

# Crawley Borough Council

## Audit Committee

Agenda for the **Audit Committee** which will be held in **Committee Room A**, Town Hall, Crawley, on **Tuesday 29 November 2016** at **6.30pm**

Nightline Telephone No. 07881 500 227



**Head of Legal and Democratic Services**

Membership:

Councillors K Sudan (Chair), C R Eade (Vice-Chair), R D Burrett, I T Irvine and C Portal Castro.

(Substitute Members: Councillors T G Belben and T Lunnon)

Please contact Mez Matthews (Legal and Democratic Services Division) if you have any queries regarding this agenda.

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Published 18 November 2016

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The order of business may change at the Chair's discretion

## **Business - Part A**

### **1. Apologies for Absence**

### **2. Members' Disclosures of Interest**

In accordance with the Council's Code of Conduct, members of the Council are reminded that it is a requirement to declare interests where appropriate.

### **3. Minutes**

To approve as a correct record the minutes of the meeting of the Committee held on 28 September 2016 **(Enclosure A)**.

### **4. Fraud Team Report**

To consider report FIN/400 of the Corporate Fraud and Inspections Manager **(Enclosure B)**.

### **5. Annual Audit Letter for the Year Ended 31 March 2016**

To consider the Annual Audit Letter submitted by Ernst and Young LLP **(Enclosure C)**, and to receive a verbal update on any additional issues

### **6. Internal Audit Progress Report as at 15 November 2016 Incorporating Risk Management Update as at 15 November 2016**

To consider report FIN/398 of the Audit and Risk Manager **(Enclosure D)**.

### **7. Appointment of External Auditor**

To consider report FIN/397 of the Head of Finance, Revenues and Benefits **(Enclosure E)**.

### **8. Supplemental Agenda**

Any urgent item(s) complying with Section 100(B) of the Local Government Act 1972.

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# Crawley Borough Council



## Minutes of Audit Committee 28 September 2016 at 6.30pm

### Present:

|             |  |
|-------------|--|
| Councillor  | K Sudan (Chair)                            |
| Councillor  | C R Eade (Vice Chair)                      |
| Councillors | R D Burrett, I T Irvine and Portal Castro. |

### Also in Attendance:

Councillor A C Skudder.

### Officers Present:

|                 |  |
|-----------------|--|
| Roger Brownings | Democratic Services Officer            |
| Gillian Edwards | Audit and Risk Manager                 |
| Karen Hayes     | Head of Finance, Revenues and Benefits |
| Mark Rice       | Fraud Investigator                     |
| Stuart Small    | Fraud Investigator                     |

### 13. Apologies for Absence

With all the Committee's Members being present at this meeting, there were no apologies for absence.

### 14. Members' Disclosures of Interests

There were no disclosures of interest.

### 15. Minutes

The minutes of the meeting of the Committee held on **26 July 2016** were approved as a correct record and signed by the Chair.

Reference was made by a Member to Minute No. 6 (Internal Audit Progress Report as at 30 June 2016, Incorporating Risk Management Update as at 30<sup>th</sup> June 2016). In this connection, the Head of Finance, Revenues and Benefits confirmed that as requested at the Committee's 26 July meeting, she had circulated clarification on the agreed delegated process for approving the use of monies from Section 106 Agreements, whilst also indicating that this process was currently being reviewed by

officers, in consultation with the Cabinet Member for Planning and Economic Development.

## **16. Fraud Team Report**

The Committee considered report **FIN/391** of the Corporate Fraud and Inspections Manager, which focused on activity for the period from 8 July 2016 to 22 August 2016. The Team had looked further into a wide range of fraud and loss against the Council.

The report indicated that the Team had continued to perform successfully. Mark Rice and Stuart Small (Fraud Investigators from the Team) took this opportunity to brief the Committee on specific areas of the Team's work, including, for example, that in respect of Right to Buy and the Single Person Discount. The Committee was provided with details of cases investigated and the Team's associated interventions, whilst a discussion took place on the Team's work generally. Members acknowledged that a fraud awareness training package was soon to be rolled out for all staff across the Council. Members sought and received clarification on a number of issues raised, whilst the Chair thanked both Mark and Stuart for enhancing Members' understanding of the work undertaken.

### **RESOLVED**

That the report be noted.

## **17. Internal Audit Progress Report as at 31<sup>st</sup> August 2016 Incorporating Risk Management Update as at 31<sup>st</sup> August 2016**

The Committee considered report **FIN/394** of the Audit and Risk Manager. The purpose of the report was primarily to update the Committee on the progress made towards the completion of the 2015/2016 and 2016/2017 Internal Audit Plans, and to report on the progress made in implementing the previous recommendations. The report also included an update on the Council's Strategic Risks.

The Committee discussed and noted all the Audit Plan reviews in progress, along with other work as detailed in the report. With regard to car park income, the Audit and Risk Manager agreed to a Member's request to circulate to Members shortly clarification as to the possibility of car parking machines (in Council operated car parks) being able to accept the use of debit and credit cards - thus increasing convenience of payment, whilst reducing the amount of money held by those machines.

With regard to the Crawley Deposit Service (formerly known as the Rent Deposit Service), the Audit and Risk Manager confirmed that as indicated in the report, the Service had received an audit opinion of substantial. A Member of the Committee referred to recent meetings of the Committee at which he had sought assurances that concerns he had previously raised regarding that Service had now been dealt with and resolved accordingly. With this in mind the Member indicated that he was now happy to accept the changes to the way the Service now operated, acknowledged the substantial audit opinion given, and considered the matter closed.

The Committee discussed the update provided on Risk Management. Members received clarification on issues arising, including matters on the financing and development of the Three Bridges Railway Station project, whilst in response to

comments from a Member, it was confirmed by the Head of Finance, Revenue's and Benefits that with regard to the matter of recruitment and retention, details on starters and leavers - which had not been included in recent publications of the Council's Information Bulletin, would be reintroduced to that document shortly.

**RESOLVED**

That the Internal Audit Progress Report as at 31 August 2016, Incorporating the Risk Management Update as at 31 August 2016, be noted.

**18. Closure of Meeting**

The meeting ended at 7.30 pm.

K SUDAN  
**Chair**

## Report to Audit Committee

29 November 2016

### Fraud Team Report

Report of the Fraud & Inspections Manager - Report no. **FIN/400**

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#### 1. Purpose

The report describes the activity of the Corporate Fraud & Inspection Team in the period 8 July 2016 to 14 November 2016. All outcome figures are taken from closed cases.

#### 2. Recommendations

- 2.1 That the Committee note the report.

#### 3. Reasons for the Recommendations

- 3.1 The Committee has a responsibility to oversee the Council's anti fraud and corruption arrangements. A major part of those arrangements is the activity of the Fraud Team in identifying, investigating and taking action against cases of fraud.

#### 4. Information & Analysis

##### Active Caseload

The fraud team are currently investigating the following case types

| <u>Case Type</u>                    | <u>Number of Cases</u> |
|-------------------------------------|------------------------|
|                                     |                        |
| Council Tax Liability Investigation | 1                      |
| Council Tax Reduction Scheme        | 10                     |
| Housing Succession                  | 1                      |
| Housing Applications                | 5                      |
| Housing Investigations (General)    | 13                     |
| Housing non occupation              | 15                     |
| Housing Right to Buy                | 10                     |
| NDR Liability Investigation         | 4                      |
| CT Single person Discount           | 13                     |
|                                     |                        |
| Total                               | 72                     |
|                                     |                        |

The above cases are all at various stages in the investigation lifecycle and will be reported on when the cases are closed.

#### 4.1 Housing Fraud

During the reporting period the team have achieved the following:

|                           | <u>In period</u> | <u>Year to date</u> |
|---------------------------|------------------|---------------------|
| Properties recovered      | 4                | 11                  |
| Prevented allocation      | 4                | 5                   |
| Stopped Right to Buy      | 1 (£77,900)      | 2 (£155,800)        |
| Notional value of savings | £221,900         | £443,800            |

#### 4.2 Single Person Discount (Council Tax Inspectors)

Council Tax Inspectors have used internal data to match and highlight Council Tax discounts which have cause for concern. This would normally be where a discount has been requested and applied to the Council Tax account but data suggests there is at least a 2<sup>nd</sup> adult registered and living at the property. The team are part way through the exercise but the figures are as follows:

272 cases were identified as a concern through an initial match. After a pre quality check this reduced to 187 cases where further verification was required. After contacting the residents 52 cases have so far had their discount removed as they were not the sole adult residing in the property. This exercise is separate to the day to day reactive work of the investigation team. We should have full result for the next meeting.

|                      | <u>SPD Exercise 2016 (interim)</u> |
|----------------------|------------------------------------|
| Discounts removed    | 52                                 |
| Loss being recovered | £16,512                            |

As well as running data matching exercises, throughout the year the investigation team proactively responds to allegations of fraudulent Single Person Discount applications.

|                      | <u>In period</u> | <u>Year to Date</u> |
|----------------------|------------------|---------------------|
| Discounts removed    | 12               | 18                  |
| Loss being recovered | £5,678           | £7,781              |

In total through reactive and proactive work we have removed 70 discounts worth £24,293 so far this year.

#### 4.3 Council Tax and Business Rates

The team continue to investigate and inspect Council Tax and Business rates.

**New billable CT or Rates** – Inspectors are constantly looking for properties or businesses that are not on the valuation list and therefore not being billed. Legislation does not require occupiers to report new properties.

|                          | Council Tax |              | Non Domestic Rates |              |
|--------------------------|-------------|--------------|--------------------|--------------|
|                          | In period   | Year to Date | In period          | Year to date |
| New billable CT or Rates | £260,678    | £466,430     | £42,900            | £113,900     |

#### 4.4 New Homes Bonus (2016)

Due to previous successes in this area the inspection team have once again conducted an exercise into empty properties.

Throughout the year the inspectors report new properties from developments when they become habitable to the valuation office. The council receive a direct payment from DCLG for the number of new properties we report. This bonus is paid over a 6 year period. However the value of payments is reduced by the number of properties that are registered as long term empty (A property that has been empty for over 6 months). The cut-off date this year was October 2016.

At the start of the exercise in August 2016 Council Tax records showed there were 624 (520.8 Council Tax Band D equivalent) new properties registered but there were 132 properties listed as long term empty thus reducing the eligible new claim bonus down to 388 (Band D equivalent). The inspectors scrutinised the 132 properties listed as empty and reduced this to 35 making a total of 485 properties eligible for the New Homes Bonus.

The 485 will approximately generate a bonus of £741,836 payable per year, for the next 6 years £4,451,019 in total. (although we have not received the outcome of the NHB consultation which took place a year ago so do not know how the scheme will work going forward)

Crawley Borough Council keep 80% which is £593,469 pa £3,560,815 in total.

## 5 **Implications**

There are no implications from the report.

## 6 **Background Papers**

### 6.1 None

Report author and contact officer: Chris Corker, Corporate Fraud & Inspections Manager (telephone 01293 438598)

ENDS



# Crawley Borough Council

Annual Audit Letter for the year ended 31 March 2016

October 2016

Ernst & Young LLP



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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 ([www.psaa.co.uk](http://www.psaa.co.uk))

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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 Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. 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.

A close-up photograph of a person's hand holding a silver and blue pen, poised to write on a document. The hand is positioned over a laptop keyboard, which is partially visible in the background. A bright yellow rectangular box is overlaid on the image, containing the text 'Executive Summary'. The background is softly blurred, showing more papers and the laptop's edge.

## Executive Summary

## Executive Summary

We are required to issue an annual audit letter to Crawley Borough Council (the Council) following completion of our audit procedures for the year ended 31 March 2016.

Below are the results and conclusions on the significant areas of the audit process.

| Area of Work   | Conclusion   |
|--|--|
| <b>Opinion on the Council's:</b>   |  |
| ▶ Financial statements   | Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2016 and of its expenditure and income for the year then ended. |
| ▶ Consistency of other information published with the financial statements                         | Other information published with the financial statements was consistent with the Annual Accounts.   |
| <b>Concluding on the Council's arrangements for securing economy, efficiency and effectiveness</b> | We concluded that you have put in place proper arrangements to secure value for money in your use of resources.  |

| Area of Work  | Conclusion   |
|---|--|
| <b>Reports by exception:</b>  |  |
| ▶ Consistency of Governance Statement   | The Governance Statement was consistent with our understanding of the Council. |
| ▶ Public interest report  | We had no matters to report in the public interest.                            |
| ▶ Written recommendations to the Council, which should be copied to the Secretary of State                  | We had no matters to report.   |
| ▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014 | We had no matters to report.   |

| Area of Work  | Conclusion   |
|---|--|
| <b>Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).</b> | The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack. This fact was reported to the NAO in accordance with their group instructions. |

As a result of the above we have also:

| Area of Work  | Conclusion   |
|---|--|
| Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.  | Our Audit Results Report was issued on 29 July 2016. |
| Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice. | Our certificate was issued on 29 July 2016.          |

In January 2017 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken on the housing benefits claim.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work, and particularly for ensuring that the working papers were well prepared and available in advance of the planned early sign-off.

A handwritten signature in black ink, appearing to read 'Paul King', is positioned above a horizontal line.

Paul King  
Executive Director  
For and on behalf of Ernst & Young LLP

Work



Organization

Environment

Purpose



## Purpose

### The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2015/16 Audit Results Report to the 26 July 2016 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.





# Responsibilities

## Responsibilities

### Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued on 9 March 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2015/16 financial statements; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
  - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
  - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on you Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return. We reported this fact to the NAO as required by their group instructions.



## **Responsibilities of the Council**

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

# Financial Statement Audit



## Financial Statement Audit

### Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 29 July 2016.

Our detailed findings were reported to the 26 July 2016 Audit Committee.

The key issues identified as part of our audit were as follows:

| Significant Risk  | Conclusion  |
|---|---|
| <b>Management override of controls</b><br>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.<br><br>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions. | <b>Conclusion</b><br><br>We: <ul style="list-style-type: none"><li>• tested the appropriateness of journal entries recorded in the general ledger; and other adjustments made in the preparation of the financial statements;</li><li>• reviewed accounting estimates for evidence of management bias; and</li><li>• evaluated the business rationale for any significant unusual transactions.</li></ul> We carried out our tests as planned and this work found no evidence of management override in the 2015/16 financial statements. |
| Other risks   | Conclusion  |
| <b>Non domestic rates provision appeal</b><br>Due to significant uncertainty surrounding the outcome of the Non Domestic Rates (NDR) appeals in progress, there is a risk that the provision recognised in the accounts might be measured at an incorrect amount. While the risk  | <b>Conclusion</b><br><br>Our approach focused on: <ul style="list-style-type: none"><li>• Gaining an understanding and assessing the reasonableness of the council's methodology in estimating any planned provision in respect of rateable value appeals outstanding at the balance sheet date;</li><li>• Considering both the completeness and accuracy of the data on the number</li></ul>   |

of appeal is inherent to all business rate collectors, it is particularly so where the business rate base contains individually large businesses, which for the Council includes Gatwick Airport.

The Council is confident that its provision for 2015/16 covers all anticipated appeals, but the inherent risk remains.

of appeals outstanding and the basis for the assumption made by the Council on the likelihood of success; and

- Reviewing and relying on the work of any experts appointed by management to assist in this process.

Our work found that the Council's provision was sufficient and that there had been no significant new appeals during the year.

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Value for Money

## Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We issued an unqualified value for money conclusion on 29 July 2016.

Our audit did not identify any significant matters in relation to the Council's arrangements.





## Other Reporting Issues

## Other Reporting Issues

### Whole of Government Accounts

The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack. We reported this fact to the NAO as required by their group instructions.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

### Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

### Objections Received

We did not receive any objections to the 2015/16 financial statements from members of the public.

### Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

## **Independence**

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 26 July 2016. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

## **Control Themes and Observations**

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

A close-up, slightly blurred photograph of a person's face as they look through binoculars. The person's eyes are visible through the eyepieces, and their hands are holding the binoculars. The background is out of focus, showing more of the person's face and the binoculars.

Focused on your  
future

## Focused on your future

| Area                                 | Issue  | Impact  |
|--------------------------------------|--|---|
| <b>Local appointment of auditors</b> | <p>The Department of Communities and Local Government (DCLG) has announced that it has decided not to extend the existing arrangements for external audit contracts beyond the end of 2017/18. From 2018/19 onwards, local authorities will be responsible for appointing their own auditors, and directly managing the resulting contract and the relationship.</p> <p>Although the new approach to local audit does not come into play until 2018/19, bodies will need to start putting in place the mechanism required to deliver this. As part of the process, bodies will need to set up auditor panels to advise on the selection, appointment and removal of external auditors, and on maintaining an independent relationship with them. These will need to be in place by early 2017, with the procurement process taking place in spring 2017 and external auditors being appointed by December 2017.</p> <p>Existing external audit arrangements will remain unchanged for the 2016/17 and 2017/18 years.</p> | <p>Audit panels and procurement arrangements need to be in place by early 2017.</p>   |
| <b>Accelerated closedown</b>         | <p>On 17 February 2015 the Accounts and Audit Regulations 2015 were laid before Parliament, having been made (signed by the Minister) under the Local Audit and Accountability Act 2014 on 12 February 2015.</p> <p>A key area of the regulations is that from the 2017/18 financial year, the timetable for the preparation and approval of accounts will be brought forward to a draft accounts deadline of 31 May and an audit deadline of 31 July. These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>We will continue to organise regular meetings with the finance team and use this as a mechanism to discuss options for early close and early substantive testing. We will continue to provide the committee with regular updates on our progress in this area. We are also happy</p>   | <p>Having received the audit opinion on 29 July 2016, the Council is clearly in a strong position in respect of the earlier audit deadline. A similar performance in 2016/17 will show that the arrangements to do so have become embedded in the Council's processes. Continued strong performance in this area will fully mitigate the risk as we move towards 2017/18.</p> |



| Area  | Issue  | Impact   |
|---|--|--|
|   | to discuss the wider process with you in more detail when we next meet.  |  |
| <b>Balancing budgets in the medium term</b> | <p>The council's budget Strategy for the years 2016/17 to 2020/21 was approved by Full Council in October 2015. This identified a mitigated budget gap for the year 2016/17 but a further unmitigated gap of £1.5m for the year 2017/18. These gaps will have to be bridged from reserves unless other efficiencies can be identified.</p> <p>The transformation programme of service improvements and efficiencies achieved through systems thinking and other types of review will continue with the aim of continual streamlining of internal processes to reduce waste and duplication, and also to focus on the defined purpose and measures of each service. However, local government financing is becoming increasingly unpredictable and unfunded policies such as the four year 1% housing rents reduction add unexpected pressures to already tight financial positions. This means that the assumptions underlying the medium term financial strategies are not certain and liable to change i.e. annual uncertainty over continuance of the New Homes Bonus payments.</p> | <p>The impact of funding reductions and uncertainty is clear in terms of the provision of services, and the council needs to continually strive for efficiencies and new funding streams, such as increasing its income generation strategies.</p> |
| <b>Ongoing impact of 'Brexit'.</b>          | <p>Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. All three major rating agencies (S&amp;P, Fitch and Moody's) took action on the UK Sovereign credit rating and, following the rating action on the UK Government. Any impact on the council's valuations if confidence in the wider UK property market falls is likely to affect the financial statements. Also, the valuation of council's defined benefit pension obligations may also be affected. It is too early to estimate the quantum of any impact on the financial statements, and there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations.</p>  | <p>The long term impact of 'Brexit' is uncertain but lower income from investments obviously puts pressure on the budgets of the council, and means savings have to be identified from services and wider efficiencies.</p>                        |

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ED None

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# Crawley Borough Council

Report to the Audit Committee

29<sup>th</sup> November 2016

## Internal Audit Progress Report as at 15<sup>th</sup> November 2016 Incorporating Risk Management Update as at 15<sup>th</sup> November 2016

Report of the Audit and Risk Manager – FIN/398

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### 1. Purpose

- 1.1 The Committee has a responsibility to review the Internal Audit Progress report to ensure that action has been taken by relevant managers on risk based issues identified by Internal Audit.

### 2. Recommendations

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

### 3. Reasons for the Recommendations

- 3.1 The Committee has a responsibility to ensure that action has been taken by relevant managers on risk based issues identified by Internal Audit.

### 4. Background

#### Work Completed

- 4.1 Since the last report, as at 31<sup>st</sup> August 2016, the following review has been completed.

| Audit Title            | Audit Opinion         |
|------------------------|-----------------------|
| Tendering Arrangements | Substantial Assurance |
| Leasehold Services     | Substantial Assurance |
| Cyclical Repairs       | Substantial Assurance |



## Work in Progress

- 4.2 The reviews in progress and other work that we have undertaken in the period are shown at Appendix A.

4.3 High priority findings in this period

There were no high priority findings to report in the period.

4.4 Follow up Audits

We have undertaken these follow ups since the last Audit Committee.

### **Disposal of Deceased Persons' Property**

When a person dies within the Crawley Borough Council boundary and there is no one prepared or available to take responsibility for the funeral, under Section 46 of the Public Health (Control of Disease) Act 1984 the Council will arrange for the funeral to be held. Under this Act, the funeral expenses are the first call on any monies of the deceased person's estate. The Council is empowered under the Act to collect any and all sums of money due or belonging to the deceased and to sell any belongings of the deceased in order to help offset the costs.

I reported at the last meeting that the date for implementation had not yet been reached for all agreed actions and that I would report back to this Committee. I can confirm that all actions have been implemented apart from one, which is currently with the Legal section for consideration.

### **Publication Scheme**

A Publication Scheme, which is a requirement of Section 19 of the Freedom of Information (FOI) Act 2000, is a directory of information that a local authority makes available, or intends to make available, to the public. It also states the manner in which the information will be published (leaflet, website etc) and whether the information is available free of charge or on payment.

Since the last meeting, further work has been undertaken to bring the Scheme up to date and this will be fully up to date by 31<sup>st</sup> May 2017. This will include the publication of all responses to all Freedom of Information Requests and we are currently considering the best way to facilitate this.

### **Car Parking Income**

#### Insurance

The car parking machines in the multi storey car parks and their contents are not covered by the Council's insurance policies. A quote has now been received and it has been confirmed by the Head of Crawley Homes, who is responsible for Car Parking, that due to the cost of the insurance and the excess it is not cost effective to insure them.

## Community Centres

The system used for recording bookings of community centres and related income is called Artifax. This does not interface with the Financial Management System (FMS) which means that an independent reconciliation cannot be undertaken to confirm that all monies due have been received. Discussions are continuing with the provider of Artifax and progress is being made towards the provision of a suitable interface.

### 4.5 Freedom of Information (FOI) Requests

Between 1<sup>st</sup> September and 31<sup>st</sup> October 2016, we have processed 122 requests and of these, 4 responses were sent to the requester outside of the 20 working day deadline. This was due to annual leave and the complexity of the requests. We wrote to the requester in all cases to apologise for the delay and provided the information as quickly as possible.

## 5 Strategic Risks Update

The following have been identified as strategic risks for the Council:

### 1. **Failure to deliver key infrastructure projects as planned, on time and within budget, such as:**

- **LEP Infrastructure**  
A series of business cases will be put together in order to present proposals to Cabinet for the allocation of the remaining £14.6 million from the LEP funded Crawley Transport Area package. This funding will need to be fully spent by March 2021. The drafting of these business cases is being progressed jointly by Crawley Borough Council, Manor Royal BID and West Sussex County Council – the accountable body for the LEP funding.
- **Three Bridges Railway Station**  
On 11<sup>th</sup> February 2015 [SHAP/43](#), Cabinet approved the allocation of £430,000 of S106 funding towards the delivery of improvement works to the Station Forecourt. Network Rail have formally requested that the deadline for the full spend of the above S106 funding on Three Bridges station improvements be extended from end March 2017 to end March 2021.

Member approval has been granted to reallocate £1.5 million of Borough Council capital programme funding, originally earmarked for the Queens Square regeneration scheme, to the Three Bridges station improvements programme. This can then be combined with the total of £500,000 of S106 resources already secured for the station. Borough Council officers are leading a fresh engagement with Network Rail, supported by County Council colleagues to progress the Project Delivery Brief for the Three Bridges station site, which will provide a joint way forward on the regeneration of the site with Network Rail.

The Council is able to reallocate the above amount to Three Bridges station because it has successfully bid to the Coast to Capital Local Enterprise Partnership (LEP) for £1.5 million of Local Growth Fund to invest in the Queens Square regeneration scheme, supported by the County Council. This will be combined with £1.7 million of resources already committed to Queens Square by the County Council.

The original intention was for the Three Bridges station improvement project to receive LEP funding via the Crawley Transport Area Package. However the County Council was unable to obtain confirmation of support from Network Rail in time. The intention is now to progress the scheme using the above combination of resources, working closely with Network Rail on the Project Brief in order to define in more detail how the resources will be spent and what the outcomes will be.

- **Town Centre**

Cabinet approved the final design concept for the Queens Square Environmental Improvement Scheme on 18<sup>th</sup> March 2015 [PES/169](#), whilst delegating authority to the Head of Economic and Environmental Services to spend up to the allocated budget of £3 million for the Scheme (of which £1.5m is contributed by West Sussex CC).

Blakedown Landscapes, the principal works contractor, commenced the Queens Square programme of works during the week of 5<sup>th</sup> September and they are due to be completed in summer next year. The delivery of the works will be closely monitored by the Council's Built Environment and Economic Development & Regeneration teams, and in conjunction with the Finance Team as regards the programme expenditure.

- **Cemetery**

Planning permission to create new cemetery at Little Trees was obtained in November 2015. Phase 1 of construction is due for completion during 2017 which is within the deadline, after which some sections at Snell Hatch Cemetery reach full capacity. Some infrastructure has been delayed to Phase 2 in order to deliver Phase 1 of the project within current budget.

- **Town Hall**

Feasibility work to remodel the existing town hall is largely complete. Alongside this the Council are in discussions with Westrock regarding a potential mixed use development which would see the provision of a new town hall, commercial office space and residential units on the town hall and adjacent car park site. A recommendation on the preferred option will be presented to Cabinet early in 2017.

## **2. Delivering the affordable housing programme**

The Administration has pledged to deliver 1,000 new affordable homes over a four year period and to look to add a further 250 new affordable homes to this programme in year five. Meeting this objective requires a twin track approach through both the Council's enabling role and its own-build programme. Progress is closely monitored on a monthly basis through the corporate Strategic Housing Board and is overseen by CMT. The programme is currently on-track to meet these delivery targets.

Mitigating actions have been taken to address the impact of the four year 1% rent reduction on the HRA to ensure the delivery programme can be maintained. These included setting affordable rather than social rents for new development, discounted sale as an alternative tenure option, a reduced capital programme for existing stock and re-profiling the delivery programme. Further impacts arising from the Housing and Planning Act provisions relating to the sale of high value stock cannot as yet be quantified as further secondary legislation is still awaited.

**3. A balanced budget is not achieved in the medium term resulting in an increased use of reserves, which is not sustainable.**

The Budget Strategy 2017/18 – 2021/22 [FIN/386](#) was approved by Cabinet on 29<sup>th</sup> June 2016. The budget report to Cabinet on 10 February 2016 [FIN/380](#) shows a transfer to reserves in 2016/17 of £431,634, however the projected budgeted gap in 2017/18 will be greater than the previously reported £0.5m. This may result in a transfer from reserves to help smooth out the approach to meeting future gaps. The impact of the reaction to the Brexit vote has had a negative impact on interest income and projected inflation. This could impact upon the income received by the council such as car parking, development control and building control.

The buoyancy of the local private rented market has heavily impacted on affordability, with rent levels, which are rarely at the Local Housing Allowance levels. Therefore the use of the private rented sector for prevention and the discharge of the homelessness duty has become increasingly difficult for the Council to achieve. This, coupled with a reduction in the turnover of social rented housing, has resulted in a reduction of other forms of available temporary accommodation driving increased usage of more expensive nightly paid temporary accommodation. Levels of homelessness are unlikely to fall given the impact of welfare reform. The government are considering proposals through the Homelessness Reduction Bill which, if implemented, would widen the Council's existing prevention and accommodation duties.

Mitigating action has been taken through the implementation of minor amendments to the Council's allocation policy to improve temporary accommodation throughput and actions to increase the supply of temporary accommodation through direct acquisition and the Council's enabling role.

CMT will review 'hotspots' on a monthly basis and report to Members through the quarterly monitoring process. A new hotspot will be Discretionary Housing Payments due to the impact of the Benefit Cap, this will be monitored regularly. The main items identified have been included in the Quarterly monitoring report to Cabinet, these include reduced investment income and the increased costs of homelessness.

**4. Recruitment and retention**

Recruitment and retention of key specialist and professional roles is challenging. The impact of a period of pay restraint in the public sector combined with an increase in salary levels generally in the South East has led to problems with recruitment and retention in roles such as Economic Regeneration, IT, Project Management, Legal and some Housing roles. HR officers are working with managers to ensure we promote these roles effectively. The Council promotes the use of apprenticeships and trainee roles to grow our own skills. There is a recruitment and retention scheme which will allow time limited salary uplifts on appointment but this is only a temporary incentive and it does cause pay inequality within teams. We are exploring other ways of mitigating this risk. The Job Evaluation Scheme has been amended to create a further grade at the top of the scale to assist with the recruitment and retention of third tier managers.

## **5. Disaster recovery and business continuity.**

A report to Cabinet on 9<sup>th</sup> September 2015 [Relocation of the Council's Data Centre PAT/25](#) recommended a more resilient hosting of data by providing a resilient, energy efficient, cost effective and available hosting environment for the IT systems to support our services. A partnership contract has been agreed with Surrey County Council for them to host the data centre. Migration is underway with a planned completion date of 24<sup>th</sup> November 2016.

The Bewbush Centre has been designated as the Council's main alternative site should there be no or limited access to the Town Hall building. Once the Data Centre is relocated there will be resilient links to this centre so that systems will remain operational and it will be possible for staff to get into the CBC network via these links. Access will also be possible from other Council sites. Wi fi will allow access for up to 50 users at the Bewbush Centre using laptops and a small number of desktop network points.

### Summary of Current Strategic Risks

- Failure to deliver key infrastructure projects as planned, on time and within budget,
- Delivering the affordable housing programme;
- A balanced budget is not achieved in the medium term resulting in an increased use of reserves, which is not sustainable;
- Recruitment and retention;
- Disaster recovery and business continuity.

## **6 Background Papers**

- 6.1 Risk Management Strategy [FIN/364](#) Audit Committee 24<sup>th</sup> June 2015.  
Risk Management Strategy – update 24<sup>th</sup> September 2015 [FIN/371](#)  
Internal Audit Plan 2016/2017

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ENDS

## Internal Audit Plans 2016/2017

Progress Report as at 15<sup>th</sup> November 2016

| Audit  | Audit Plan Year | Audit Opinion-Assurance | Number of High Priority Findings | Comments         |
|--|-----------------|-------------------------|----------------------------------|------------------|
| <b>A. Work Completed in the Current Period</b> |                 |                         |                                  |                  |
| Tendering Procedures                           | 2016/17         | Substantial             |                                  |                  |
| Leasehold Procedures                           | 2016/17         | Substantial             |                                  |                  |
| Cyclical Repairs                               | 2016/17         | Substantial             |                                  |                  |
|  |                 |                         |                                  |                  |
| <b>B. Work In Progress</b>                     |                 |                         |                                  |                  |
| FOI Requests – day to day work                 | 2016/17         |                         |                                  |                  |
| Facilities Management                          | 2016/17         |                         |                                  |                  |
| Parks and Open Spaces                          | 2016/17         |                         |                                  |                  |
| Grants   | 2016/17         |                         |                                  |                  |
| Little Trees Cemetery                          | 2016/17         |                         |                                  |                  |
| Museum   | 2016/17         |                         |                                  |                  |
| Queen's Square Regeneration                    | 2016/17         |                         |                                  |                  |
|  |                 |                         |                                  |                  |
|  |                 |                         |                                  |                  |
| <b>Other Work</b>                              |                 |                         |                                  |                  |
| Mid Sussex District Council                    | 2016/17         |                         |                                  | Work is ongoing. |
|  |                 |                         |                                  |                  |

# Crawley Borough Council

## Report to Audit Committee

29 November 2016

### Appointment of External Auditor

Report of the Head of Finance, Revenues and Benefits (FIN/397)

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#### 1. Purpose

- 1.1 Following the demise of the Audit Commission new arrangements were needed for the appointment of external auditors. The Local Audit and Accountability Act 2014 requires authorities to either opt in to the Appointing Person regime or to establish an auditor panel and conduct their own procurement exercise.

#### 2. Recommendations

- 2.1 It is recommended that:

The Audit Committee recommend to Full Council that this Council opts in to the Appointing Person arrangements made by the Public Sector Audit Appointments (PSAA) for the appointment of external auditors.

#### 3. Reasons for the Recommendations

- 3.1 It is likely that a sector wide procurement conducted by PSAA will produce better outcomes for the Council than any procurement we undertook by ourselves or with a limited number of partners. Use of the PSAA will also be less resource intensive than establishing an auditor panel and conducting our own procurement.
- 3.2 Regulation 19 of the Local Audit (Appointing Person) Regulations 2015 requires that a decision to opt in must be made by Full Council. To comply with this regulation the Audit Committee is asked to make the recommendation above to Full Council

#### 4. Background

- 4.1 As part of closing the Audit Commission the Government novated external audit contracts to PSAA on 1 April 2015. PSAA is an independent, not for profit company limited by guarantee, established by the LGA. The audit appointments were due to expire following conclusion of the audits of the 2016/17 accounts, but could be extended for a period of up to three years by PSAA, subject to approval from the Department for Communities and Local Government.
- 4.2 In October 2015 the Secretary of State confirmed that the transitional provisions would be amended to allow an extension of the contracts for a

period of one year. This meant that for the audit of the 2018/19 accounts it would be necessary for authorities to either undertake their own procurements or to opt in to the Appointed Person regime.

- 4.3 There was a degree of uncertainty around the appointed person regime until July 2016 when PSAA were specified by the Secretary of State as an appointing person under regulation 3 of the Local Audit (Appointing Person) Regulations 2015. The appointing person is sometimes referred to as the sector led body and PSAA has wide support across most of local government. PSAA was originally established to operate the transitional arrangements following the closure of the Audit Commission and is a company owned by the Local Government Association's Improvement and Development Agency (IDeA).
- 4.4 The date by which authorities will need to opt in to the appointing person arrangements is not yet finalised. However, it is anticipated that invitations to opt in will be issued in December 2016 and a response may be required before the Council meeting in February. As there is not a Council meeting in January it is important that this issue is considered by Council at the December meeting.
- 4.5 The main advantages of using PSAA are set out in its prospectus and are set out below; these can also be viewed as the disadvantages if the Council was to decide to undertake its own procurement.
- Assure timely auditor appointments
  - Manage independence of auditors
  - Secure highly competitive prices
  - Save on procurement costs
  - Save time and effort needed on auditor panels
  - Focus on audit quality
  - Operate on a not for profit basis and distribute any surplus funds to scheme members.

## **5. Resource Implications**

If PSAA is not used some additional resource may be needed to establish an auditor panel and conduct our own procurement. Until either procurement exercise is completed it is not possible to state what additional resource may be required for audit fees for 2018/19, although it is anticipated that any increase will be minimised through using PSAA.

## **6. Legal and Governance Implications**

The process as set out above and the recommendation should ensure compliance with the Local Audit and Accountability Act 2014.

## **7. Background Papers**

None

Contact Officer Karen Hayes, Head of Finance, Revenues and Benefits