

Crawley Borough Council

Report to the Audit Committee

26th July 2016

Audit and Risk Manager's Annual Report 2015/2016

Report of the Audit and Risk Manager – FIN 387

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1. Purpose

1.1 This report has been prepared to:

- Summarise the work undertaken by Internal Audit during 2015/2016 and provide an overall opinion on the adequacy of the Council's governance arrangements, risk management systems and control environment.
- Summarise the effectiveness of audit work.
- Provide a statement on conformance with the Public Sector Internal Audit Standards.

2. Recommendations

2.1 The Committee is requested to receive this report and note progress to date.

3. Reasons for the Recommendations

- To comply with the requirements set out in the new Public Sector Internal Auditing Standards 2013.
- The Audit Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

4. Background

Introduction

4.1 The main purposes of the report are to:

- Summarise the work undertaken by the Council's Internal Audit Section and provide management and Members with an opinion on the adequacy and effectiveness of the Council's governance arrangements, risk management systems and internal control environment.
- Comment on the performance of the Internal Audit Section during the year.

- Provide a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance improvement programme.

It should be emphasised that internal audit work can provide reasonable, not absolute, assurance and it cannot guarantee that any system reviewed is free from material weakness. The opinion given on the overall system of internal control is based solely on the audit work undertaken.

4.2 Quarterly Reports

The Audit and Governance Committee received quarterly reports on the work carried out by Internal Audit as part of the Council's governance arrangements.

4.3 Annual Audit Plan

The Audit and Risk Section works to a one year annual audit plan, prepared by the Audit and Risk Manager and aims to review the Council's major areas of operation and systems over a three year rolling cycle. The annual plan was developed using a risk based assessment which determines priorities and time allocations for each audit. Areas and systems which are considered to be fundamental to the Council's operations, or which are considered to be high risk, are reviewed on an annual basis.

4.4 Staffing

During 2015/2016, the internal audit section operated with 3 full time members of staff with additional resources supplied by the use of contract staff. This was due to the Auditor being seconded to an Information project. All auditors have the requisite experience to effectively fulfil their responsibilities; the Audit and Risk Manager is a Member of the Certified Institute of Internal Auditors, one Senior Auditor has passed the CISA computer audit exams and the other Senior Auditor is a Certified Fraud Examiner. The contract staff have many year's experience in internal auditing both in local government and other public sector and private sector organisations.

5. **Statutory and Policy Background**

Statutory Background

- 5.1 The Accounts and Audit (England) Regulations 2011 state that "a relevant body (*the Council*) must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control." This responsibility is discharged through the Council's Internal Audit Section.

Relevant Government Policy / Professional Standards

- 5.2 Internal Audit follows the Public Sector Internal Audit Standards (PSIAS) which came into force on 1st April 2013.

Relevant Council Policy

- 5.3 Section 1.12 of the Council's Constitution supports the statutory requirements outlined above. The Audit and Risk Manager reports on a quarterly basis the results of internal audit work, and on an annual basis to provide an opinion on the overall adequacy and effectiveness of the Council's governance arrangements, risk management systems and internal control environment.

6. Compliance with the Public Sector Internal Audit Standards

- 6.1 The Council's Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) which came into effect from 1st April 2013.
- 6.2 These standards require the Audit and Risk Manager to undertake an annual self assessment of the internal audit service against a Quality Assurance and Improvement Plan (QAIP) checklist and to outline the results as part of the Annual Audit Report.
- 6.3 I have measured the internal audit service against the Standards, both at the year end and as part of our ongoing commitment to improve our service, in line with the Purpose and Measures exercise. As part of this process, the format of the internal audit report has recently been amended.
- 6.4 It is also a requirement of the PSIAS that an external assessment has been carried out, or is planned to be carried out, at least once every 5 years. The Sussex Audit Group, of which Crawley Borough Council is a member, has developed a peer review approach which is being undertaken across East and West Sussex. Crawley Borough Council is currently undertaking a review of Eastbourne Borough Council, along with Mazars Accountants.
- 6.5 The Internal Audit Team has maintained its independence throughout 2015/2016 in accordance with the PSIAS.

7 Effectiveness of Internal Audit

7.1 Progress against Annual Audit Plan

The annual audit plan is always flexible, allowing for audits or other pieces of work to be undertaken which are not in the plan if they are deemed to be of a higher risk than those contained in the plan. In addition, there is always a small number of days allocated to contingency for unexpected work to be completed.

During the year, all of the planned audits were started before 31st March 2015 and were completed before 30th April 2016.

7.2 Implementation of Agreed Actions

The Audit and Risk Section reports all high priority findings or all findings if an audit has received a rating of limited or no assurance, to the Audit Committee on a quarterly basis. Implementation of agreed actions is then confirmed and reported back to that Committee.

7.3 Reporting

Draft audit reports and working papers are subject to a quality review undertaken by the Audit and Risk Manager before the final report is issued. During the period under review, a new process was introduced whereby the auditor meets face to face with the 'auditee' at the end of the audit fieldwork to discuss findings arising and to devise agreed actions. This is considered to be a more collaborative approach and makes the end to end process of the audit quicker.

In addition, if there is nothing to report, or just a minor or advisory finding has been identified, this is reported via a memo rather than a full audit report. This also reduces the end to end time taken to complete an audit and reduces the time spent by the auditor on writing reports.

8. Opinion on the Control Environment

8.1 This section of the report draws attention to any issues the Audit and Risk Manager considers are particularly relevant to the preparation of the Annual Governance Statement and includes an opinion on the overall adequacy and effectiveness of the Council's governance arrangements, risk management systems and internal control environment and discloses any qualifications to that opinion, together with the reasons for the qualification.

8.2 My overall opinion is that "**Substantial**" assurance can be given that there is generally a sound system of internal control designed to meet the Council's objectives, and that the controls are generally being applied consistently. The opinion is based upon audit work undertaken during the year and project work. The number of outstanding agreed action items from audit follow ups has also been taken into account.

Assurance Areas:	
Governance	The Council is committed to the principles of good corporate governance, which are already demonstrated through many aspects of good practice. Amendments to the Council's Financial Regulations and Contract Standing Orders were approved in January 2016 and a group of officers meets periodically to review other aspects of the Constitution as the need arises.
Risk Management	<p>The Council's Risk Management Strategy was updated in September 2015 and is due to be reviewed again shortly and the outcomes reported to the Audit Committee.</p> <p>This Strategy is a move in the culture from being risk adverse to risk cautious. A risk adverse culture is one where there is a tendency to try and mitigate all risks. A risk cautious culture is one where account is taken of the significance of the risk, the costs of the mitigation and the potential missed benefits in deciding whether to mitigate risks.</p> <p>One consequence of this change will be for there to be greater challenge as to the need for some controls. The second change in emphasis is away from completing forms (such as risk matrices) and towards ensuring that due consideration is given to risks and that they</p>

	<p>are managed. For instance, there will be an expectation that managers can articulate how they have considered risks rather than expecting it to be recorded in a prescribed format.</p> <p>In relation to significant risks it is expected that there would also be evidence of the consideration of risks. However, that often exists in the form of notes from one to ones or other meetings, reports, e mails, etc. There is no need for that evidence to be duplicated through being recorded elsewhere.</p> <p>During the period under review, Internal Audit has focused its resources on areas considered to be of highest risk both in capital projects and operationally. Any findings have been reported to the Audit and Governance Committee and action taken to mitigate the risks identified.</p> <p>Work was ongoing at the year end to confirm that the new approach, as outlined above, is being operated satisfactorily and the outcome of this work will be reported to management and the Audit Committee in due course.</p>
Internal Control	Internal controls are basically sound in most areas and we did not identify any significant weaknesses.

Summary of Work Undertaken and Completed in 2015/2016

INTERNAL AUDIT ASSURANCE OPINIONS				
AUDITS	SUBSTANTIAL	ADEQUATE	LIMITED	NO
Asset Management	√			
Budgetary Control	√			
Cash and Bank		√		
Commercial Properties including Rents	√			
Council Tax	√			
Creditors	√			
Data Protection and Subject Access Requests				
DEFRA Flooding Relief Grants	√			
Disposal of Hardware		√		
DWP CIS Compliance		√		
FMS	√			
Gas Servicing	√			
Grants to Voluntary Organisations	√			
Housing Benefits		√		
Housing Rents	√			
NNDR	√			
Payroll		√		
Peer Review Eastbourne District Council	-	-	-	-
Play Service		√		
Procurement Including Transparency Code		√		
Refurbishment of Playgrounds	√			
Sundry Debtors	√			
Town Centre Regeneration	√			
Treasury Management	√			

