Key Decision: No

Ward(s) Affected: N/A

**INTERNAL AUDIT PROGRESS REPORT**

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

**Executive Summary**

**1.     Purpose**

This report seeks to update Members of this Committee with the Head of Internal Audit's opinion reports on the systems of internal control at Adur District Council and at Worthing Borough Council during 2020/21.

**2.     Recommendations**

**2.1   Recommendation One**

That the Committee note the contents of this report.

**3.     Context**

**3.1   Background**

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 UK Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations. 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**

**4.1    Covid-19**

While the Internal Audit function has continued to operate since the Covid-19 lockdown on 23 March 2020, progress on audits which were "in progress" or planned to start in March when the Covid-19 crisis emerged, has been delayed. The progression of audit work has been impacted by audit resources working at home and the availability of auditees due to their understandable involvement in front line and other key service work.  We have also noted that progress on follow-up work has been impacted.

Progress has been discussed with the Chief Finance Officer (CFO) and as a result some changes to the 2019/20 Audit Plan were subsequently agreed.

**4.2    Head of Internal Audit's Opinions – 2020/21**

From the Internal Audit work undertaken in 2020/21, 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 2021 accords with proper practice.  We did, however note the following significant control issue, which relates to Adur District Council only:

●   The key theme identified in the 2019/20 Head of Internal Audit report, relating to control issues being identified from audits conducted in Housing (including procurement and contract management issues), based on audit work during the current year, still remains as a key theme.

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 2020/21.

**5.      Engagement and Communication**

**5.1**   Internal Audit attends monthly meetings with the Chief Financial Officer (CFO) on progress against the plan. Issues arising and potential plan changes are discussed both at these meetings and whenever necessary. The Acting Head of Internal Audit, Engagement Manager and the CFO have had specific discussions during the past year in relation to the Covid-19 situation and impact on Internal Audit work.

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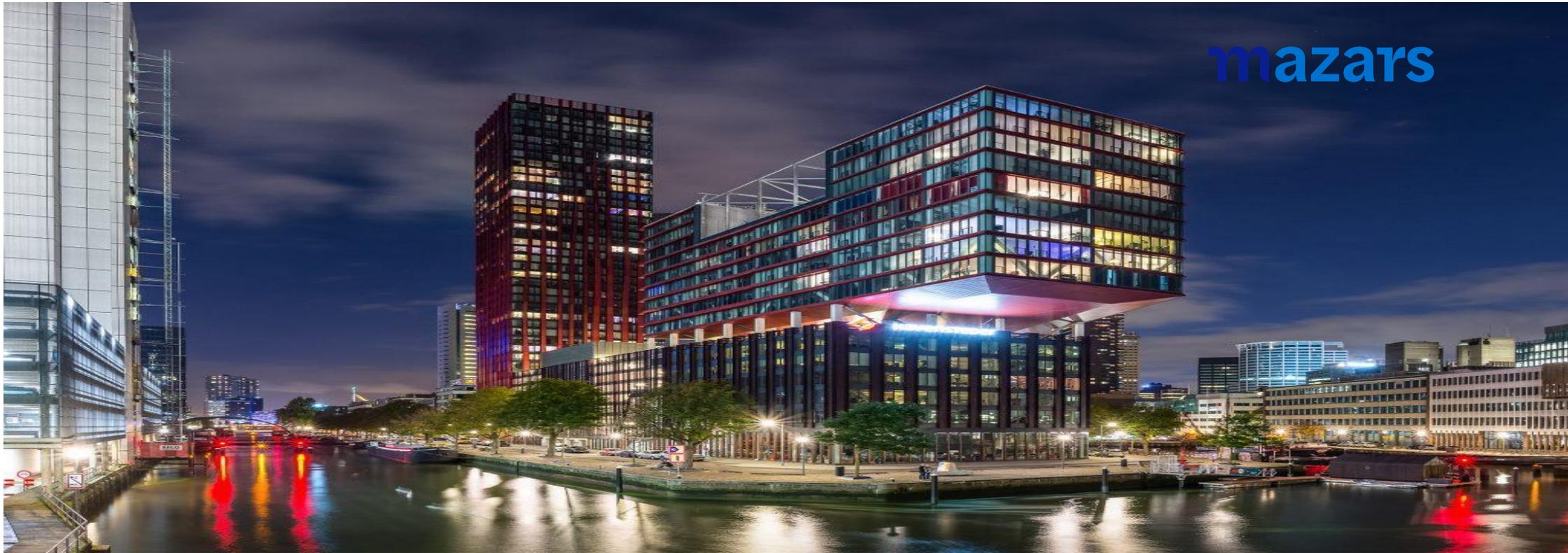
**2.4 Human Rights Issues**

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**

**Annual Head of Internal Audit Report**

# May 2021

This report and the work connected therewith are subjected to the Terms and Conditions of the Engagement Letter dated 15 March 2018 between Adur District and Worthing Borough Councils (through the London Borough of Croydon's APEX Framework Agreement) and Mazars LLP.

## Contents

# 1.    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 2020/21 financial year, the service for which is provided by Mazars LLP.

The purpose of the Annual Internal Audit Report is to meet the Head of Internal Audit annual reporting requirements set out in the UK Public Sector Internal Audit Standards (PSIAS).  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.  The Council also has a duty under the Local Government Act to make arrangements to secure continuous improvement in the way in which it functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the 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 2020/21 (Plan) included a total of 26 internal audits when approved by the Joint Governance Committee in May 2020. 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 Council, help ensure the most appropriate use of our resources. In addition to the 27 audits included in the Plan, there were also 7 audits that were deferred from 2019/20 Audit Plan.

Through our continued liaison with senior management, changes were agreed to the Plan during the year and as a result, some internal audits have been deleted from the Plan and the timing of a number of other audits has been changed, as follows:

- Four audits were added (Adur Promotions Service, Incident and Problem Management, Housing – Contracts Fact Find and GDPR Compliance);

- Six audits were removed (Markets, E-mail Archiving, Exchange and Google, Condition Surveys, Cloud Computing Security, Network Infrastructure Security and Problem Debt), and

- Six audits are either still in progress or deferred, (Out of Hours Service, Payroll, Cyber Security, Supply of Affordable Housing, Key Controls Compliance and Management of Major Projects)

Consequently, the final number of internal audits for Adur in 2019/20 was 25, which is greater than the 21 for the prior year.

Although Internal Audit continued to operate post the Covid-19 lockdown restrictions from 23 March 2020, the progression of work from both the 2019/20 and 2020/21 plans was impacted. Our work re-commenced in July 2020 but due to the nature of remote auditing and our reliance on Council staff providing information, there have been some delays in the completion of audit. However, there were no material scope impairments or restrictions on internal audit in 2020/21.

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".*

## Content of report

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 2020/21.

In this report, we have drawn on the findings and assessments included in all internal audit reports issued in 2019/20, 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 2020/21.

## 2.    Overall Summary

As illustrated in the tables below, and based on the current work completed, we have noted a decrease in audit assurance opinions issued in 2020/21 relative to the prior year. However, it should be noted that the Plan is based on examination of high risk areas and areas highlighted by management as requiring review which may increase the likelihood of limited assurance reports being issued and therefore impact on the assurances given.

During 2020/21, 14 (59%) of the internal audit projects which have so far been completed were rated 'Satisfactory assurance' compared with 12 (57%) in the prior year and one 'Full assurance' opinion was issued in 2021/21 compared to none in 2019/20. We issued one 'No assurance' opinion in 2020/21 compared to none in 2019/20 and eight reports (33%) have been issued with 'limited assurance' opinions compared with nine (43%) in the previous year.

| Assurance Gradings | Number of Projects | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2020/21 | | 2019/20 | | 2018/19 | | 2017/18 | | 2016/17 | |
| Full | 1 | 4% | 0 | 0% | 2 | 6% | 0 | 0% | 1 | 4% |
| Satisfactory | 14 | 59% | 12 | 57% | 20* | 63% | 18 | 62% | 24 | 85% |
| Limited | 8 | 33% | 9 | 43% | 10* | 31% | 10 | 35% | 2 | 7% |
| No | 1 | 4% | 0 | 0% | 0 | 0% | 1 | 3% | 1 | 4% |
| Sub-Total | 24 | | 21 | | 32 | | 29 | | 28 | |
| N/a Opinion Audits | 1 | | 0 | | 0 | | 1 | | 3 | |
| Total Audits Delivered | 25 | | 21 | | 32 | | 30 | | 31 | |

| | | | | | |
|---|---|---|---|---|---|
| Audits still in progress / Postponed | 7 | 10 | 0 | 0 | 0 |
| **Total** | **32** | **31** | **32** | **30** | **31** |

A summary of key findings for all 2020/21 internal audit projects rated as No/Limited is included at Appendix 1.

## Opinion 2020/21

From the Internal Audit work undertaken in compliance with the PSIAS in 2020/21, it is our opinion that we can provide **Satisfactory Assurance** that the system of internal control in place at the Council for the year ended 31 March 2021 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:

ASSURANCE - FINANCIAL SYSTEMS

Our overall opinion is that internal controls within financial systems operating throughout the year are fundamentally sound.

ASSURANCE - NON-FINANCIAL SYSTEMS

Our overall opinion is that internal controls within operational systems operating throughout the year are fundamentally sound.

## 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 noted an improvement in the control environment compared to last year (and in line with prior years) and whilst further remedial action needs to take place, we have noted that management has already started addressing our most significant findings.**

## Key Theme

The key theme identified in the 2019/20 Head of Internal Audit report, relating to control issues being identified from audits conducted in Housing (including procurement and contract management issues), based on audit work during the current year, still remains as a key theme.

## 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 2020/21.

As in previous years, 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 Audit Results Report for the year ended 31st March 2020 (dated November 2020 and reported to the Joint Governance Committee meeting 24th November 2020), in which Ernst & Young have concluded that, '*We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work'*, and

- Our audit of the Council's corporate governance arrangements (July 2019) that provided an overall Satisfactory assurance rating.

## Risk Management

Based on an internal audit of the Council's risk management framework In March 2020, 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 Audit Results Report for the year ended 31 March 2020 (dated November 2020) in which they state that, '*In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General in April 2020, we are satisfied that, in all significant respects, Adur District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.*', and

- Our audit of the Council's risk management arrangements (final report issued April 2020) that provided an overall Satisfactory assurance rating.

## Internal Control - IT Audits

Each year Internal Audit carries out audits of specific IT systems/areas.  Three computer audits were completed during the year, one (on 'Network Architecture and Resilience') which was limited assurance and two (on 'Incident and Problem Management' and 'GDPR Compliance') which were satisfactory assurance resulting in an overall reasonable assurance on the Council's information technology.

## 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% | 83% |
| Number of draft audit reports/work items complete | 32 | 25** |

** Of the seven work items to be completed, four are in progress and 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 2021/22.

# Appendix 1 - Audit Projects with Limited or No Assurance 2020/21

| Project | Grading | Summary of Key Findings |
|---|---|---|
| Management of the Commercial Property Portfolio | Limited | Seven findings were identified, (three Priority 1, four Priority 2 and one Priority 3 recommendations).<br>The Priority 1 findings were that:<br>● Background and identity checks were not being performed in respect of new tenants.<br><br>● Testing of a sample of ten lease renewals identified two instances where the DAR was signed off by the PIM after the lease expiry date; and four instances where the new lease was not completed in a timely manner.<br><br>● Testing of the two rent reviews undertaken during the last year identified that both were not completed in a timely manner, with one being completed in excess of two years after it was due and the other six years after it was due.<br><br>The Priority 2 findings were that:<br>● testing of a sample of ten lease renewals identified an instance where no evidence to support that the tenant had been formally notified of the service charge element of the lease was available.<br><br>● Testing a sample of ten lease renewals identified an instance where the lease inspection was completed four days after the lease expiry date.<br><br>● Testing of two rent reviews identified that there was no rent valuation form for the Telecoms site at Lancing Manor. |

| | | |
|---|---|---|
| | | ● Although advised that various key reports can be run on the App, such as leases and rent reviews due in the next 12 months, evidence of these reports being regularly run was not available. |
| Tenancy Management | Limited | Three findings were identified, (one Priority 1 and two Priority 3 recommendations).<br>The Priority 1 findings were that:<br>● Although there was a documented up to date procedure on mutual exchanges, there was no procedural guidance on new tenancies, tenancy changes and terminations and successions.<br><br>The Priority 2 findings were that:<br>● The Tenant strategy available to staff and the public was for the period of 2012-2015, with no evidence of this being subsequently updated.<br><br>● The maximising Rental Income procedure was last updated in May 2009, with no evidence of this being subsequently updated. |
| Procurement and Contract Management Housing (Draft) | No | Two findings were identified, (both Priority 1 recommendations).<br>The Priority 1 findings were that:<br>● For the Bluefrog Cleaning Services Ltd contract, we were not provided with details of the tender evaluation panel or copies of the initial evaluations that were undertaken by individual evaluation panel members.<br><br>● Review of the minutes of the July, August and September 2020 meetings with Bluefrog Cleaning Services Ltd found that one issue was raised in June and one in August but did not include details of the action/s taken to resolve the issue. The minutes also noted a further standing agenda item in respect of, 'Service credits/non- compliance with specification' and records for all three months that these were, 'To be reviewed'. However, there is no evidence to show if/when and how the Service Credits were |

| | | reviewed. Furthermore, there was no evidence of the KPI reports being provided; we note that the contract has been in operation since 1st April 2018, for a period in excess of two years. |
|---|---|---|
| Network Architecture and Resilience | Limited | Seven issues were raised, (four Priority 2 and three Priority 3). The Priority 2 findings were that: <br>● Although network availability and performance were monitored through the PRTG and Cacti network monitoring tools, there was no control to record and track to resolution issues/alerts raised by these tools. <br>● The Local Area Network (LAN) and the Wide Area Network (WAN) to be resolved had some single points of failure. <br>● Although some hardening practices (i.e. the process of securing a system by reducing its vulnerability) had been implemented, there were no hardening procedures defined for the network devices in alignment with Councils requirements. <br>● Internal and external penetration tests were not performed annually to test the effectiveness of security defences through mimicking the actions of real-life attackers. |
| Community Grants (Draft) | Limited | Six findings were identified, (one Priority 1 and four Priority 2 recommendations). The Priority 1 findings was that: <br>● Supporting documents were not available to evidence that these had been received for the sample of organisations in receipt of grants selected. <br>The Priority 2 findings were that: <br>● Review panel members had not received training. <br>● Notification letters and contracts with successful grant applicants were not retained. <br>● There were no procedures providing guidance on monitoring meetings with grant recipients or on corrective actions. |

| | | |
|---|---|---|
| | | ● There was no formal procedure for reporting back on grant performance to the committee. |
| Adur Promotions Service | Limited | Seven issues were raised, (three Priority 2 and four Priority 3). The Priority 2 findings were that: ● Flyers advertising the Service are not routinely placed at the sites. This may help to raise profile particularly if there is currently under-utilised space. From discussions with APS officers we also confirmed that direct marketing is not used very frequently and they have not approached any local businesses or newspapers to assist with advertising. ● Discussion with APS officers established that advertisements can sometimes be displayed without full payment having been received before the advert is placed. This is because the APS team deal with the application and placing the advert/poster and the payment is received and processed by the Council's Finance Team (Cash Office). ● We were advised that the Markets Officer does not always update the spreadsheet when displays are removed. |
| Project Management (Draft) | Limited | Four issues were raised, (two Priority 1 and two Priority 2). The Priority 1 findings were that: ● The list of project managers provided was inaccurate. ● Project management documentation was not centrally retained, with it being necessary to obtain this from individual project managers. Despite numerous enquiries, Internal Audit as unable to locate documentation relating to 4 of the sample of 10 projects sampled. The Priority 2 findings were that: ● Projects were not categorised to aid monitoring. Although recommended in the previous audit, this had not been implemented. ● Sample testing identified a project where the project evaluation had either not been carried out or had not been documented. |
| GDPR compliance (Draft) | Limited | Fourteen issues were raised, (one Priority 1, eleven Priority 2 and two Priority 3). |

The Priority 1 finding was that:

- The 'DSA_DPA Guidance' document did not detail the requirement to include Article 28 contractual clauses in Data Processor Agreements.

The Priority 2 findings were that:

- Although the 'Corporate Risks & Opportunities 2020/21' document identified data protection risks, the risks were not specific to the Development Management team.
- The External Privacy Notice detailed that consent would be obtained from data subjects prior to disclosing special categories of data even though Internal Audit were informed during interview that consent was not obtained prior to disclosing special categories of data.
- The Data Protection Policy did not contain all information relevant to the technical and organisational measures put in place to comply with GDPR principles, to ensure that staff are aware of the technical and organisational measures that are put in place to comply with the GDPR.
- The Development Management team did not justify why 12 out of 17 records, as detailed in the Information Retention and Disposal Schedule, were being retained indefinitely.
- The record of processing activities (ROPA) did not include all Article 30 mandatory fields and it had not been maintained as there were incomplete fields.
- There was no documented process for the Development Management team to escalate any data protection complaints to the Data Protection Officer (DPO).
- There was a lack of accountability for the handling of data protection complaints.
- 11 members within the Planning and Development Management team had not completed their Information Certificate Training.
- There was no specialist data protection training provided to the team's GDPR Lead.
- The Development Management team had not provided any evidence to demonstrate its awareness of controls in place to assess and manage information security risks (e.g. Information Security Policy).

| | | <ul><li>The Development Management team has not conducted a data processing impact assessment (DPIA), or at least completed the screening checklist, to demonstrate an assessment on privacy risks for its processing activities.</li><li>There was no documented due diligence process for the Development Management team to follow prior to onboarding a third party.</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 |
|---|---|
| Full | There is a sound system of internal control designed to achieve the Council's objectives<br><br>The control processes tested are being consistently applied. |
| Satisfactory | While there is a basically sound system of internal control, there are weaknesses, which put some of the Council's objectives at risk.<br><br>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. |
| Limited | Weaknesses in the system of internal controls are such as to put the Council's objectives at risk.<br><br>The level of non-compliance puts the Council's objectives at risk. |
| No | Control processes are generally weak leaving the processes/systems open to significant error or abuse.<br><br>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 Council for this report, which is prepared based on the limitations set out below.
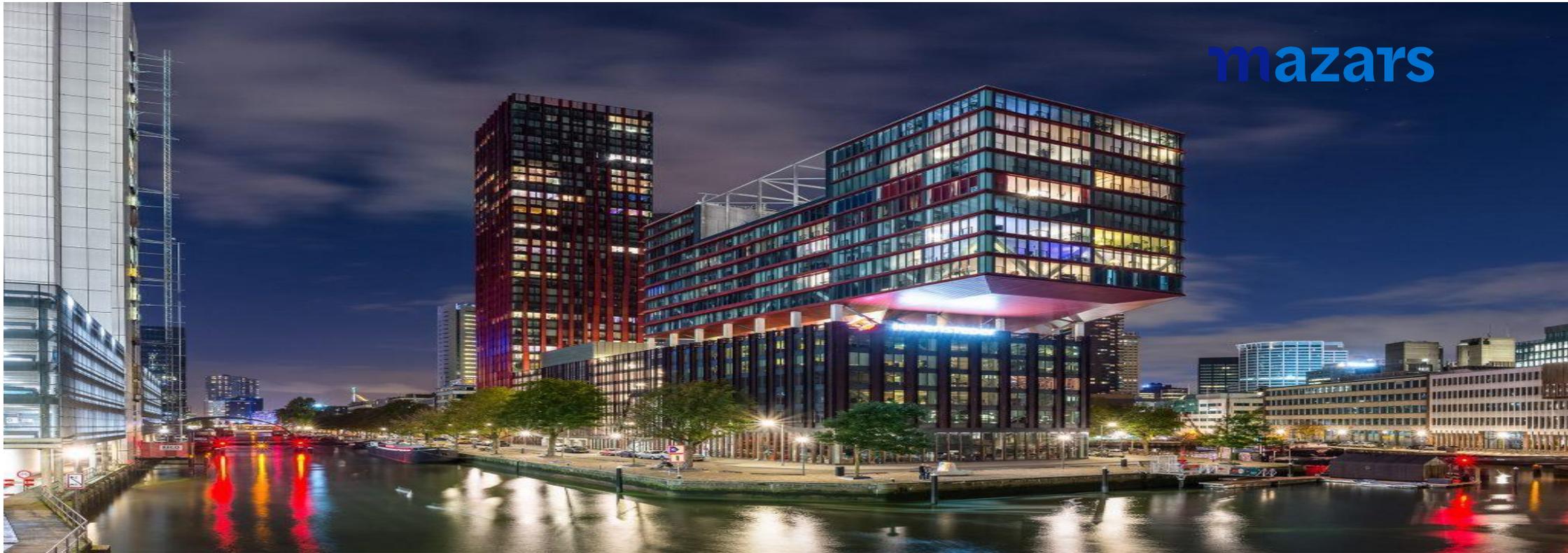
The responsibility for designing and maintaining a sound system of internal control and the prevention and detection of fraud and other irregularities rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy 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 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 LLP accepts no responsibility and disclaims all liability to any third party who purports to use or reply 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.

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**Worthing Borough Council**

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## 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".*

## Content of report

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 2020/21.

In this report, we have drawn on the findings and assessments included in all internal audit reports issued in 2020/21, 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 2021/22.

## 2.    Overall Summary

As illustrated in the tables below, and based on the current work completed, we have noted an improvement in the audit assurance gradings issued in 2020/21 relative to the prior year.

During 2020/21, 13 (62%) of the internal audit projects which have so far been completed were rated 'Satisfactory assurance' compared with 11 (61%) in the prior year and two 'Full assurance' opinions were issued in 2021/21 compared to none in 2019/20. We issued one 'No assurance' opinion in 2020/21 compared to none in 2019/20 and five reports (24%) have been issued with 'limited assurance' opinions compared with seven (39%) in the previous year.

| Assurance Gradings | Number of Projects | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2020/21 | | 2019/20 | | 2018/19 | | 2017/18 | | 2016/17 | |
| Full | 2 | 9% | 0 | 0% | 3 | 10% | 0 | 0% | 1 | 4% |
| Satisfactory | 13 | 62% | 11 | 61% | 20* | 69% | 17 | 74% | 23 | 85% |
| Limited | 5 | 24% | 7 | 39% | 6* | 21% | 6 | 26% | 3 | 11% |
| No | 1 | 5% | 0 | 0% | 0 | 0% | 0 | 0% | 0 | 0% |
| **Sub-Total** | **21** | | **18** | | **29** | | **23** | | **27** | |
| N/a Opinion Audits | 0 | | 0 | | 0 | | 1 | | 2 | |
| **Total Audits Delivered** | **21** | | **18** | | **29** | | **24** | | **29** | |
| Audits still in progress / Postponed | 7 | | 9 | | 0 | | **0** | | **0** | |
| **Total** | **28** | | **27** | | **29** | | **24** | | **29** | |

A summary of key findings for all 2020/21 internal audit projects rated as No/Limited is included at Appendix 1.

## Opinion 2020/21

From the Internal Audit work undertaken in compliance with the PSIAS in 2020/21, it is our opinion that we can provide **Satisfactory Assurance** that the system of internal control in place at the Council for the year ended 31 March 2021 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:

**ASSURANCE - FINANCIAL SYSTEMS** → Our overall opinion is that internal controls within financial systems operating throughout the year are fundamentally sound.

**ASSURANCE - NON-FINANCIAL SYSTEMS** → Our overall opinion is that internal controls within operational systems operating throughout the year are fundamentally sound.

## 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 noted an improvement in the control environment compared to last year (and in line with prior years) and whilst further remedial action needs to take place, we have noted that management has already started addressing our most significant findings.

## Key Theme

No key themes have emerged from our work.

## 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 2020/21.

Based on our internal audits, liaison with S151 Officer and attendance at JGC, there have not been any significant changes to the Council's structure or operation.

Our audit of the Council's corporate governance arrangements (July 2019) provided an overall Satisfactory assurance rating.

We also noted in the external auditor's Audit Results Report for the year ended 31 March 2020 (dated November 2020 and reported to the Joint Governance Committee meeting 24 November 2020), the External Auditors concluded that, '*We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work*'.

Thus, as in previous years, 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.

## Risk Management

Based on an internal audit of the Council's risk management framework In March 2020, for which we provided Satisfactory assurance, 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:

We also noted in the external auditor's Audit Results Report for the year ended 31 March 2020 (dated November 2020), the External Auditors concluded that '*In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General in April 2020, we are satisfied that, in all significant respects, Adur District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.*'.

## Internal Control - IT Audits

Each year Internal Audit carries out audits of specific IT systems/areas. Due to restrictions from the Covid-19 lockdown, no IT Audits were completed except for the closing off of 2019-20 audits until autumn 2020. The computer audit plan was subsequently revisited with the Council's IT Team as their priorities and risks had changed. This resulted in the computer audit plan being amended, with the audits on 'E-mail Archiving, Exchange and Google', 'Cloud Computing Security' and 'Network Infrastructure Security' being removed and the audits on 'Incident and Problem Management' and 'GDPR Compliance' added.

Three computer audits were completed during the year, two (on 'Network Architecture and Resilience' and 'GDPR Compliance') which were limited assurance and one (on 'Incident and Problem Management') which was satisfactory assurance. It should be noted that the computer audit plan has been based on examination of high-risk areas and areas highlighted by management as requiring review, which has increased the likelihood of limited assurance reports being issued and therefore impact on the assurances given. Therefore, despite there being two limited assurance audits, Internal Audit still has an overall reasonable assurance on the Council's information technology.

## 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% | 83% |
| Number of draft audit reports/work items complete | 28 | 21** |

** Of the seven work items to be completed, four are in progress and three where the start dates have been delayed at auditee request. These have therefore been deferred to 2021/22. 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 2021/22.

# Appendix 1 - Audit Projects with Limited or No Assurance 2020/21

| Project | Grading | Summary of Key Findings |
|---------|---------|-------------------------|
| Management of the Commercial Property Portfolio | Limited | Eight findings were identified, (three Priority 1, four Priority 2 and one Priority 3 recommendations). <br> The Priority 1 findings were that: <br> • Background and identity checks were not being performed in respect of new tenants. <br> • Testing of a sample of ten lease renewals identified two instances where the DAR was signed off by the PIM after the lease expiry date; and four instances where the new lease was not completed in a timely manner. <br> • Testing of the two rent reviews undertaken during the last year identified that both were not completed in a timely manner, with one being completed in excess of two years after it was due and the other six years after it was due. <br> The Priority 2 findings were that: <br> • testing of a sample of ten lease renewals identified an instance where no evidence to support that the tenant had been formally notified of the service charge element of the lease was available. <br> • Testing a sample of ten lease renewals identified an instance where the lease inspection was completed four days after the lease expiry date. <br> • Testing of two rent reviews identified that there was no rent valuation form for the Telecoms site at Lancing Manor. |

| | | |
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| | | ● Although advised that various key reports can be run on the App, such as leases and rent reviews due in the next 12 months, evidence of these reports being regularly run was not available. |
| Procurement and Contract Management Housing (Draft) | No | Two findings were identified, (both Priority 1 recommendations). <br> Due to the limited documentation provided during this internal audit, Internal Audit was not able to achieve the agreed scope and objectives. <br> The Priority 1 findings were that: <br> ● For the Bluefrog Cleaning Services Ltd contract, we were not provided with details of the tender evaluation panel or copies of the initial evaluations that were undertaken by individual evaluation panel members. <br> ● Review of the minutes of the July, August and September 2020 meetings with Bluefrog Cleaning Services Ltd found that one issue was raised in June and one in August but did not include details of the action/s taken to resolve the issue. The minutes also noted a further standing agenda item in respect of, 'Service credits/non- compliance with specification' and records for all three months that these were, 'To be reviewed'. However, there is no evidence to show if/when and how the Service Credits were reviewed. Furthermore, there was no evidence of the KPI reports being provided; we note that the contract has been in operation since 1st April 2018, for a period in excess of two years. |
| Network Architecture and Resilience | Limited | Seven issues were raised, (four Priority 2 and three Priority 3). <br> The Priority 2 findings were that: <br> ● Although network availability and performance were monitored through the PRTG and Cacti network monitoring tools, there was no control to record and track to resolution issues/alerts raised by these tools. <br> ● The Local Area Network (LAN) and the Wide Area Network (WAN) to be resolved had some single points of failure. |

| | | |
|---|---|---|
| | | • Although some hardening practices (i.e. the process of securing a system by reducing its vulnerability) had been implemented, there were no hardening procedures defined for the network devices in alignment with Councils requirements. <br> • Internal and external penetration tests were not performed annually to test the effectiveness of security defences through mimicking the actions of real-life attackers. |
| Community Grants (Draft) | Limited | Five findings were identified, (one Priority 1 and four Priority 2 recommendations). <br> The Priority 1 findings was that: <br> • Supporting documents were not available to evidence that these had been received for the sample of organisations in receipt of grants selected. <br> The Priority 2 findings were that: <br> • Review panel members had not received training. <br> • Notification letters and contracts with successful grant applicants were not retained. <br> • There were no procedures providing guidance on monitoring meetings with grant recipients or on corrective actions. <br> • There was no formal procedure for reporting back on grant performance to the committee. |
| Project Management (Draft) | Limited | Four issues were raised, (two Priority 1 and two Priority 2). <br> The Priority 1 findings were that: <br> • The list of project managers provided was inaccurate. <br> • Project management documentation was not centrally retained, with it being necessary to obtain this from individual project managers. Despite numerous enquiries, Internal Audit as unable to locate documentation relating to 4 of the sample of 10 projects sampled. <br> The Priority 2 findings were that: <br> • Projects were not categorised to aid monitoring. Although recommended in the previous audit, this had not been implemented. |

| | | |
|---|---|---|
| | | ● Sample testing identified a project where the project evaluation had either not been carried out or had not been documented. |
| GDPR compliance (Draft) | Limited | Fourteen issues were raised, (one Priority 1, eleven Priority 2 and two Priority 3). |
| | | The Priority 1 finding was that: |
| | | ● The 'DSA_DPA Guidance' document did not detail the requirement to include Article 28 contractual clauses in Data Processor Agreements. |
| | | The Priority 2 findings were that: |
| | | ● Although the 'Corporate Risks & Opportunities 2020/21' document identified data protection risks, the risks were not specific to the Development Management team. |
| | | ● The External Privacy Notice detailed that consent would be obtained from data subjects prior to disclosing special categories of data even though Internal Audit were informed during interview that consent was not obtained prior to disclosing special categories of data. |
| | | ● The Data Protection Policy did not contain all information relevant to the technical and organisational measures put in place to comply with GDPR principles, to ensure that staff are aware of the technical and organisational measures that are put in place to comply with the GDPR. |
| | | ● The Development Management team did not justify why 12 out of 17 records, as detailed in the Information Retention and Disposal Schedule, were being retained indefinitely. |
| | | ● The record of processing activities (ROPA) did not include all Article 30 mandatory fields and it had not been maintained as there were incomplete fields. |
| | | ● There was no documented process for the Development Management team to escalate any data protection complaints to the Data Protection Officer (DPO). |
| | | ● There was a lack of accountability for the handling of data protection complaints. |
| | | ● 11 members within the Planning and Development Management team had not completed their Information Certificate Training. |

| | | |
|---|---|---|
| | | ● There was no specialist data protection training provided to the team's GDPR Lead.<br>● The Development Management team had not provided any evidence to demonstrate its awareness of controls in place to assess and manage information security risks (e.g. Information Security Policy).<br>● The Development Management team has not conducted a data processing impact assessment (DPIA), or at least completed the screening checklist, to demonstrate an assessment on privacy risks for its processing activities.<br>● There was no documented due diligence process for the Development Management team to follow prior to onboarding a third party. |

# 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 |
|---|---|
| Full | There is a sound system of internal control designed to achieve the Council's objectives<br><br>The control processes tested are being consistently applied. |
| Satisfactory | While there is a basically sound system of internal control, there are weaknesses, which put some of the Council's objectives at risk.<br><br>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. |
| Limited | Weaknesses in the system of internal controls are such as to put the Council's objectives at risk.<br><br>The level of non-compliance puts the Council's objectives at risk. |
| No | Control processes are generally weak leaving the processes/systems open to significant error or abuse.<br><br>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 Council for this report, which is prepared based on 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 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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