

Crawley Borough Council

Audit Committee

Agenda for the **Audit Committee** which will be held in **Committee Room A - Town Hall**, on **Tuesday, 2 October 2018** at **6.30 pm**

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
L Willcock

T G Belben

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Published 24 September 2018

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Switchboard: 01293 438000
Main fax: 01293 511803
Minicom: 01293 405202 DX:
57139 Crawley 1
www.crawley.gov.uk

Town Hall
The Boulevard
Crawley
West Sussex
RH10 1UZ

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

Part A Business (Open to the Public)

	Pages
1. Apologies for Absence	
2. Disclosures of Interest	
In accordance with the Council's Code of Conduct, Councillors of the Council are reminded that it is a requirement to declare interests where appropriate.	
3. Minutes	3 - 10
To approve as a correct record the minutes of the Audit Committee held on 25 July 2018.	
4. Fraud and Investigation Team Report	11 - 14
To consider report FIN/454 of the Operational Benefits and Corporate Fraud Manager.	
5. Progress Report: Internal Audit and Risk Management	15 - 32
To consider report FIN/455 of the Audit and Risk Manager.	
6. Annual Audit Letter for the Year Ended 31 March 2018	33 - 58
To consider the Annual Audit Letter submitted by Ernst and Young LLP, and to receive a verbal update on any additional issues.	
7. 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

Wednesday, 25 July 2018 at 6.30 pm

Councillors Present:

K Sudan (Chair)

C R Eade (Vice-Chair)

R D Burrett, I T Irvine and L Willcock

Also in Attendance:

Councillors P K Lamb and A C Skudder

Officers Present:

Roger Brownings	Democratic Services Officer
Chris Corker	Operational Benefits and Corporate Fraud Manager
Gillian Edwards	Audit and Risk Manager
Karen Hayes	Head of Corporate Finance
Simon Jones	Head of Digital & Transformation
Paul Windust	Chief Accountant

Welcome

The Chair welcomed all those present to this, the Committee's first meeting of the new Municipal Year.

1. Disclosures of Interest

No disclosures of interests were made.

2. Minutes

The minutes of the meeting of the Committee held on 6 March 2018 were approved as a correct record and signed by the Chair.

3. Fraud and Investigation Team Report

The Committee considered report FIN/448 of the Operational Benefits and Corporate Fraud Manager, which focused on activity for the period from 20 February 2018 to 8 July 2018. As indicated in the report the Team had continued to perform successfully.

With regard to the Team's Active Caseload, as detailed in Section 4 of the report, and in particular a fly tipping case, the Committee was advised of the successful

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prosecution which had since resulted from that case. In response to Members questions, the Manager indicated that the evidence in this particular case was strong, and that whilst the Team would respond to all referrals it received regarding fly tipping, it was normally difficult to identify offenders due to a lack of evidence. The Manager emphasised that a person who disposed of waste was responsible for it, and he outlined the steps the Team would take in addressing referrals received.

The Committee was provided with details of cases investigated and the Team's investigations, whilst a discussion took place on the Team's work generally.

RESOLVED

That the Fraud and Investigation Team Report be noted.

4. Progress Report: Internal Audit and Risk Management

The Committee considered report FIN/447 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 2017/2018 and 2018/2019 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.

The Audit and Risk Manager took this opportunity to brief the Committee on high priority findings and follow up audits. In terms of the former, she confirmed that following discussions on the matter, further fraud awareness training would be provided to services across the Council, and that this would be undertaken shortly in cooperation with the Fraud and Investigation Team.

The main focus of the report was the limited audit opinion given to the Data Centre Migration Project 2018-2019. The review's findings indicated that the project was yet to be completed, having significantly exceeded the Project's completion target, and that there was a reported large overspend against the Project's budget. The Committee discussed this matter in detail, and in so doing, Members expressed their own concerns, and indeed disappointment, with the audit review's outcomes, with particular emphasis on the generally weak arrangements in relation to the project's management. At the request of the Chair, the Head of Digital and Transformation addressed the Committee, and:

- Explained that in the short time that he had been in post, he was continuing to clarify the extent of the project work that remained to be done and what efforts were needed in order to meet that remaining workload.
- Commented that there were a number of reasons for the delay, including problems with the telephone links to the Surrey Business Centre – which were outside of the Council's control.
- Confirmed that a lot of work had been delayed more recently due to the relocation of the Town Hall Communications Room.
- Explained that whilst the report indicated that the project would be completed within a month, it was difficult to confirm at this stage whether that target would be possible.

With the Committee considering the matter further, and in response to issues and concerns raised, the Audit and Risk Manager:

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- Confirmed the different categories of audit opinion, including that of limited assurance.
- Emphasised that the actual costs (as advised by the IT Manager, but yet to be confirmed by the Audit and Risk Manager) at 31 May 2018 for the Data Centre Migration Project of £703,668.78 (identified on page 15 of the report), was a combination of revenue and capital.
- Confirmed that whilst a risk register was absent for this project, such a register was expected to be available for all projects.
- Advised that with important documentation, such as a project Initiation document and a risk register being absent, the roles and responsibilities were not clearly defined.
- Commented that information gathered in the lead-up to the project, including that from various outside sources, did not suggest that the project's budget had been underestimated, and that it was only when the actual work started / difficulties came to light, that budgetary issues arose. The Head of Digital and Transformation Indicated that given the additional revenue expenditure incurred on the project came from the IT budget, it was likely that a number of IT related projects would have to be put on hold for the future.
- Confirmed that some costs had been incorrectly charged to the Project, as they related to other IT projects, and so there had been some difficulty at this stage in asserting what the actual overspend was.
- Explained that as yet information was not fully available in terms of where expenditures should have been coded to. A better breakdown would be determined as to what projects the various costs should have been coded / allocated to, to help to clarify this matter.
- Suggested that rather than being a recommendation as part of her report, an independent review should be something to be considered. The Head of Digital and Transformation suggested that such a review could, for example, be undertaken as an internal review, a peer review, or an independent review, although it would be the most effective way forward that would be sought. Consideration was also being given to establishing a workshop to seek the views of the ICT Team, which the Head of Service considered critical in terms of avoiding similar issues arising again.

With the indication that a judgement could not yet be made as to whether the Data Centre arrangements represented value for money, the Committee continued to discuss the matter in detail, including the options for the best way forward in undertaking a review into the Project's findings. At this point and in response to a question from a Member of the Committee, the Leader of the Council emphasised that the Cabinet was taking this matter very seriously, and hence the reason for his attendance at this meeting. In indicating that it was only until recently that he had been made aware of the absence of a risk register for this project, he acknowledged that a lot of processes that should have been followed hadn't been, and that having now spoken to the Chief Executive, structures were being put in place to ensure this didn't happen again. From this project's review, a number of findings, and recommendation had been raised which had since been discussed with Management and actions agreed with the, Head of Finance, Revenues and Benefits, the Head of Digital and Transformation, Deputy Chief Executive and the Chief Executive, who had agreed to form a Corporate Project Assurance Board to ensure that capital projects were delivered in a timely and cost effective manner and to share good practice across the organisation. The Leader emphasised that we needed to keep resilience in protecting our data, and in this connection we would need to see what the suggested review identified. The Audit and Risk Manager indicated that whilst, if necessary, follow up audits would be carried out for reviews generally, these would

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not be provided with a further assurance level, but would provide an update on where we were and the agreed actions to be taken. With a limited audit opinion In respect of this Project, work would be undertaken immediately, and it was intended to submit a follow up report to the Committee's meeting in October.

In taking all issues into account, and in accordance with the suggestion of the Chair, the Committee considered that a clear end date for the project be provided within 6 weeks, and that prior to the next meeting of the Committee, and in approximately 6 weeks from the date of this meeting, an update report should be circulated to Members by the Head of Digital and Transformation to update Members on costs and where we were in arranging the review on the Project as a whole to confirm value for money / fitness for purpose / the way forward (**ACTION**).

The Committee then considered the update on Risk Management. The Committee sought and received clarification on several points, including the assessment of risks relating to the new Town Hall. In response to comments from Members, the Head of Finance, Revenues and Benefits indicated that in view of potential inflation to building costs etc, the associated tender exercise continued to remain a risk and it would be important that the tender prices remained within budget. However, budgets were agreed and clearly communicated in order for the risks to be mitigated through the risk register, and to keep the project on track, and regular budget updates would be reported to CMT. All Members received a copy of the quarterly monitoring reports to Cabinet.

RESOLVED

That the Internal Audit Progress Report as at 12 July 2018, Incorporating a Risk Management Update as at 30 June 2018, be noted.

5. Audit and Risk Manager's Annual Report 2017/2018

The Committee considered report FIN/450 of the Audit and Risk Manager.

The Committee acknowledged that the Annual Report had been produced in accordance with the requirements set out in the new Public Sector Internal Audit Standards 2013 (Updated 2017). She explained that this was supported by the outcome of the Peer Review, undertaken by Wealden District Council, as part of a reciprocal arrangement across East and West Sussex, in which all Heads of Audit participated.

The Audit and Risk Manager considered that in her overall opinion, for the period in question, substantial assurance could be given that there was generally a sound system of internal control designed to meet the Council's objectives, and that the controls were generally being applied consistently.

With regard to "Assurance Areas" (Governance) as set out in paragraph 8.2 of the report, and in response to a question from a Member, the Audit and Risk Manager indicated that whilst work was ongoing in respect of this Governance Area, the updating of the Anti-Fraud and Corruption and Whistle Blowing policies had now been completed.

RESOLVED

That the Audit and Risk Manager's Annual Report for the period 2017/2018 be noted.

6. Update on the Appointment of External Auditor

In introducing this item, the Head of Finance, Revenues and Benefits explained that representatives of Ernst and Young LLP had advised that due to auditing commitments with a number of other authorities on this same evening, and because the nature of our Statement of Accounts for 2017/2018 (being the main item on this meeting's agenda) were considered sound, they had sent their apologies for absence, but were contactable during the meeting should Members have issues to raise.

The Committee considered report FIN/444 of the Head of Finance, Revenues and Benefits. Following the demise of the Audit Commission, new arrangements were needed for the appointment of external auditors. The Local Audit and Accountability Act 2014 required authorities to either opt in to the Appointing Person regime or to establish an auditor panel and conduct their own procurement exercise. The purpose of this report was to update the Committee on the process of appointing external auditors for Housing Benefit Subsidy Assurance from 2018/19 for five years.

The Committee acknowledged that Ernst and Young LLP had been re-appointed by Public Sector Audit Appointments Limited (PSAA) as the Council's auditor from 2018/19 onwards, for the Core Accounts audit. At the time Councillors were notified that PSAA could only procure the audit of the Council's accounts and that Housing Benefit Subsidy audit was outside of the framework and the Council was required to make separate appointments.

In terms of the audit fees for both the Core Accounts and the Housing Benefit Subsidy Assurance, paragraph 6.1 of the report refers, the Committee was advised of the need for a clerical correction as follows:-

Delete under the heading of "2018/19" the sum of £50,219, and replace with £50,291.
Delete under the heading of "2018/19" the total sum of £62,778, and replace with £62,850.

RESOLVED

- (1) That it be noted that the Council has engaged Ernst & Young LLP as the Council's external auditor for Housing Benefit Subsidy Assurance from 2018/19 for five years.
- (2) That, subject to the clerical correction above, the agreed fee arrangements as set out in paragraph 6.1 of the report, be noted.

7. Annual Audit and Certification Fees 2018/2019

The Committee considered a letter from Ernst and Young LLP on the Annual Audit and Certification Fees for 2018/2019. The letter was attached as Item 8 of the agenda.

RESOLVED

That the Annual Audit and Certification Fees for 2018/2019 be noted.

8. Audit Results Report for the year ended 31 March 2018

The Committee considered the Audit Results Report for the year ended 31 March 2018 which was included as Item 9 of the agenda. The report set out the current status of the audit, indicating that subject to satisfactory completion of items identified in the report, Ernst and Young LLP had completed its audit of the Council's financial statements for the year 2017/2018.

The Committee considered matters raised, and in so doing noted that it was proposed to issue an unqualified opinion on the financial statements and that in terms of value for money, the report was satisfied that in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in the use of its resources.

The Committee sought and received clarification on a number of issues raised, whilst in response to a comment from a Member, the Head of Finance, Revenues and Benefits confirmed that the unqualified opinion on the financial statements, was based on the Council's state of accounts overall, and did not reflect individual projects, for which, if highlighted as having difficulties, agreed actions would be put in place.

The Head of Finance, Revenues and Benefits advised the Committee that Ernst and Young LLP had been very complimentary regarding the work of Paul Windust (Chief Accountant) and his Team in progressing and completing the financial statements.

RESOLVED

That the Audit Results Report for the year ended 31 March 2018 be received and noted.

9. Approval of the 2017/2018 Statement of Accounts

The Committee considered report FIN/445 of the Head of Finance, Revenues and Benefits which sought the Committee's approval of the 2017/18 Statement of Accounts, to comply with the statutory deadline of 31 July 2018.

The 2017/18 Statement of Accounts was attached as Appendix C to the report. As indicated in the Audit Results Report (Minute No. 8 above refers), the financial statements were still subject to Ernst and Young LLP concluding outstanding matters before the deadline date of 31 July, although no material changes were expected.

As explained in Section 7 of the report FIN/445, The Audit Results Report showed an unadjusted audit difference that related to the pension liability disclosed in the Balance Sheet. This error was identified by the auditors of the West Sussex County Council Pension Scheme and was due to the actuary's estimate of the pension scheme assets being short of the actual value, of which, the Council incurred a share. The audit difference was below the materiality level for the Council, and for the reasons set out in the report, management did not consider it necessary to amend the Statement of Accounts.

The Chair took this opportunity to thank Karen Hayes (the Head of Finance, Revenues and Benefits) and Paul Windust (Chief Accountant), and indeed all staff in the Finance Team for the excellent work which had been undertaken.

RESOLVED

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- (1) That the 2017/18 Statement of Accounts be approved.
- (2) That the rationale as to why the unadjusted audit difference has not been corrected, be approved.
- (3) That the Chair of the Committee be authorised to sign the 2017/18 Letter of Representation.
- (4) That should changes to the financial statements be identified as part of Ernst and Young LLP concluding outstanding matters, the Chair be authorised to agree those changes.
- (5) That the Chair of the Committee be authorised to sign the 2017/18 Statement of Accounts on behalf of the Council

UPDATE

It is confirmed that since this meeting, the 2017/18 Statement of Accounts has been signed off, with no amendments made to the Statement that was presented to and agreed by the Committee.

Closure of Meeting

With the business of the Audit Committee concluded, the Chair declared the meeting closed at 8.05 pm

K SUDAN
Chair

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Crawley Borough Council

Report to Audit Committee

02 October 2018

Fraud and Investigation Team Report

Report of the Operational Benefits & Corporate Fraud Manager - Report no. FIN/454

1. Purpose

- 1.1 The report describes the activity of the Corporate Fraud & Investigation Team for the period 09 July 2018 to 16 September 2018. All outcome figures are taken from closed cases. Year to date figures are also included in the report for 2018/19.

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 Corporate Fraud & Inspection 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	2
Council Tax Reduction Scheme	17
Housing Applications	15
Housing Investigations (General)	14
Housing non occupation	22
Housing Right to Buy	11
CT Single person Discount	4
Fly tipping	1
Enforcement Breach	1
Legacy Housing Benefits	1
Non Domestic Rates	1
Total	89

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

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4.1 Housing Fraud

During the reporting period the team have achieved the following:

	<u>In period</u>	<u>2018/19 (YTD)</u>
Properties recovered	3	6
Prevented allocation (inc homeless applications)	2	4
Properties recovered for our RSL partners	2	3
Stopped Right to Buy (actual discount value)	2 (£158,400)	4 (£317,900)
Notional value of savings	£284,400	£551,900

The previous Audit Commission through their 'Protecting the public purse' studies conservatively estimated, that for each property being misused and not available to the Local Authority it cost the Authority £18,000 per year per property. Housing vulnerable families in Bed & Breakfast on a temporary basis is very expensive and can cost in excess of £100 per night. The Audit Commission figure is therefore used for recovering properties and preventing false applications.

The Right to Buy figures are the actual discounts which would have been awarded had the sale of the property gone through.

4.2 Single Person Discount (Council Tax Inspectors & Investigators)

A 25% discount in Council Tax liability is given to households where only 1 adult is resident.

The investigators and inspectors throughout the year will routinely look into referrals received from the public or other means suggesting there are 2 adults resident and therefore not eligible to the discount.

	<u>In period</u>	<u>2018/19 YTD</u>
Discounts removed	5	14
Loss being recovered	£3,657	£10,497

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	2018/19 (YTD)	In period	2018/19 (YTD)
New billable CT or Rates	£182,629	£354,330	£26,790	£2,510,440

Agenda Item 4

5 Implications

There are no implications from the report.

6 Background Papers

6.1 None

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

ENDS

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Crawley Borough Council

Report to the Audit Committee

2nd October 2018

Progress Report: Internal Audit and Risk Management

Report of the Audit and Risk Manager – FIN 455

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, as at 14th September 2018.

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 12th July 2018, the following review has been completed.

Audit Title	Audit Opinion
Procurement – Use of ICT Consultants	Limited Assurance

4.2 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

We have identified 1 high priority finding in this period which were as follows:

Procurement – Use of ICT Consultants 2018/2019 - 1 High priority finding

We have recently undertaken a review of the use of Consultants in the ICT department, to confirm that the Procurement Code had been followed and that the Contracts Register updated.

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We have raised one high priority finding which relates to non-compliance with the Procurement Code where we identified two examples. One related to the supply of a consultant to the value of £63,225 where ICT did not obtain three written quotations, or follow any other aspects of the Procurement Code, for the work and recruited the individual when they learned that the person was available.

The second related to the supply of a Project Manager, where expenditure totalled £118,845 (to March 2018). ICT made an initial estimate of £30,000 and three bids were obtained. However the value of this work has been permitted to exceed the initial budget with no reassessment of the costs. We have been advised that this consultant's services were required by with the Council for a further three months and that the value would increase.

We have also raised findings during this review in relation to the absence of Procurement training and the Procurement Toolkit which needs to be updated.

Actions have been agreed to improve the control environment and we will confirm that they have been implemented at the next meeting of this Committee in November.

4.4 Follow up Audits

Data Centre Migration Project Audit 2018/2019

The final report for this audit was issued in July 2018 and the outcome reported to this Committee on 24th July. In that report, 20 high priority findings were identified, and action to address these was agreed with management, most of which are not yet due for implementation.

During the audit of this project, it was established that a total expenditure of £937,281 had been charged to the Data Centre, being both capital and revenue. We did this by reviewing the capital and revenue codes in the Financial Management System (FMS). We were, however, advised from discussions with IT Management when discussing our findings, that some costs have been incorrectly charged to the Data Centre Migration Project as they relate to other IT projects and that the actual costs as at 31st May 2018 for the Data Centre Migration Project were £703,668.78. I sought to confirm the accuracy of this revised figure prior to the last meeting but was unable to do so.

It was therefore agreed that I would undertake further work in this area and advise the Committee of the outcome at this meeting.

In order to do this, I have met with the Infrastructure Manager who has been involved in the project since its inception. The outcome of these meetings and discussions is that a figure of £262,549.23 has been identified as being incorrectly coded to the Data Centre, with the total expenditure on the Data Centre being £715,271.08. These costs however, with the exception of the reported overspend of £100,753 have been met within the IT budgets.

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This is shown in the table below:

Spend on Data Centre -	977,820.31
Not data centre - coded to data centre but within overall IT budget	- 262,549.23
Data centre costs	715,271.08
Made up of -	
Approved budgets to date including revenue	540,612.50
Reported overspend at Outturn 2017/18	100,753.00
Absorbed within IT (lost opportunity)	73,905.58
	715,271.08

Member Action

The Minutes of the last meeting of this Committee state as an Action:

*In taking all issues into account, and in accordance with the suggestion of the Chair, the Committee considered that a clear end date for the project be provided within 6 weeks, and that prior to the next meeting of the Committee, and in approximately 6 weeks from the date of this meeting, an update report should be circulated to Members by the Head of Digital and Transformation to update Members on costs and where we were in arranging the review on the Project as a whole to confirm value for money / fitness for purpose / the way forward (**ACTION**).*

To address this, the Head of Digital and Technology has circulated a paper to all Members of the Audit Committee, which outlines current options for the Data Centre, and makes a recommendation to CMT of the preferred option. The report includes and end date for the project and costs associated with its completion.

With regards to a post project review, to review value for money / fitness for purpose / the way forward, the Head of Digital and Transformation confirmed that that in preparation for new ways of working and the New Town Hall, it will be necessary to develop a clear strategy that includes all of our infrastructure plans, and so the fit for purpose and way forward elements of the work to date and the continued validity of the initial business case will be reviewed as a part of that exercise. It is anticipated that the value for money element will be considered at this time.

4.5 Freedom of Information (FOI) Requests

Between 1st July and 31st August 2018 we have processed 175 requests, and of these, 11 responses were sent to the requester outside of the 20 working day deadline. This was largely due to the complexity of the requests.

5. **Strategic Risks Update**

The following have been identified as strategic risks for the Council at 30th June 2018.

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

- **Town Hall and District Heat Network**

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 was presented to Cabinet early in 2017 and was approved at Full Council on 22nd February 2017. This proposal will require a partial demolition of the current building to allow for the development of a new Town Hall within the site. Planning permission for the scheme was granted on June 5th 2018 and the majority of staff have now been decanted from the proposed demolition area. A risk register for the scheme, attached at Appendix B, is updated by the project team on a fortnightly basis and will be shared with the Audit Committee.

- **LEP Infrastructure – Crawley Growth Programme**

CBC, together with WSCC (the lead body) was successful in securing £14.6 million of Local Growth Fund from the Coast to Capital LEP in autumn 2017, as part of the Crawley Growth Programme – a £60m package of public and private sector funding. These resources are being invested in sustainable transport, highway and public realm infrastructure in the town centre and Manor Royal. The Worth Park Avenue cycle path, the Crawley town centre signage scheme and the Real Time Passenger Information upgrades at bus shelters across Crawley have already been completed.

The principle purpose of the Crawley Growth Programme investment will be to help bring forward regeneration sites to achieve new homes, jobs and commercial space. The Programme is being delivered over the period 2017 to 2021, founded on dialogue and active partnership working with stakeholders such as Metrobus, the Manor Royal BID, Gatwick Airport Ltd, Network Rail and site developers. It is being overseen by the Crawley Growth Board, chaired by CBC's Chief Executive and CBC key decisions on schemes going forward will be subject to Cabinet approval and associated due process.

Part of the Crawley Growth Programme, includes the Queensway and The Pavement public realm improvement scheme (the next phase of town centre regeneration after Queens Square). The contractor, Blakedown, has been appointed to undertake the works for this scheme and is due to commence on site in January 2019 through to October 2019. . Design work has begun on several other Crawley Growth programme schemes, including Station Gateway and Manor Royal Gatwick Road sustainable transport improvements. An update on the programme was reported to Cabinet in June 2018 [PES/298](#)

- **Three Bridges Railway Station**

On 11th 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 agreed to extend the S106 funding spend deadline to end March 2021.

Agenda Item 5

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. These funds are being combined with the above S106 resources along with over £1 million of Community Infrastructure Levy (approved by Cabinet on 7th February 2018).

The Three Bridges station scheme Programme Manager has been working closely with GTR Southern and Network Rail in order to progress delivery of the scheme to detailed design stage with the aim of submitting a planning application next year.

GTR Southern and Network Rail have both joined the Three Bridges Project Steering Group alongside Crawley Borough Council and West Sussex County Council. On 21st March Cabinet approval was secured to commence work on the detailed design stage and to undertake comprehensive traffic modelling to determine the impact on traffic flows of the scheme, taking account of the recently upgraded traffic lights infrastructure outside Three Bridges station on Haslett Avenue East.

- **Delivering the affordable housing programme**

The Administration has pledged to build as much affordable housing for local people as possible. Delivery is being programmed through the Strategic Housing Board and scrutinised at CMT and through the Corporate Projects Assurance Board. Current projections for the next 4 year delivery period (2018-2021) indicate that delivery can be maintained at a similar level to the previous 4 year monitoring period at just over 1000 new affordable homes. Approximately 2/3rds of this delivery will be by the Council and the remainder by other Registered Providers of affordable housing.

The [2017/2018 Budget Monitoring – Quarter 2 FIN/427](#) report to Cabinet on 29 November 2017 identified in section 9 that over £7.7m of 1-4-1 receipts had been used to partially fund purchase of properties. However there had been delays on some housing schemes that had resulted in £1.4m being repaid back to Government. The [9 January 2018 Councillors Information Bulletin](#) provided more detail on these delays. The officer Strategic Housing board meet on a regular basis and review the use of 1-4-1 receipts; any future risks will be highlighted through the Quarterly monitoring reports to Cabinet and on the Councillor Information Bulletin. Spend is currently on track.

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. HRA and 1.4.1 receipt funding is currently fully committed. The Council is awaiting the outcome of a bid to secure additional funding via the HRA Additional Borrowing Programme. If successful this will enable schemes to be brought forward and the pace of delivery increased.

The decision to leave the EU may impact upon the costs of housing schemes as future restrictions may increase labour costs, this will be monitored over the coming years.

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Future Income Streams and Transformation Agenda

In preparation for the New Town Hall the Council has agreed a wider transformation programme to prepare the organisation for a new era and to help us meet future demand, needs and financial pressures. The pillars (in addition to the New Town Hall) within the plan are Digital Transformation, New Ways of Working, Values and Behaviours, Redesigning Services, Commercial Approach (a separate risk is being created for this) and Blitz on Bureaucracy. At a high level the key risks are:

- The interdependencies between the areas of work are not managed putting at risks key elements of the plan
- The capacity required by the transformation programme takes resources away from core delivery impacting negatively on performance, finance and reputation
- Services are not prepared for the move to the new town hall putting performance at risk, impacting negatively on service provision and/or creating non-planned for additional costs (or reduced income)
- Staff are not prepared for the move to the new town hall impacting on motivation recruitment and retention
- Technology does not support the desired ways of working impact on performance, finance and morale

To begin to manage these risks, a new Transformation Board at CMT level has been created that brings together a high level plan to ensure coherence, manage interdependencies and change, allocate resources and ensure delivery. Since July, this group has been receiving regular updates. A full risk analysis is to be undertaken once current negotiations on the New Town Hall are completed as outcomes will affect analysis. A further senior management group – Corporate Project Assurance Group - has also been created and the first meeting will be held on 20th September 2018. This group will identify the key projects and risks beyond the transformation programme to oversee delivery and manage any negative impact from the constraint of capacity and resources. Agendas are being driven by an initial risk analysis. Both bodies will undertake a more detailed risk analysis for their respective areas in the coming weeks.

Disaster recovery and business continuity.

A report to Cabinet on 9th September 2015 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 at the data centre. Since June 2017 80% of Virtual servers and 70% of data has been migrated to the Surrey Data Centre.

A 2nd Phase of work is now being planned to move additional Physical infrastructure to the Surrey Data Centre, including additional storage to support EIM and backups. This 2nd phase will also include infrastructure upgrades at remote sites, further deployment of wifi services and remote data backups at the Town Hall, utilising the space, capacity and resilience of the new ground floor comms room.

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. There is a link to this centre so that systems will remain operational in the event of the Town Hall being out of operation but the network still running and it is possible for staff to get into the CBC network via this link. Once the move to the SCC data centre is complete then staff will be able to access the CBC network in the event of a network failure in the Town Hall.

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Wi fi will allow access for up to 70 users at the Bewbush Centre using laptops and a small number of desktop network points.

Terrorist Attacks

In the wake of recent attacks, in May 2017 the UK terror threat level was raised to its highest level of "critical", amid fears that more attacks may be imminent, however this has now been reduced back to "severe". There are no specific threats to Crawley or West Sussex, and CBC is in regular contact with community stakeholders and the police, monitoring for any community tension and providing support where we can.

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

The Budget and Council Tax 2018/19 [FIN/434](#) report to Cabinet on 7th February 2018 showed that we achieved a balanced budget despite a 44.54% reduction in revenue support grant, efficiencies were identified and the Budget Advisory Group scrutinised growth bids which were accepted including investment town wide in shrub bed removal. The budget Strategy report was approved by [Cabinet on 6th September 2017](#), projections are being constantly updated. Projections will be refined when the outcome of Town Hall listing / tendering is known.

The Corporate Management Team continue to work with staff and contractors to identify and implement improved ways of working and to focus on the aim of dealing with matters first time. The refreshed transformation programme of service improvements and efficiencies achieved through systems thinking and other types of review continue with the aim of continual streamlining of internal processes to reduced waste and duplication, and also to focus on the defined purpose of each service. The transformation programme includes an increased focus on achieving new sources of income.

The impact of the decision to leave the EU may have a detrimental impact on the Council's objectives and finances, this will be reviewed as part of the budget strategy.

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 Finance, 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.

Summary of Current Strategic Risks

- Failure to deliver key infrastructure projects as planned, on time and within budget;
- Delivering the affordable housing programme;
- Future Income Streams and Transformation Agenda
- Disaster recovery and business continuity;

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- Terrorist attacks;
- A balanced budget is not achieved in the medium term resulting in an increased use of reserves, which is not sustainable;
- Recruitment and retention.

6 Background Papers

- 6.1 Risk Management Strategy [FIN/364](#) Audit Committee 24th June 2015.
Risk Management Strategy – update 24th September 2015 [FIN/371](#)
Internal Audit Plan 2018/2019 [FIN/438](#)
Internal Audit Reports 2017/2018 and 2018/2019

Report author and Contact Officer: Gillian Edwards, Audit and Risk Manager (01293 438384)

ENDS

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Appendix a

Internal Audit Plan 2018/2019

Progress Report as at 14th September 2018

Audit	Audit Plan Year	Audit Opinion-Assurance	Number of High Priority Findings	Comments
A. Work Completed in the Current Period				
Procurement – Use of IT Consultants	2018/19	Limited	1	
B. Work In Progress				
Grants	2018/19			
New Town Hall	2018/19			Ongoing advice to Project Team
Community Centres	2018/19			
Fraud Risk Assessment	2018/19			
Health and Safety	2018/19			
C: Follow Ups				
Data Centre Project Audit	2018/19			
FOI Requests – day to day work				
Other Work				
Mid Sussex District Council	2018/19			Work is ongoing.

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**TOWN HALL PROJECT
RISK REGISTER**

File Ref: Town Hall Development	Created by: Mike Pidgeon
Name of Doc: Risk Register	Date Created: 02/03/2017
Version No: V13	Monitored by: Project Board
File path: T:\Town Hall Project\townhallprojectriskregister .doc	Date Printed: 24/09/2018
	No of Pages 1 of 1

Likelihood	Impact
5 = Very High	5 = Catastrophic
4 = High	4 = Critical
3 = Significant	3 = Moderate
2 = Low	2 = Marginal
1 = Very Low	1 = Negligible
Risk Score = Likelihood x Impact	
All risks with a score of 10 or more are considered serious	

Risk ID	Risk Description	Original Risk	Target Risk	Current Risk	Mitigating Actions	Review Date/Comments
	Design & Construction Risks					
D1	Listing of existing Town Hall building	2 5 10	1 1 1	1 1 1	<ul style="list-style-type: none"> COI granted and risk now only that demolition work not completed by March 2023. 	
D2	Planning conditions requires amending which impacts on financial viability of the scheme.	2 4 8	1 1 1	1 1 1	<ul style="list-style-type: none"> Pre app meetings held between Westrock and planning officers Conditions for the scheme have been identified so that ownership and dates can be agreed. 	RISK CHANGED FROM 2 3 6
D3	Errors in detailed design specification	2 4 8	1 4 4	2 4 8	<ul style="list-style-type: none"> Consultant Architects appointed as our client to oversee design brief 	
D4	Phase 1 decant works delay construction programme	3 5 15	1 2 2	2 4 8	<ul style="list-style-type: none"> Works/moves programme to allow sufficient contingency should programme slip Progress ahead of construction programme Staff move complete and waiting to commence service utilities work. 	

Risk ID	Risk Description	Original Risk	Target Risk	Current Risk	Mitigating Actions	Review Date/Comments
D5	Town Hall comms link relocation works delay construction programme	3 5 15	1 2 2	1 4 4	<ul style="list-style-type: none"> Detailed works/moves programme agreed and signed off by Project Board/CMT Works/moves programmed to allow sufficient contingency should programme slip 	
D6	CBC lacking the necessary experience and/or skills to complete the development. <ul style="list-style-type: none"> ICT Commercial letting & Mgt 	2 3 6	1 2 2	2 3 6	<ul style="list-style-type: none"> Consultant Architect and other consultants appointed to supplement in-house resources and expertise. Appointment of new DCeX, handover given and greater involvement from CeX 	
D7	Members facilities do not meet their requirements	2 3 6	1 2 2	2 3 6	<ul style="list-style-type: none"> Regular consultation with Members and Member Working Group Member sign-off to this element of the final design brief of these elements 	
D8	Staff facilities / infrastructure do not meet their requirements.	2 3 6	1 2 2	2 3 6	<ul style="list-style-type: none"> Regular consultation with staff via a number of formats Close liaison with staff groups during stage 4 design stage Desk ratio demonstrates meeting needs and will work with staff to co-ordinate remaining elements. Will be delivering office etiquette guidelines and trails for new ways of working 	

Risk ID	Risk Description	Original Risk	Target Risk	Current Risk	Mitigating Actions	Review Date/Comments
D9	Customer facilities do not meet their requirements	2 3 6	1 2 2	2 3 6	<ul style="list-style-type: none"> • Crawley Homes Tenants Panel have been consulted. • Will undertake a consultation with customers • Will offer significant improvements to current arrangements. 	
D10	Commercial office space including car park specification/design not attractive to potential occupiers.	2 4 8	1 2 2	2 3 6	<ul style="list-style-type: none"> • Design set at required level to attract commercial occupiers • Will ensure communal space and entrance area is attractive and floors will meet Grade A requirements. • We are receiving ongoing feedback from commercial agents as part of the One Public Estate exercise • Impact of demolition area and public square may deter occupiers in first few years. • Car Park Management Plan to be approved by planning. 	
D11	Council involvement in the procurement of the demolition contractor results in lack of clarity between roles, hours of working and retention of materials.	3 4 12	1 1 1	2 3 6	<ul style="list-style-type: none"> • Discussions with demolition contractor to ensure requirements are outlined in tender documents • Change to timeline gives time to clarify responsibilities before services disconnection 	D&C sub group

Risk ID	Risk Description	Original Risk	Target Risk	Current Risk	Mitigating Actions	Review Date/Comments
D12	Provision of the internal wall during the demolition period does not meet planning conditions	3 3 9	1 1 1	3 3 9	<ul style="list-style-type: none"> Discussions with demolition contractor to ensure requirements are outlined in tender documents 	D&C sub group
D13	Drainage and sewers are damaged during demolition	2 4 8	1 2 2	2 4 8	<ul style="list-style-type: none"> Discussions with demolition contractor to ensure requirements are outlined in tender documents 	D&C sub group
D14	Delays to commencing demolition work whilst retain vacant office / civic space.	2 2 4	1 2 2	3 2 6	<ul style="list-style-type: none"> Civic / Chamber space available until June 2019 Reduction to business rates when services disconnected Loss of revenue from Civic from June 2019 	D&C sub group
D15	Building as completed not to required quality/specification	2 4 8	1 2 2	2 3 6	<ul style="list-style-type: none"> Establish robust project management structure Maintain regular contact between CBC/developers to monitor construction against design specification Regular design team meetings held Appoint Clerk of Works to oversee construction 	
D16	District Heat Network not being progressed impacts detrimentally on overall scheme	2 2 4	1 2 2	3 3 9	<ul style="list-style-type: none"> Subject to business case funding obtained for initial phase of network Initial network only extended outside of current scheme after commitment obtained from future partners 	

Risk ID	Risk Description	Original Risk	Target Risk	Current Risk	Mitigating Actions	Review Date/Comments
					<ul style="list-style-type: none"> Initial network to be constructed as part of phase 1 of the scheme Sufficient resources/project management allocated to project. Project Manager appointment New design and business case to September Cabinet 	
	Legal or Contractual Risks					
L1	Errors or omissions in legal or contractual documentation	2 3 6	1 2 2	2 3 6	<ul style="list-style-type: none"> Internal/External procurement and legal advice taken on all aspects of the contractual arrangements 	
L2	Decision gateways and need for CBC authority result in delays making key decisions	2 4 8	1 4 4	2 4 8	<ul style="list-style-type: none"> Clear decision making leads identified at member and officer level agreed by Cabinet Robust project management and Governance structure established Continued working with consultants to ensure work to timeline. 	
L3	Final detailed negotiations failed	2 4 8	1 2 2	2 4 8	<ul style="list-style-type: none"> Regular contact at senior level within both organisations with a clear understanding of both parties' main objectives. 	

Risk ID	Risk Description	Original Risk	Target Risk	Current Risk	Mitigating Actions	Review Date/Comments
L4	Impact on scheme re: changes in planning regulations in respect of starter homes	2 4 8	1 2 2	2 3 6	<ul style="list-style-type: none"> Regular review of potential changes. Valuation for viability study based on likely levels 	
L5	Westrock unable to obtain development funding for project Phase 2 (market housing)	2 4 8	1 2 2	2 4 8	<ul style="list-style-type: none"> Project agreement will stipulate time period, with CBC having the option to develop. 	
L6	Ensuring legal agreements for affordable housing reflect CBC requirements including covenant for land ownership transfer for Babcock site.	3 3 9	3 3 9	3 3 9	<ul style="list-style-type: none"> Documented requirements for 11,625sqft Legal advice on final documents to ensure CBC requirements are met 	AH working group risk
L7	Values of offices/housing change significantly before the agreement is signed	2 3 6	1 2 2	2 3 6	<ul style="list-style-type: none"> Valuations obtained, these will be refreshed during the project 	
L8	Affordable housing element of scheme not deliverable or RSL not interested in scheme	2 4 8	1 2 2	2 4 8	<ul style="list-style-type: none"> CBC to fund top up payment Rental/shared ownership mix to reflect most attractive option To review before next Audit Committee to review progress on current levels of interest. Preferred RP within budget with a further choice if required 	
L9.	Health & Safety – ensure compliance during and after the construction period and for the future.	2 3 6	1 2 2	2 3 6	<ul style="list-style-type: none"> Robust project management from construction contractor(s) Consultation programme to include all relevant authorities with regard to health & safety matters 	

Risk ID	Risk Description	Original Risk	Target Risk	Current Risk	Mitigating Actions	Review Date/Comments
	Financial Risks					
F1	Project exceeds budget	2 4 8	1 4 4	3 4 12	<ul style="list-style-type: none"> Budget agreed and clearly communicated in Final design brief Regular Project Board and Steering Group meetings to review and keep cost projections up to date Identify robust contingencies sums Identify value engineering opportunities Soft market testing to consider construction and build options. CBC to consider alternative Plan. 	<ul style="list-style-type: none"> Historic England review has caused delays in tendering process Inflation has increased likely build costs
F2	Cost of Project borrowing affected by interest rate fluctuations	2 4 8	1 4 4	2 4 8	<ul style="list-style-type: none"> Projections are currently estimating interest rates higher than the current market, indications are that interest rates may increase in third quarter of 2018. 	
F3	Business Rates for new Town Hall higher than estimated (cannot guarantee the valuation)	2 4 8	1 2 2	2 4 8	<ul style="list-style-type: none"> Current projections based on business rates at existing rates and smaller Town Hall. Will work with valuation office when building works progress. Will minimise liability of vacant offices by delaying completion statements 	
F4	Unable to secure Homes England grant funding towards the Affordable Housing scheme	2 2 4	2 2 4	2 2 4	<ul style="list-style-type: none"> Sufficient budget threshold if funding cannot be achieved 	AH working group

Risk ID	Risk Description	Original Risk	Target Risk	Current Risk	Mitigating Actions	Review Date/Comments
	Communication Risks					
C1	Loss of support/ opposition for project (Members)	2 3 6	1 2 2	2 3 6	<ul style="list-style-type: none"> Robust communication and stakeholder consultation plan Maintain involvement throughout and set out clear responses/justification to consultation responses in order to manage expectations Regular consultation with Members to ensure scheme as finally proposed has cross-party support. Local elections May 2019 	
C2	Loss of support / opposition for project (Staff)	2 2 4	1 2 2	2 2 4	<ul style="list-style-type: none"> As above (4a) but tailored approach Delivered some small scale additional benefits for staff during decant period 	
C3	Loss of support / opposition for project (public)	2 2 4	1 2 2	2 2 4	<ul style="list-style-type: none"> As above (4a) but tailored approach Regular press releases More likely increase around demolition 	
C4	Management of the project does not meet required standards for audit & risk. Procurement rules met for contracts	3 4 12	2 2 4	2 3 6	<ul style="list-style-type: none"> Sub Group created to consider risks, audit and procurement to ensure compliance with requirements. Regular support and attendance from team 	Risk to be reduced to reflect additional governance in place.

Crawley Borough Council

Annual Audit Letter for the year
ended 31 March 2018

August 2018

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The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letter.

Building a better
working world

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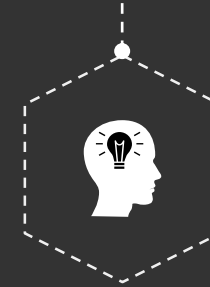
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Focused on your future



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Audit Fees



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.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 (updated 23 February 2017)' 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.



01

Executive Summary



Executive Summary

We are required to issue an annual audit letter to Crawley Borough Council following completion of our audit procedures for the year ended 31 March 2018. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2018 and of its expenditure and income for the year then ended.
▶ Financial statements	
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

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Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Annual Governance Statement	The Annual 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
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

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Executive Summary (cont'd)

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 dated 16 July 2018 and issued to the Audit Committee on 25 July 2018.
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 27 July 2018.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

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



02 Purpose and Responsibilities

Purpose and Responsibilities

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 2017/18 Audit Results Report to the 25 July 2018 Audit Committee meeting, 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 of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued on 6 March 2018 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 2017/18 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 your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the NAO. The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). 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.



03

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 27 July 2018. Our detailed findings were reported to the 25 July 2018 Audit Committee meeting.

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

Significant Risk	Work Undertaken and Conclusion
<p>Misstatements due to fraud or error – Risk:</p> <p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK and Ireland) 240, 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. We identify and respond to this fraud risk on every audit engagement.</p>	<p>Work Undertaken:</p> <ul style="list-style-type: none"> ▶ Inquired of management and those charged with governance about risks of fraud; controls put in place to address those risks; and the oversight given by those charged with governance of management's processes over fraud. ▶ Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements. ▶ Substantively tested balances that are typically at a higher risk of override such as short term accruals and prepayments. ▶ Reviewed the accounting policies and key accounting estimates (Land and Buildings, Pension Liability and NNDR Appeals provision) for evidence of management bias. ▶ Evaluated the business rationale for significant unusual transactions. <p>Conclusion:</p> <p>Our audit work found no evidence that management had attempted to override internal controls. This conclusion is based on detailed testing of accounts entries susceptible to potential manipulation.</p>

The key issues identified as part of our audit were as follows: (cont'd)

Other Key Findings	Conclusion
Valuation of Property, Plant and Equipment and Investment Properties	From our testing we were satisfied that Property, Plant and Equipment and Investment Property values in the year end accounts presented for audit are true and fair.
Pension Liability Valuation	From our testing we were satisfied that the fall in the value of the deficit was largely driven by an increase in the value of the Council's share of the West Sussex Pension Fund's assets. As part of our IAS 19 Pension testing, we compared the net fund assets estimated by the actuary at the year end to the actual net fund assets of the pension fund. The actuary estimated this as being £4,025,000,000 but the actual net fund assets of the pension fund are £4,058,415,000, giving a £33,415,000 variance. The IAS 19 pension figures included within the financial statements are based upon actuary reports which use the estimated figure rather than the actual year end balance. While this approach is not unusual, given that this variance is significant, we calculated Crawley Borough Council's share of the net fund asset difference as being £2.185 million. This difference was recorded as an unadjusted difference in Section 5 of the Audit Results Report and we agreed with management's assessment that the impact was not material.
NNDR Appeals Provision	We tested the Council's calculations supporting the year end provision in detail - confirming that correct data from the Valuations Office Agency (VOA) had been used and that the RV % loss rate used was that recommended by the VOA.
Earlier deadline for the production of the financial statements	<p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July. These changes provide risks for both the preparers and the auditors of the financial statements.</p> <p>We worked with the Council to address these challenges by:</p> <ul style="list-style-type: none"> • Carrying out more of our audit work at the interim stage of our audit, for example testing nine months of income and expenditure transactions • Agreeing a streamlined presentation of audit working papers. We appreciate the Council's staff for the way that audit working papers were batched and organised for the audit team, making it easier to spend time on queries and areas of judgement rather than routine data extraction.

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £2.7mn (2017: £2.7mn), which is 2% of prior year gross expenditure on services. We consider gross expenditure on services to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £133,000 (2017: £136,000).

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. We set materiality at £1 for these areas:

- Remuneration disclosures;
- related party transactions;
- members' allowances; and
- exit packages.

We evaluated any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

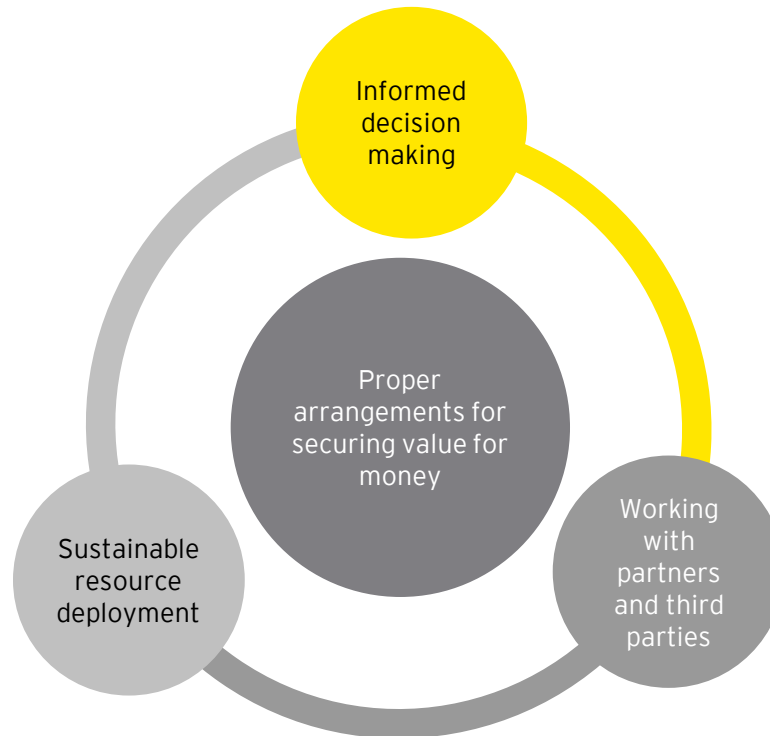


04 Value for Money

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 did not identify any significant risks in relation to these criteria.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Value for Money (cont'd)

We therefore issued an unqualified value for money conclusion on 27 July 2018.

Other matters to report

We did note at planning stage that the Council was considering plans that could involve the demolition of the existing Town Hall and the construction of a new Town Hall, affordable housing and a heat distribution network. We noted that the plans were insufficiently advanced to constitute a significant Value for Money risk, but that we would monitor their progress throughout the audit and as part of our audit planning for 2018/19.

We have reviewed progress on the project and note that the Council has been granted planning permission to proceed with the project but had not yet signed contracts with the delivery partner. Although significant work on the project had still not yet started, we have reviewed financial modelling, and we note that the Council is expecting to use all capital reserves by 2021/22 and thereafter plans to borrow to fund capital projects. Clear financial management arrangements will be required and we will continue to monitor progress in future years.

We have no other matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.



05 Other Reporting Issues



Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the consolidation pack.

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.



Other Reporting Issues (cont'd)

Objections Received

We did not receive any objections to the 2017/18 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 meeting on 25 July 2018. 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.



06 Data Analytics



Use of Data Analytics in the Audit

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- ▶ Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the Council's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all of the Council's financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Payroll Analysis

We also use our general ledger analyser in our payroll testing. We analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



07

Focused on your future



Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 9 Financial Instruments	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> ▶ How financial assets are classified and measured; ▶ How the impairment of financial assets are calculated; and ▶ The disclosure requirements for financial assets. <p>There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> ▶ Reclassify existing financial instrument assets ▶ Re-measure and recalculate potential impairments of those assets; and ▶ Prepare additional disclosure notes for material items.
IFRS 15 Revenue from Contracts with Customers	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> ▶ Leases; ▶ Financial instruments; ▶ Insurance contracts; and ▶ For local authorities; Council Tax and NDR income. <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>Now that the 2018/19 Accounting Code of Practice for Local Authorities has been issued it is becoming clear what the impact on local authority accounting will be. As the vast majority of revenue streams of Local Authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.</p>	<p>As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited.</p> <p>The standard is far more likely to impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers. The Council will need to consider the impact of this on their own group accounts when that trading company is consolidated.</p>



Focused on your future (cont'd)

Standard	Issue	Impact
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>



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Agenda Item 6

08 Audit Fees

Audit Fees

Our fee for 2017/18 is in line with the scale fee set by the PSAA and reported in our 16 July 2018 Audit Results Report.

Description	Final Fee 2017/18 £	Planned Fee 2017/18 £	Scale Fee 2017/18 £	Final Fee 2016/17 £
Total Audit Fee - Code work	65,313	65,313	65,313	65,313
Total Non-Audit Fee - (Housing Benefit)	TBC	11,386	11,386	11,801

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

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EY-000070901-01 (UK) 07/18. CSG London.



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