

# Final Internal Audit Report

## Commercial Use of Bernard Weatherill House

### May 2017

**Distribution:** Executive Director Resources (Final only)  
 Director Customer & Corporate Services  
 Director of Finance, Investment and Risk  
 Head of Estates and Asset Management  
 Head of Facilities Management  
 Principal Facilities Manager

Assurance Level	Recommendations Made	
<b>Substantial Assurance</b>	Priority 1	0
	Priority 2	3
	Priority 3	0

#### Status of Our Reports

This report ("Report") was prepared by Mazars Public Sector Internal Audit Ltd at the request of London Borough of Croydon 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 London Borough of Croydon and to the fullest extent permitted by law Mazars Public Sector Internal Audit Ltd. 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.

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- 3. Statement Of Responsibility

## 1. Introduction

- 1.1 The Council currently leases two floors, and other annexed areas, of Bernard Weatherhill House to commercial tenants and to public sector organisations with which it has a relationship. As a landlord, the Council has regulatory, and contractual obligations to its tenants under the terms of its lease agreements.
- 1.2 Regulatory obligations include the maintenance of buildings to a safe standard, including the identification, assessment and management of risks relating to electricity, gas, fire, water and asbestos.
- 1.3 In addition to this, the Council has an obligation under the terms of its leases to keep retained property and plant in good working order, and to keep common parts of the building adequately cleaned and lit.
- 1.4 This audit is being undertaken as part of the agreed Internal Audit Plan for 2016/17.

## 2. Key Issues

Priority 2 Recommendations
The Council's original hard copy of the lease agreement with its commercial tenant had not been sent to the Business Support Team for safe storage in accordance with the Council's constitution ( <b>Rec 1.</b> )
The lease agreement with one tenant was not signed by both parties to the lease prior to lease start date. Counter signed copies of lease agreements with another were not maintained ( <b>Rec 2.</b> )
Evidence of areas of non-compliance arising from the fire risk assessment being rectified was not retained and signed off by responsible officers ( <b>Rec 3.</b> )

There were no Priority 3 recommendations identified.

**3. Actions and Key Findings/Rationale**

<b><u>Control Area 2: Lease Agreements</u></b>			
<b>Priority</b>	<b>Recommendation 1</b>	<b>Detailed Finding/Rational</b>	
2	The original hard copy of the lease agreement between the Council and its commercial tenant should be sent to the Business Support Team for safe storage.	<p>The Council's constitution states '<i>Officers entering into contracts must ensure that upon completion of any contract document, contract information is entered onto the Deeds and Documents Register and the Council's copy of the original contract is sent to the business support team for safe storage</i>'</p> <p>Discussions with the senior business support officer established that the original hard copy of the lease agreement between the Council and its commercial tenant had not been sent to the Business Support Team for safe storage.</p> <p>Where original signed copies of lease agreements are not sent to the Business Support Team for safe storage, there is an increased risk that these lease agreements are misplaced and are not available if needed.</p>	
<b>Management Response</b>		<b>Agreed/Disagreed</b>	<b>Responsible Officer</b>
Agreed		Agreed	Head of Estates and Asset Management
		<b>Deadline</b>	June 2017

<b>Priority</b>	<b>Recommendation 2</b>	<b>Detailed Finding/Rational</b>						
2	<p>The Council should ensure that lease agreements are in place and signed by both parties prior to lease start dates.</p>	<p>Ensuring that Lease agreements are in place and signed by both the Council and the Tenants prior to lease start date will help ensure that the Council is able to exercise legal redress for non-performance of tenants' obligations.</p> <p>The following were identified from the examination of the Council's lease agreements with two of its tenants:</p> <ul style="list-style-type: none"> <li>• The lease agreement with one tenant was executed on 26 November 2013, after the lease commencement date of 14 October 2013.</li> <li>• The 11<sup>th</sup> and 12<sup>th</sup> floor lease agreements (one for each floor), although signed by the tenant, were not yet signed by the Council. Separate copies of lease agreements were identified to have been signed by the Council but had not been signed by the tenant.</li> </ul> <p>Where an appropriately signed lease agreements are not in place prior to lease start dates, there is a risk that the Council's recourse may be limited should the tenant default on any of the lease provisions.</p>						
<b>Management Response</b>								
Agreed	Agreed	<table border="1"> <thead> <tr> <th data-bbox="847 913 916 1261"><b>Agreed/Disagreed</b></th> <th data-bbox="847 580 916 913"><b>Responsible Officer</b></th> <th data-bbox="847 136 916 580"><b>Deadline</b></th> </tr> </thead> <tbody> <tr> <td data-bbox="916 913 1008 1261">Agreed</td> <td data-bbox="916 580 1008 913">Head of Estates and Asset Management</td> <td data-bbox="916 136 1008 580">June 2017</td> </tr> </tbody> </table>	<b>Agreed/Disagreed</b>	<b>Responsible Officer</b>	<b>Deadline</b>	Agreed	Head of Estates and Asset Management	June 2017
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Agreed	Head of Estates and Asset Management	June 2017						

**Control Area 5: Landlord's responsibilities**

Priority	Recommendation 3	Detailed Finding/Rational						
2	<p>Each recommendation identified on the fire risk assessment should be assigned to a responsible officer.</p> <p>Each responsible officer should be required to sign off the implementation of their identified areas of non-compliance.</p>	<p>A 'Fire Risk Assessment Review', dated 26 May 2016, of Bernard Weatherill House was conducted GradIOSH TIFireE, which identified six priority 1, eight priority 2 and one priority 3 non-compliance issues.</p> <p>While discussions with the Principal Facilities Manager established that immediate housekeeping issues raised in the fire risk assessment had been addressed (e.g. the removal of chairs etc.), the responsible officers for the implementation of identified areas of non-compliance were not identified and evidence of implementation was not retained and signed off by responsible officers.</p> <p>Where responsible officers are not clearly identified and evidence of implementation actions retained, there is an increased risk that actions may not be taken to address non-compliance issues arising from fire risk assessments which could result in failure to achieve objectives.</p>						
Management Response								
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## Audit Terms of Reference

### Commercial Use of Bernard Weatherill House 2016/17

#### 1. INTRODUCTION

- 1.1 The Council currently leases two floors, and other annexed areas, of Bernard Weatherill House to commercial tenants and public sector organisations with which it has a relationship. As a landlord, the Council has regulatory, and contractual obligations to its tenants under the terms of its lease agreements.
- 1.2 Regulatory obligations include the maintenance buildings to a safe standard, including the identification, assessment and management of risks relating to electricity, gas, fire, water and asbestos.
- 1.3 In addition to this, the Council has an obligation under the terms of its leases to keep retained property and plant in good working order, and to keep common parts of the building adequately cleaned and lit.
- 1.4 This audit is being undertaken as part of the agreed Internal Audit Plan for 2016/17.

#### 2. OBJECTIVES AND METHOD

- 2.1 The overall audit objective is to provide an objective independent opinion on the adequacy and effectiveness of controls / processes relating to the commercial use of Bernard Weatherill House.
- 2.2 The audit will for each area included in the scope:
- Document and evaluate the risks and controls for each process to consider the key controls;
  - Walkthrough the processes to consider the key controls;
  - Undertake sufficient testing of controls operating, on a representative sample basis; and
  - Reach a conclusion on the effectiveness of the controls operating and report.

#### 3. SCOPE





- 3.1 The audit included the following areas:

Control Areas/Risks	Recommendations Made		
	Priority 1 (High)	Priority 2 (Medium)	Priority 3 (Low)
Organisational, Management and Regulatory Requirements;	0	0	0
Lease Agreements;	0	2	0
Insurance Arrangements;	0	0	0
Building Security;	0	0	0
Fulfilment of Landlords' Responsibilities (including fire, water, gas, asbestos and electrical safety);	0	1	0
Calculation of Service Charges and Receipt of Lease Income	0	0	0

## DEFINITIONS FOR AUDIT OPINIONS AND RECOMENDATIONS

In order to assist management in using our reports:

We categorise our **audit assurance opinion** according to our overall assessment of the risk management system, effectiveness of the controls in place and the level of compliance with these controls and the action being taken to remedy significant findings or weaknesses.

	Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are consistently applied.
	Substantial Assurance	While there is basically a sound system of control to achieve the system objectives, there are weaknesses in the design or level of non-compliance which may put this achievement at risk.
	Limited Assurance	There are significant weaknesses in key areas of system controls and/or non-compliance that puts achieving the system objectives at risk.
	No Assurance	Controls are non-existent or weak and/or there are high levels of non-compliance, leaving the system open to the high risk of error or abuse which could result in financial loss and/or reputational damage.

Priorities assigned to recommendations are based on the following criteria:

<b>Priority 1 (High)</b>	Fundamental control weaknesses that require the immediate attention of management to mitigate significant exposure to risk.
<b>Priority 2 (Medium)</b>	Control weakness that represent an exposure to risk and require timely action.
<b>Priority 3 (Low)</b>	Although control weaknesses are considered to be relatively minor and low risk, action to address still provides an opportunity for improvement. May also apply to areas considered to be of best practice.



## STATEMENT OF RESPONSIBILITY

We take responsibility to the London Borough of Croydon 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.

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