recognition of the need for Councils to undertake such borrowing in the current financial climate, the guidance allows that Councils can choose to disregard the Prudential Code and this Guidance in this respect provided that the Investment Strategy explains:

- Why the local authority has decided not to have regard to this Guidance or to the Prudential Code in this instance; and
- The local authority's policies in investing the money borrowed, including management of the risks, for example, of not achieving the desired profit or borrowing costs increasing.

#### 4.6 **Prudential Code**

4.6.1 The Prudential Code plays a key role in capital finance in local authorities. Local authorities determine their own programmes for capital investment that are central to the delivery of quality public services. The Prudential Code was developed by CIPFA, the Chartered Institute of Public Finance and Accountancy, as a professional code of practice to support local authorities in taking their decisions. The objectives of the Code are to ensure that the capital expenditure plans of local authorities are affordable, prudent and sustainable and in full understanding of the risks involved and how to manage those risks. Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003

4.6.2 The Prudential Code has recently been updated in line with the updates to the Investment Guidance. This now introduces the need to produce an annual capital strategy. Whilst the council has produced a capital strategy for many years, this must now be expanded to include consideration of capital expenditure; investments and liabilities; and treasury management. The intention is to bring together not only the capital expenditure policy and plans, but to include financing considerations in one comprehensive document. New sections will include:

- **Debt and borrowing and treasury management including:**
  - A projection of external debt and use of internal borrowing to support capital expenditure
  - Provision for the repayment of debt over the life of the underlying debt.
  - Authorised limit and operational boundary for the following year (see below).
  - The authority's approach to treasury management including processes, due diligence and defining the authority's risk appetite.

- **Commercial activity**

The Council's approach to commercial investment activities including processes ensuring effective due diligence and defining the authority's risk appetite in respect of these, including proportionality in respect of overall resources. Requirements for independent and expert advice and scrutiny arrangements.

- **Other long-term liabilities**

An overview of the governance process for approval, monitoring and ongoing risk management of any other financial guarantees and other long-term liabilities.

- **Knowledge and skills**

A summary of the knowledge and skills available to the authority and confirmation that these are commensurate with the authority's risk appetite.

4.6.3 The new capital programme will be presented to the Joint Strategic Committee in July for approval.

## **5. Approach to Property investment**

5.1 To ensure that the Council adopts a prudent approach to property investment the Council has updated the investment strategy. Extracts from the draft are attached at Appendix 1. The full strategy and management document is due to be considered by the Joint Strategic Committee in July.

5.2 In addition, prior to acquiring any individual purchase, each opportunity is subject to a detailed analysis and risk appraisal which considers the following:

- Location
- Occupation
- Strategic fit

The full scoring matrix is attached at Appendix 2 with the scoring guide at Appendix 3.

5.3 The purpose of both the investment strategy and the acquisition assessment is to ensure that the Councils properly address issues regarding the security of the investment and status of the tenant (Security), to ensure that within the context of property investment - that the property is attractive and marketable for the future (Liquidity), and that the focus is on returns that are appropriate for the level of risk being assumed (Yield).

5.4 As part of the development of the Property Investment Strategy, the Councils must not only address issues of investment risk at the point of purchase, but also issues of emerging financial risks for owned property over the time the property remains in the ownership of the Council. These financial risks are as follows:

- i) Void rental periods - The Council may face periods of time when there may be no income from the properties purchased. There are several reasons why this will occur including vacancy, negotiated rent free periods for new tenants, and negotiated rent free period on lease renewals.
- ii) The need to invest in the property portfolio to maintain or improve rental yield

To manage these first two risks, the Property Investment Strategy will recommend that the Council sets aside annually 20% of rental income. Within the Councils' budgets an annual budget will be created which can be set aside each year to manage these risks over time. This has been included in our Medium Term Financial Plan. Over the next 4 years this will be built up so that it is equivalent to 20% of the rental yield from the properties.

- ii) Refinancing risk  
This refers to the risk of increasing interest rate cost when the an existing loan is repaid. To mitigate this risk, the council is opting to finance these purchase with long term loans of up to 30 years.
- iv) Market value risk  
This refers to the risk of the value of the property falls. The cost of any fall in value will never be charged to the revenue budget under our statutory accounting arrangements. However, to ensure that the value of properties will exceed the cost of borrowing upon disposal, the Council will ensure that an element of the debt associated with the property is repaid each year and will seek to dispose of any property at the most appropriate point in time.

The Property Investment Strategy will detail a policy for risk management and owned property fund management, as required by the legislative framework.

## **6. Engagement and Communication**

- 6.1 The report has been discussed and shared with relevant officers and members.

## **7. Financial Implications**

- 7.1 The Councils' approved budget strategy recommended the investment in good quality commercial property to produce additional income for the Councils for the future. This was part of a combined strategy to ensure that the Council would meet the financial challenges ahead with a mix of:
  - Investment in commercial property;
  - Generation of additional income from existing commercial activities each year;
  - Investment in a new digital and customer strategy to generate business efficiencies;

7.2 With this in mind, the Councils have released significant capital funding over the 5 year period to 2020/21.

Strategic Property Investment Fund						
	2016/17	2017/18	2018/19	2019/20	2020/21	Total
	Actual	Actual	Budget	Budget	Budget	
	£	£	£	£	£	£
Adur	0	11,579,360	38,420,640	25,000,000	25,000,000	100,000,000
Worthing	3,222,082	9,464,254	45,000,000	25,000,000	25,000,000	107,686,337

However, in light of the new prudential code, the JSC will be asked to consider the maximum level of borrowing on this type of activity that will then be recommended to Council to approve.

7.3 It is expected that overall the income generated via the developing portfolio will contribute a significant percentage of the savings required over the next 5 years as follows:

	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000
<b><u>Adur:</u></b>					
Annual shortfall	1,333	643	1,226	215	420
Net additional income per year from property investment (after borrowing costs and provision for void rentals)	493	200	250	200	150
Additional income as a percentage of the savings target	36.98%	31.10%	20.39%	93.02%	35.71%
<b><u>Worthing:</u></b>					
Annual shortfall	1,853	1,257	1,825	707	830
Net additional income per year from property investment (after borrowing costs and provision for void rentals)	420	260	208	217	160
Additional income as a percentage of the savings target	22.67%	20.68%	11.40%	30.69%	19.28%
Amount of capital investment required to make income target per Council per year	£15m - £20m	£10m - £15m	£10m - £15m	£10m - £15m	£10m - £15m

:

## **8. Legal Implications**

- 8.1 Part 1 of the Local Government Act 2003 sets out the framework for capital finance and expenditure and the Local Government (Capital Finance and Accounting) (England) Regulations 2003 include more detailed requirements.
- 8.2 Section 111 of the Local Government Act 1972 allows the Councils to do anything which is intended to facilitate or is conducive to or ancillary to any of its functions.
- 8.3 Section 1 Localism Act 2011 provides for the general power of competence and empowers Local Authorities to do anything which generally individuals may do, in the UK or otherwise, for a commercial purpose or otherwise and for, or otherwise than for, the benefit of the authority, its area or persons resident or present in its area.
- 8.4 Paragraph 3.14.3 of the Councils' Scheme of Officer Delegations give authority to the Head of Place and Investment to acquire land in connection with the Council's functions, in consultation with the Leader and Executive Member for Resources and the Chief Financial Officer.

## Background Papers:

- Building the Councils' Investment Portfolios: An update and future direction for Strategic Investment Fund - Report to the Joint Strategic Committee dated 11th July 2017
- Budget strategy as approved by Council following the report to the Joint Strategic Committee titled 'Towards a Sustainable Future - Budget Strategy for the 2018/19 Budget' on the 11th July 2017
- Capital strategy which was approved by Council following the report to the Joint Strategic Committee titled 'Investing in Service Delivery - Capital Strategy 2018/19 - 2020/21' on the 11th July 2017
- Joint Treasury Management Strategy Statement and Annual Investment Strategy 2018/19 to 2020/21, Adur District Council and Worthing Borough Council - Report to the Joint Strategic Committee dated 1st February 2018
- Statutory Guidance on the Minimum Revenue Provision (MRP) (England)  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/678868/Statutory\\_guidance\\_on\\_minimum\\_revenue\\_provision.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/678868/Statutory_guidance_on_minimum_revenue_provision.pdf)
- Statutory Guidance on Local Government Investments  
[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/678866/Guidance\\_on\\_local\\_government\\_investments.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/678866/Guidance_on_local_government_investments.pdf)
- The Prudential Code for Capital Finance in Local Government - 2017 edition by the Chartered Institute of Public Finance and Accountancy (CIPFA)

## Officer Contact Details:-

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## **Sustainability & Risk Assessment**

### **1. Economic**

Where suitable opportunities exist, the Council will invest locally to support the development of the economy.

### **2. Social**

#### **2.1 Social Value**

The income generated via the property portfolio will be used to protect front-line services in the longer term.

#### **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 investment in property is a key part of the Councils agreed budget strategy

The report outlines the governance arrangements for the investment in property for the future. This includes details of how risk will be managed when acquiring and managing the Property Investment Fund.

**THE PROPERTY INVESTMENT  
PORTFOLIO STRATEGY AND  
MANAGEMENT DOCUMENT  
(Working draft)**

## **SECTION 1 – The Property Investment Strategy (working draft)**

### **1. Objectives**

The key objective:-

***“To adopt a structured and measured approach to property income generation, pro-actively managing the risk inherent to investment, creating a balanced portfolio delivering long term sustainable income, for the purpose of supporting the continued provision of Council Services.”***

This key objective will be delivered through the application of the following principles: -

- ❖ To invest in commercial property to generate a sustainable income, with clear margins exceeding the cost of capital and borrowing. The cost of such acquisition are to be funded through borrowing.
- ❖ To build financial resilience through the creation of a diverse portfolio to balance risk and return.
- ❖ To acquire established commercial properties generating an immediate stable income and preserve capital (notwithstanding market changes).
- ❖ Supporting economic growth within the District and Borough, where suitable opportunities arise, provided the return covers the costs of an associated financing.
- ❖ Re-evaluate the existing property portfolio to maximise the financial benefit.
- ❖ Retain the existing property portfolio, where appropriate to maximise long term revenue generation.

### **2. Fund Policy**

- ❖ Retain existing assets where appropriate, to generate income, investing where necessary to enhance returns.
- ❖ Review the benefits of an investment vehicle, such as a holding company, to retain acquired assets.
- ❖ Capital receipts from the sale of Strategic Investment Fund (SIF), or other council properties, to be considered for: -
  - i) Reinvestment in SIF, to sustain income generation and maximise opportunities
  - ii) Repayment of capital borrowing to improve the return on existing assets.
- ❖ Allocation of new purchases between Adur and Worthing Portfolios, to be recommended in consideration of fund diversification risk management.
- ❖ We will not engage with occupiers who may present a significant unmitigated reputational risk.

### 3. Financial Resilience

We will always undertake thorough due diligence to ensure risks associated with any proposed acquisition are understood and mitigated.

The following table details a series of guiding principles, intended to assist decisions to create a balanced portfolio, by providing a basis to manage risk through diversification.

Risk Diversification		
Geographical Diversification	Maximum of 30% of the Target Fund size is invested in any single town.	Given the relatively small size of the funds, initially concentrating on outer London and the wider South East area, with consideration given to wider geographical diversification, as the funds grow and approach their target sizes.
Asset Class/Sector Mix	Industrial/Warehouses 25% Offices 30% Retail 20% Alternatives 25% (e.g. car parking)	To ensure a spread of risks, acquisition across office, retail and industrial sectors. At the outset, the portfolios will be heavily weighted into certain sectors and classes, driven by opportunities and market performance. It is expected weightings will progress towards targets as the portfolio matures in the longer term.
Average Property Size	Guide Size c.£5-15m	Assuming a combined fund size of £150M, this will support a spread of investments. Acquisition outside the guide sizes will be considered where they offer a good return, support diversity within the portfolios, do not create over exposure to a large single tenant/asset.
Leases Expiring within 5 years	Maximum 30%	Spread and diversity sought in future lease expiries across acquisitions to protect revenue streams
Target Return	A return exceeding the cost of borrowing	Initial return exceeding the cost of borrowing, preferably by 2%. Lower returns considered if there is a viable business case/portfolio fit.
Target Fund Size	£150m (£75m per Council)	In order to make a meaningful contribution to the financial challenge, the Councils have agreed to build a portfolio that will generate an initial yield of at least 5%.
Expenditure Allowance	20% of the rental income	Held in a fund to support future management costs and Capital Expenditure for the portfolio, such as lost income through void periods, maintenance, refurbishment. Surplus income will be set aside into a revenue account and capacity within the annual revenue budget to support this will be built over the next 3 - 5 financial years.

It is important to acknowledge that the above principles are ongoing long term objectives and attaining balance will progress as the fund matures.

## SECTION 1 – The Investment Strategy

### 4. Fund Structure

Commercial property investments can be divided into different segments, based upon their position at differing points on the risk v return spectrum.



The following guideline Fund Structure is the basis of investment, adopting a prudent, income focused, strategy: -

	%	
Core	50% (+/-10%)	Modern, or extensively refurbished buildings, fully let on long leases to good covenant tenants in major core markets.
Core plus	30% (+/-20%)	Single or multi-let buildings, with various lease lengths and tenant covenant. Opportunity to add value.
Value Add	Max 15%	Higher risk assets that can be re-purposed to generate income.
Opportunistic	Max 5%	

## **SECTION 1 – The Investment Strategy**

### **5. Purchase Guidelines**

- ❖ Target area UK wide, with focus upon the South East.
- ❖ Commercial real estate.
- ❖ Freehold, or long leasehold nominal rent purchases.
- ❖ Income producing properties, leased on conventional terms, secured against good covenant tenants.

## **SECTION 2 – Investment Portfolio Management**

### **6. Annual Review**

To monitor performance and ensure proactive risk and opportunity management, the Annual Review will consider: -

#### **Portfolio**

- ❖ Market update on activity and forecasts to identify any re-purposing of any asset(s)
- ❖ Review of the current investment strategy
- ❖ An external market valuation of the portfolio to monitor and benchmark performance, meeting financial requirements.
- ❖ An updated three year cash flow forecast
- ❖ An update of three year capital expenditure forecast
- ❖ A review of retain, sale, repurpose or re-gear of each asset
- ❖ Review of the previous year performance including any (Key Performance Indicators) KPIs
- ❖ Review of the underlying life cycle of the asset and refurbishment expectations.

#### **Asset Management**

Report to include: -

- ❖ Rent collection rates, arrears, service charge reconciliations.
- ❖ Advise on all critical lease matters including rent reviews, lease renewals, lease breaks, re-gearing opportunities.
- ❖ Dilapidations, health and safety, insurance claims.
- ❖ Capital expenditure over the preceding 12 month period.

## Appendix 2

Property Name/Location:										
Vendor:										
Tenure:										
Category:										
Price:										
Rent per annum:										
Rent Free:										
Initial Yield:										
VAT Election:										
EPC:										
	Criteria	Criteria Description	Comments	Weighting	Weighted Property Score	Excellent	Good	Acceptable	Marginal	Poor
LOCATION	Location: Macro	Quality of the location (town, city, area) with regard to the property use		3	0					
	Location: Micro	Quality of the individual situation of the property within the macro location, with regard to the property use		3	0					
	Building Quality	Quality of the building compared to the industry standard Grade A for the property type		3	0					
OCCUPANCY	Tenant Covenant	Ability of the tenant/s to pay the rent for the duration of the lease. Credit rating of the tenant		3	0					
	Tenure	Freehold / Long Leasehold. Consideration of any ground rent obligations		2	0					
	Lease Term	Length of the secured income.		3	0					
	Lease Structure	Tenant repairing obligations, rent review mechanisms		3	0					
	Rental Growth Prospects	Opportunity / Likelihood to increase passing rent/ ERV		3	0					
	Occupational Demand	Anticipated level of demand from alternative occupiers if the tenant/s were to vacate		3	0					
STRATEGY	Management Intensity	Complexity and cost of managing the property		2	0					
	Liquidity/Exit Strategy	The degree to which the property can be quickly sold in the market without affecting the price. Please provide specific commentary on exit strategy.		2	0					
	Alternative Use / Underlying Value	The value of the land and the opportunity to explore a change of use should this be required		2	0					
	Asset Management Opportunities	Opportunities to add value to the property		1	0					
	Financial Return (risk v reward)	The forecast gross financial return considering the risk profile of the property and in accordance with the sector with a focus upon income v capital values at lease expiry		4	0					
	Portfolio Strategy Context	The extent to which the property meets the strategy and contributes to the achievement of a diversified portfolio		3	0					
	Weighted Score		A property will be expected to score at least 140 out of 200 (70%) on the above matrix unless there are other economic / wider benefits to be delivered.		0					

## Appendix 3

Investment Decision Guide for filling in matrix					example considerations				
Criteria	Criteria Description	Maximum Weighted Score	Excellent	Good	Acceptable	Marginal	Poor		
<b>Scoring numerically between 1 and 5 as detailed in this guide</b>									
<b>SCORE TO APPLY TO EACH COLUMN</b>			5	4	3	2	1		
<b>SCORING GUIDE</b>			<b>SCORING CONTROLS</b>						
Portfolio Strategy Context	The extent to which the property meets the strategy and contributes to the achievement of a diversified portfolio	15	Under-represented sector						Sector already heavily represented
Location: Macro	Quality of the location (town, city, area) with regard to the property use	15	Major Prime	Prime	Major Secondary	Micro Secondary			Tertiary
Location: Micro	Quality of the individual situation of the property within the macro location, with regard to the property use	15	Excellent transport / footfall						Location with limited benefit
Tenant Covenant	Ability of the tenant/s to pay the rent for the duration of the lease. Credit rating of the tenant	15	Excellent financial covenant	Strong financial covenant	Good financial covenant	Poor but improving covenant			Poor financial covenant
Building Quality	Quality of the building compared to the Industry standard Grade A for the property type	15	New, modern or recently refurbished	Good quality: no spend required for 20 years+	Good quality but spend required in 10 years	Spend required in 5 years			Tired / Significant spend CapEx likely
Lease Term	Length of the secured income.	15	Greater than 15 years	Between 10 and 15 years	Between 6 and 10 years	Between 2 and 5 years			Under 2 years / vacant
Lease Structure	Tenant repairing obligations, rent review mechanisms	15	Full repairing and insuring	Full repairing and insuring: partially recoverable	Internal repairing	Internal repairing: partially recoverable			Landlord responsible
Rental Growth Prospects	Opportunity / Likelihood to increase passing rent	15	Fixed uplifts at frequent intervals						Significantly over-rented (tenant paying above the
Occupational Demand	Anticipated level of demand from alternative occupiers if the tenant/s were to vacate	15	In demand from many tenants		Reasonable prospect of securing new tenants				Niche with limited demand
Management Intensity	Complexity and cost of managing the property	10	Single Tenant						Multiple Tenants
Liquidity	The degree to which the property can be quickly sold in the market without affecting the price	10	Lot size & sector attractive to investors						Attractive to niche purchasers only
Alternative Use / Underlying Value	The value of the land and the opportunity to explore a change of use should this be required	10	Favourable location / planning						No opportunity to change use
Tenure	Freehold / Long Leasehold. Consideration of any ground rent obligations	10	Freehold	Long Leasehold 125 years + / peppercorn ground rent	Lease between 100 and 125 years / peppercorn ground rent	Lease between 50 and 100 years			Less than 50 years and/or high ground rent (10%+)
Asset Management Opportunities	Opportunities to add value to the property	5	Significant opportunity to add value						No opportunity
Financial Return (risk v reward)	The forecast gross financial return considering the risk profile of the property and in accordance with the sector.	20	Return higher than expected for sector / the risk profile						Return lower than expected for sector / risk profile
Weighted Score		200	A property will be expected to score at least 140 out of 200 (70%) on the above matrix unless there are other economic / wider benefits to be delivered within or to the county.						



ADUR & WORTHING  
COUNCILS

Joint Governance Committee  
31 May 2018  
Agenda Item 15

Key Decision: No

Ward(s) Affected: All

## Whistleblowing Protocol

### Report by the Monitoring Officer

#### 1. Purpose

- 1.1. Both Councils adopted a Whistleblowing Policy in 2014 which is overdue for review and revision. Legislation governing whistleblowing has been introduced since that time and this report introduces a new, up-to-date and legally compliant Whistleblowing Protocol.
- 1.2. Members are asked to consider the new Whistleblowing Protocol attached to this report, at Appendix 1, and approve its adoption by each Council and to recommend to each Council that it forms part of their Constitution, together with other Codes of Practice and Protocols.
- 1.3. The purpose of the Protocol is to encourage workers to raise concerns about wrongdoing in the organisation, internally, and to reassure them of the protection afforded them should they do so.
- 1.4. It is a Priority 2 Audit recommendation that the Council's Whistleblowing arrangements are updated and communicated to staff to ensure all staff are aware of the current arrangements.

## 2. Recommendations

The Joint Governance Committee is recommended:

- 2.1 To consider the attached Whistleblowing Protocol, and make any comments;
- 2.2 To grant to the Solicitor to the Council and Monitoring Officer a delegation to make minor and consequential amendments to the Protocol;
- 2.3 To recommend, subject to consultation with Unison, the adoption of the Whistleblowing Protocol by each Council as part of their Constitutions.

## 3. Background

- 3.1. Legislation exists in the form of the *Public Interest Disclosure Act 1998* (as amended) which seeks to provide protection against penalisation for workers who report wrongdoing. The legislation was initially introduced as part of employment legislation to provide a key employment right for individuals. However, it is also a valuable tool to promote good governance and openness in organisations. Encouraging whistleblowers to make disclosures can be of benefit to employers as they can assist in uncovering wrongdoing within an organisation, which could prevent accidents, financial scandals, criminal offences and regulatory breaches.
- 3.2. Since its launch under the chairmanship of Lord Nolan, the Committee on Standards in Public Life has continued to highlight the role whistleblowing plays *“both as an instrument of good governance and a manifestation of a more open culture”*. Emphasising the important role whistleblowing can play in deterring and detecting malpractice and in building public trust, the Committee explained:

*“The essence of a whistleblowing system is that staff should be able to by-pass the direct management line, because that may well be the area about which their concerns arise, and that they should be able to go outside the organisation if they feel the overall management is engaged in an improper course”.*

- 3.3. In making this work, the Committee has said that “leadership, in this area more than in any other, is paramount” and that the promotion of the whistleblowing arrangements is critically important.

#### **4. Issues for consideration**

- 4.1. The revised Council Protocol applies to workers raising genuine concerns about crimes, civil offences, miscarriages of justice, dangers to health and safety or the environment and the cover up of any of these.
- 4.2. The Protocol applies to all workers which includes Council employees, contractors, trainees, agency staff, homeworkers, consultants, casual staff, former employees and volunteers.
- 4.3. The Protocol provides an avenue for workers to report any concerns of wrongdoing in the workplace and to reassure them that their concerns will be taken seriously. Workers are encouraged to report their concerns internally, although if they are dissatisfied with the outcome, the legislation provides an avenue for concerns to be reported to external, independent prescribed regulators. It encourages staff not to raise concerns confidentially as they can better be investigated, but if a worker only feels able to raise a concern confidentially then it reassures workers that their confidentiality will be respected as far as possible. The Protocol provides that the Monitoring Officer, who has day-to-day responsibility for the Protocol, is advised of every reported case of whistleblowing.
- 4.4. The Protocol provides that a worker should initially raise their concern with their line manager or Director. However, it acknowledges that sometimes this may be an inappropriate route, and provides an alternative route to the Council’s Monitoring Officer, the Chief Financial Officer, the Chief Executive or the Chairmen of the Council’s Joint Governance Committee.
- 4.5. The Protocol does not form part of an employee’s contract of employment or their terms and conditions of employment; it should not be used to raise concerns about an individual’s own treatment in their employment relationship and such concerns are better dealt with under the Council’s Grievance Policy. The protocol is for workers to make disclosures of wrongdoing which they consider it would be in the public interest to disclose, as opposed to for personal gain or improper

motive. Disclosures should be made in good faith where an individual honestly and reasonably believes the wrongdoing is happening, has taken place, or is likely to happen. Where false disclosures are made deliberately and maliciously for personal gain, the Council may consider action against the worker under its Disciplinary Policy.

- 4.6. Where a worker makes a disclosure in accordance with the Protocol and the legislation, provided it is made in the public interest it will amount to a Qualifying Disclosure and be afforded the protection of the legislation which provides that the employer cannot treat the whistleblower detrimentally as a result of their whistleblowing. They are therefore protected from dismissal, redundancy, victimisation, suspension, demotion and other unfair treatment for reason of whistleblowing. A worker who makes a disclosure in bad faith or for improper reason is still protected under the legislation but any compensatory award would be reduced by an Employment Tribunal to reflect this.
- 4.7. Workers may have a cause of action in tort against a person who causes detriment to them because they have made a protected disclosure and the Council could be held to be vicariously liable for allowing another employee to penalise or threaten to penalise an employee for having made a protected disclosure.
- 4.8. The legislation does not oblige employers to set up whistleblowing policies, but guidance strongly recommends them to do so and it is clearly good practice for the Councils' to have a Whistleblowing Protocol, which is communicated to staff, which forms part of the Constitution and which is considered and reviewed by the Monitoring Officer and Members of the Joint Governance Committee (who have responsibility for maintaining high standards of conduct and ethics) at least every 3 years.

## **5. Engagement and communication**

- 5.1. It is intended that the Constitutional Protocol will also become an Employment Policy for staff and to this end the Head of Human Resources will be undertaking consultation with Unison in due course over the adoption of the Employment Policy.

- 5.2. It is further proposed that should the Councils agree to adopt the Protocol as part of the Constitution it will be placed on the Council's website and be accessible to all staff.
- 5.3. The Monitoring Officer intends, following its adoption, to offer face to face training to all staff on the provisions of the Protocol.
- 5.4. The Monitoring Officer intends to continuously review the use of the Protocol and its effectiveness and to regularly (at least on a 3 yearly basis) bring a report back to the Joint Governance Committee to review the use and effectiveness of the Protocol and any revisions or amendments to be made.

## **6. Financial Implications**

- 6.1. There are no financial implications associated with the adoption of this Protocol.

## **7. Legal Implications**

- 7.1. The *Public Interest Disclosure Act 1998* provides employment protection for workers making disclosures of wrongdoing in the workplace.
- 7.2. The *Public Interest Disclosure Act 1998* was amended by the *Enterprise and Regulatory Reform Act 2013* which narrowed the definition of protected disclosures to those that are made in the 'public interest'.
- 7.3. It is no longer necessary to make a disclosure in good faith, although any compensatory award made be reduced if a worker does not do so.
- 7.4. The *Protected Disclosures Act 2014* provides enhanced protection for whistleblowers who may now seek interim relief and may be awarded up to 5 times annual remuneration for dismissal as a result of making a protected disclosure.
- 7.5. In the case of *Parsons v Airplus, 2018*, the Employment Appeals Tribunal held that whistleblowing law does not protect an employee who makes a disclosure purely out of self-interest and who does not believe their disclosures to be at all in the public interest.

## **Background Papers**

- Whistleblowing Policy May 2014
- Legislation as referred to in the report

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## **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**

- Protection is given in the legislation and the Protocol from detrimental treatment including discrimination and victimisation as a result of a worker making a protected disclosure.

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

- Matter considered and no issues identified.

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

The Legislation relating to Whistleblowing is compliant with Human Rights legislation.

### **3. Environmental**

- Matters considered and no issues identified.

### **4. Governance**

- Having a Whistleblowing Protocol ensures the Council is upholding high principles of good governance and a culture of openness and honesty throughout the organisation.
- The upholding of high standards of conduct and ethics is a responsibility for the Monitoring Officer and for the Councils' Joint Governance Committee.

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## WHISTLEBLOWING PROTOCOL

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### 1.0 INTRODUCTION

- 1.1 In this Protocol 'Whistleblowing' means the reporting by staff of suspected misconduct, illegal acts or failure to act within the Councils.
- 1.2 The aim of this Protocol is to encourage employees and others who have serious concerns about any aspects of the Council's work to come forward and voice those concerns.

This Protocol intends to:

- Encourage staff to report suspected wrongdoing as soon as possible, in the knowledge that their concerns will be taken seriously and investigated as appropriate, and that their confidentiality will be respected, as far as possible.
  - Encourage and enable staff to raise concerns within the Council rather than ignoring a problem or blowing the whistle externally.
  - Provide staff with guidance as to how to raise those concerns.
  - Reassure staff that they should be able to raise genuine concerns without fear of reprisals, victimisation, subsequent discrimination, disadvantage or dismissal, even if they turn out to be mistaken, provided the disclosure is made in the public interest.
- 1.3 The Councils are committed to conducting business with honesty and integrity, and we expect all staff to maintain high standards of conduct, in accordance with the Council's Officer Code of Conduct. However, all organisations face the risk of things going wrong from time to time, or of unknowingly harbouring illegal or unethical conduct. A culture of openness and accountability is essential in order to prevent such situations occurring or to address them when they do occur.

Staff are often the first to realise that there may be something seriously wrong within an organisation. 'Whistleblowing' is viewed by the Council as a positive act that can make a valuable contribution to the Council's efficiency and long-term success. It is not disloyal to colleagues or the Council to speak up. The Council is committed to achieving the highest possible standards of service and the highest possible ethical standards in public life and in all of its practices. To help achieve these standards it encourages freedom of speech.

## 2.0 WHAT IS WHISTLEBLOWING?

2.1 Any serious concerns that staff have about service provision or the conduct of Officers of the Council, or others acting on behalf of the Council, that make them feel uncomfortable in terms of known standards, are not in keeping with the Constitution or Council policies, fall below established standards of practice or are improper behaviour, should be reported.

This may relate to:

- Criminal activity;
- Miscarriages of justice;
- Racial, sexual, disability or other discrimination;
- Danger to health and safety;
- Damage to the environment;
- Failure to comply with any legal, or professional, obligation or regulatory requirements;
- Unauthorised use of public funds or other assets;
- Bribery;
- Financial fraud or mismanagement;
- Negligence;
- Breach of our internal policies and procedures, including our Officer Code of Conduct;
- Conduct likely to damage our reputation;
- Unauthorised disclosure of confidential information;
- The deliberate concealment of any of the above matters.

2.2 A whistleblower is a person who raises a genuine concern relating to any of the above, where he/she honestly and reasonably believes it to be in the public interest to raise the concern.

2.3 This Protocol should not be used for complaints relating to an individual's own personal circumstances, such as the way they have been treated at work. In those cases the Grievance Procedure should be used.

2.4 If a staff member is uncertain whether something is within the scope of this Protocol they should seek advice from the Monitoring Officer, whose contact details are at the end of this Protocol.

2.5 This Protocol does not form part of any employee's contract of employment and it may be amended at any time.

2.6 If an individual has a concern about services provided to him/her, it should be raised through the Council's complaints procedure.

2.7 Complaints of misconduct by Councillors are dealt with under a separate procedure and should be referred to the Council's Monitoring Officer.

### **3.0 WHO CAN RAISE A CONCERN UNDER THIS PROTOCOL?**

3.1 This Protocol applies to all individuals working at all levels of the organisation, including Senior Managers, Officers, Directors, employees, consultants, contractors, trainees, homeworkers, part-time and fixed-term workers, casual and agency staff and volunteers (collectively referred to as staff in this Protocol).

### **4.0 RAISING A WHISTLEBLOWING CONCERN**

4.1 It is hoped that in many cases staff will be able to raise any concerns with their line manager or Director. Staff may tell them in person or put the matter in writing if preferred. They may be able to agree a way of resolving concerns quickly and effectively.

4.2 However, where the matter is more serious, or staff feel that their line manager or Director has not addressed the concern, or if they prefer not to raise it with them for any reason, they should contact one of the following:

- (a) The Monitoring Officer;
- (c) The Chief Executive;
- (d) The Chairmen of the Joint Governance Committee;
- (e) The Chief Financial Officer (S.151 Officer).

Contact details are set out at the end of this protocol.

4.3 The Council will arrange a meeting with the whistleblower as soon as possible to discuss their concern. The whistleblower may bring a colleague or Union representative to any meetings held under this Protocol. The companion must respect the confidentiality of the disclosure and any subsequent investigation.

4.4 The Council will take down a written summary of the whistleblower's concern and provide them with a copy after the meeting. The Council will also aim to give an indication of how it proposes to deal with the matter.

4.5 Whoever internally, within the Councils, receives a whistleblowing disclosure, they are obliged to notify the Monitoring Officer, in writing, within 2 working days of the nature of the disclosure made.

### **5.0 CONFIDENTIALITY**

5.1 The Council hopes that staff will feel able to voice whistleblowing concerns openly under this Protocol. However, if a whistleblower wants to raise a concern confidentially, the Council will make every effort not to disclose their identity. If it is

necessary for anyone investigating the concern to know the whistleblower's identity, this will be discussed with the whistleblower in advance.

- 5.2 The Council does not encourage staff to make disclosures anonymously. Proper investigation may be more difficult or impossible if the Investigating Officer cannot obtain further information from the whistleblower. It is also more difficult to establish whether any allegations are credible. Whistleblowers who are concerned about possible reprisals if their identity is revealed should come forward to the Monitoring Officer or one of the other contact points listed in Annex 1 and appropriate measures can then be taken to preserve confidentiality.
- 5.3 If a whistleblower is in any doubt, they can seek independent advice from the independent charity, Public Concern at Work, who offer a confidential helpline. Their contact details are at the end of this Protocol.

## **6.0 EXTERNAL DISCLOSURES**

- 6.1 The aim of this Protocol is to provide an internal mechanism for reporting, investigating and remedying any wrongdoing in the workplace. In most cases a whistleblower should not find it necessary to alert anyone externally.
- 6.2 The law recognises that in some circumstances it may be appropriate for a whistleblower to report their concerns to an external body such as a regulator. It will very rarely, if ever, be appropriate to alert the media. The Council strongly encourages whistleblowers to seek advice before reporting a concern to anyone external. The independent whistleblowing charity, Public Concern at Work, operates a confidential helpline. They also have a list of prescribed regulators for reporting certain types of concern. Their contact details are at the end of this Protocol.
- 6.3 Whistleblowing concerns usually relate to the conduct of staff, but they may sometimes relate to the actions of a third party, such as a customer, supplier or service provider. In some circumstances the law will protect a whistleblower if they raise the matter with the third party directly. However, the Council encourages whistleblowers to report such concerns internally first.

## **7.0 INVESTIGATION AND OUTCOME**

- 7.1 Once a whistleblower has raised a concern, the Council will carry out an initial assessment to determine the scope of any investigation. The Council will then inform the whistleblower of the outcome of the assessment. The whistleblower may be required to attend additional meetings in order to provide further information.
- 7.2 In some cases the Council may appoint an Investigating Officer or team of investigators including staff with relevant experience of investigations or specialist

knowledge of the subject matter. The investigator(s) may make recommendations for change to enable the Council to minimise the risk of future wrongdoing.

- 7.3 The Council will aim to keep the whistleblower informed of the progress of the investigation and its likely timescale. However, sometimes the need for confidentiality may prevent the giving of specific details of the investigation or any disciplinary action taken as a result. Any information given about the investigation should be treated as confidential.
- 7.4 If the Council concludes that a whistleblower has made false allegations maliciously or with a view to personal gain, the whistleblower may be subject to disciplinary action.

## **8.0 IF THE WHISTLEBLOWER IS NOT SATISFIED WITH THE OUTCOME**

- 8.1 While the Council cannot always guarantee the outcome the whistleblower is seeking, it will deal with the concern raised fairly and in an appropriate way, and in compliance with Human Rights and Equalities legislation.
- 8.2 If a whistleblower is not satisfied with the way in which their disclosure has been handled, they can raise it with one of the other key contacts in paragraph 4.2 of this Protocol. Alternatively they may contact the Council's Auditors (contract details are set out at the end of this Protocol) or seek independent advice from Public Concern at Work.

## **9.0 PROTECTION AND SUPPORT FOR WHISTLEBLOWERS**

- 9.1 It is understandable that whistleblowers are sometimes worried about possible repercussions. The Council aims to encourage openness and will support staff who raise genuine concerns under this Protocol, if they reasonably believe it to be in the public interest to do so, even if they turn out to be mistaken.
- 9.2 Staff must not suffer any detrimental treatment as a result of raising a concern or making a disclosure, provided it is made in the honest belief that it is in the public interest to do so. Detrimental treatment includes dismissal, disciplinary action, threats or other unfavourable treatment connected with raising a concern. If you believe that you have suffered any such treatment, you should inform the Monitoring Officer immediately. If the matter is not remedied you should raise it formally using the Council's Grievance Procedure.
- 9.3 Staff must not threaten or retaliate whistleblowers in any way. Any staff member involved in such conduct is likely to be subject to disciplinary action. In some cases the whistleblower could have a right to sue them personally for compensation in an Employment Tribunal, and also for the Council to potentially be vicariously liable for their actions.

## **10.0 RESPONSIBILITY FOR THE SUCCESS OF THIS PROTOCOL**

- 10.1 The Council's Corporate Leadership Team has overall responsibility for this Protocol, and for reviewing the effectiveness of actions taken in response to concerns raised under this Protocol.
- 10.2 The Monitoring Officer has day-to-day operational responsibility for this Protocol, and must ensure that all managers and other staff who may deal with concerns or investigations receive regular and appropriate training.
- 10.3 The Monitoring Officer should review this Protocol at least every 3 years in conjunction with the Councils' Joint Governance Committee and with the Strategic Head of Human Resources who shall consult with UNISON.
- 10.4 All staff are responsible for the success of this Protocol and should ensure that they use it to disclose any suspected danger or wrongdoing. Staff are invited to comment on this Protocol and suggest ways in which it might be improved. Comments, suggestions and queries should be addressed to the Monitoring Officer.

## Contacts

<b>Monitoring Officer</b>	Susan Sale 01903 221119 Susan.sale@adur-worthing.gov.uk
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<b>Chief Executive</b>	Alex Bailey 01903 221001 alex.bailey@adur-worthing.gov.uk
<b>Worthing Borough Council Chairperson of Joint Governance Committee</b>	Councillor Lionel Harman Lionel.Harman@worthing.gov.uk
<b>Adur District Council Chairperson of Joint Governance Committee</b>	Councillor George Barton George.Barton@adur.gov.uk
<b>Council's Auditors</b>	Suzanne Smith (Mazars) 01903 221255 Suzanne.Smith@mazars.co.uk
<b>Public Concern at Work</b> (Independent whistleblowing Charity)	Helpline: (020) 7404 6609 E-mail: whistle@pcaw.co.uk Website: www.pcaw.co.uk