

Crawley Borough Council

Audit Committee

Agenda for the **Audit Committee** which will be held in **Committee Room A - Town Hall**, on **Tuesday, 6 March 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 R Sharma

T G Belben

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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 - 4
To approve as a correct record the minutes of the Audit Committee held on 28 November 2017.	
4. Fraud and Investigation Team Report	5 - 8
To consider report FIN/440 of the Operational Benefits and Corporate Fraud Manager	
5. Progress Report: Internal Audit and Risk Management	9 - 22
To consider report FIN/437 of the Audit and Risk Manager.	
6. Internal Audit Annual Plan 2018-2019	23 - 26
To consider report FIN/438 of the Audit and Risk Manager.	
7. Internal Audit Charter - January 2018	27 - 38
To consider report FIN/439 of the Audit and Risk Manager.	
8. Audit Planning Report: Year Ended 31 March 2018	39 - 80
To consider Ernst and Young's Audit Planning Report for the year ended 31 March 2018.	
9. Certification of Claims and Returns Annual Report 2016-17	81 - 90
To consider Ernst and Young's Certification of Claims and Returns Annual Report for 2016-17.	
10. 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

Tuesday, 28 November 2017 at 6.00 pm

Councillors Present:

K Sudan (Chair)

C R Eade (Vice-Chair)

R D Burrett, I T Irvine and R Sharma

Also in Attendance:

Councillor A C Skudder

Officers Present:

Chris Corker Operational Benefits and Corporate Fraud Manager

Gillian Edwards Audit and Risk Manager

Karen Hayes Head of Finance, Revenues and Benefits

Mez Matthews Democratic Services Officer

1. Disclosures of Interest

No disclosures of interests were made.

2. Minutes

The minutes of the meeting of the Committee held on 25 September 2017 were approved as a correct record and signed by the Chair.

A Committee member drew attention to minute 16 (Local Government Audit Committee Briefing) which referred to the interest expressed in conducting an audit to look at the number of women employed by the Council in senior roles. Following a brief discussion, it was suggested that the Human Resources Department might already hold such information and therefore the Head of Finance, Revenues and Benefits advised the Committee that she would liaise with the Head of People and Technology to obtain data relating to equalities if it were available (a copy of which was circulated to Committee members following the meeting).

3. Investigation Team Report

The Committee considered report FIN/429 of the Operational Benefits and Corporate Fraud Manager, which focused on activity for the period from 11 July 2017 to 14 November 2017. The report indicated that the Team had continued to perform successfully.

Agenda Item 3

Audit Committee (19)
28 November 2017

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. The Committee sought and received clarification on a number of points raised, including the fraud work undertaken on behalf of the Council's RSL partners and the illegal eviction case. The chair asked that it be noted that it would be better if companies were obliged to report that their business had started up or that there was a change in their business activities which would affect their business rates, rather than the Council having to use its resources to find those properties.

RESOLVED

That the Investigation Team Report be noted.

4. Internal Audit Progress Report as at 31st October 2017 Incorporating Risk Management Update as at 31st October 2017

The Committee considered report FIN/428 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 Internal Audit Plan, 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 the opportunity to brief the Committee on high priority findings and follow up audits. At the request of the Committee, the Audit and Risk Manager provided further information on the Procurement Audit, Queens Square Audit and Freedom of Information requests. In addition, the Committee was advised that the Risk Management Awareness and Training Audit had highlighted several areas for training which relevant staff would be obliged to attend.

The Committee discussed the update provided on Strategic Risk Management. The Committee sought and received clarification on several points, including the delivery of the affordable housing programme and the composition of the LEP Board. A detailed discussion took place regarding the Town Hall Project with clarification provided relating to a certificate of immunity and the potential cost implications should the application to English Heritage be successful. The Committee also expressed concern regarding the Council's current challenge in recruiting and retaining key specialist and professional roles.

RESOLVED

That the Internal Audit Progress Report as at 31st October 2017, incorporating Risk Management Update as at 31st October 2017, be noted.

Closure of Meeting

With the business of the Audit Committee concluded, the Chair declared the meeting closed at 7.05 pm

K SUDAN
Chair

Agenda Item 4

Crawley Borough Council

Report to Audit Committee

6 March 2018

Fraud and Investigation Team Report

Report of the Operational Benefits & Corporate Fraud Manager - Report no. FIN/440

1. Purpose

- 1.1 The report describes the activity of the Corporate Fraud & Inspection Team in the period 15 November 2017 to 19 February 2018. 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 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

Case Type	Number of Cases
Council Tax Liability Investigation	2
Council Tax Reduction Scheme	11
Housing Applications	11
Housing Investigations (General)	16
Housing non occupation	31
Housing Right to Buy	13
CT Single person Discount	7
Fly tipping	2
Enforcement Breach	1
Total	83

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>2017/18 (YTD)</u>
Properties recovered	1	8
Prevented allocation (inc homeless applications)	2	12
Properties recovered for our RSL partners	3	7
Stopped Right to Buy (actual discount value)	NIL	12 (£934,800)
Notional value of savings	£108,000	£1,420,800

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 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. We have started our 2017 data match of single person discounts. This will match various data sets highlighting cases of risk.

	<u>In period</u>	<u>2017/18 (YTD)</u>
Discounts removed	15	31
Loss being recovered	£3,819	£10,276

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.

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	Council Tax		Non Domestic Rates	
	In period	2017/18 (YTD)	In period	2017/18 (YTD)
New billable CT or Rates	£144,271	£549,010	£1,410,330	£4,934,613

4.4 Significant Case Results

New claims bonus

The council receives a direct payment from the Ministry of Housing, Communities & Local Government for the number of new properties we report to the valuation office. The bonus is now paid over a 4 year period. However the value of payments is reduced by the number of properties that are listed as long term empty (6 months).

For each new dwelling the total payment is £1,590.55 (of which West Sussex County Council (WSSCC) receives £318.11 and Crawley Borough Council (CBC) £1,272.44) with an additional £350 for affordable housing of which CBC receive £280 and WSSCC receive £70.

At the start of the exercise 182 properties were listed as empty. The inspectors checked all 182 properties through visits, letters and phone calls. They were able to establish 138 properties were not empty leaving 44 empty properties.

As a result of this exercise we will receive £420,520 for 2018/19 and a further 3 years. Had we still reported 182 properties as empty we would only have received approximately £220,000 a year potentially losing £800,000 for the 4 year period.

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)

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Crawley Borough Council

Report to the Audit Committee

6th March 2018

Progress Report: Internal Audit and Risk Management

Report of the Audit and Risk Manager – FIN/437

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 31st January 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 31st October 2018, the following reviews have been completed.

Audit Title	Audit Opinion
Housing Benefits	Substantial Assurance
Council Tax	Substantial Assurance
Budgetary Control	Substantial Assurance
NNDR	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 Work Still to Complete by 31st March 2018

- Creditors
- Payroll
- Sundry Debtors
- FMS
- Treasury Management

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All audits have been allocated and I am confident that work currently outstanding will be substantially complete by 31st March 2018.

4.4 High priority findings in this period

We did not identify any high priority findings in this period.

4.5 Follow up Audits

Procurement

During the audit of Procurement in October 2017, we identified two findings, of a medium priority. We have confirmed the status of the agreed actions, as at 19th February 2018.

Maintenance of the Contracts Register

Responsibility for ensuring the Contracts Register had not been formally assigned to any officer.

Status of Agreed Action: Not currently implemented.

An officer was assigned the responsibility for maintaining the Contracts Register as at 31st October 2017, however, this officer left the Council on 19th February 2018. The Procurement Manager has confirmed that responsibility for this will be reassigned once the Procurement Team is fully resourced.

Relevant Purchases not Recorded on Contracts Register

Currently, all Local Authorities must publish details of all purchases that exceed £5,000. We tested a sample of twenty relevant purchases to confirm that they had been recorded on the Contracts Register and found that twelve had not. The Head of Partnership Services agreed to remind staff of their responsibilities in completing the E-form to update the Contracts Register.

Status of Agreed Action: Implemented. The Head of Partnership Services raised this with CMT as part of the Procurement report that was considered on 5th December 2017.

4.6 Freedom of Information (FOI) Requests

Between 1st November 2017 and 31st January 2018, we have processed 209 requests, and of these, 18 responses were sent to the requester outside of the 20 working day deadline. This was largely due to the availability of staff during the Christmas period.

5. **Strategic Risks Update**

The following have been identified as strategic risks for the Council at 19th February 2018.

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

- **Town Hall and District Heat Network**

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

Agenda Item 5

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. Plans are underway to decant affected staff and relocate some services and facilities by March 2018 to allow this to take place. 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) has been successful in securing £14.6 million of Local Growth Fund from the Coast to Capital LEP. These resources will be invested in sustainable transport, highway and public realm infrastructure in the town centre and Manor Royal. The principle purpose of this investment will be to help bring forward regeneration sites to achieve new homes, jobs and commercial space. The Coast to Capital Local Enterprise Partnership Board received a presentation from CBC's Chief Executive and the West Sussex CC Executive Director for Economy, Infrastructure and Environment and the LEP Board subsequently confirmed the funding allocation. The Crawley Growth programme is being delivered over the period 2017 to 2021 and the total funding investment will amount to over £60 million, including private sector contributions and match funding contributions from CBC and WSCC. The programme delivery is 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). Detailed designs have been drawn up and a planning application is due to be considered by Planning Committee on 29th January this year. Design work has begun on several other Crawley Growth programme schemes, including Station Gateway and Manor Royal Gatwick Road sustainable transport improvements.

- **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 now formally agreed with the Council a Deed of Variation related to the above S106 funds, which extends the spend deadline 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 be combined with the total of £500,000 of S106 resources (including £70,000 via Forge Wood) already secured for the station improvements and over £1 million of Community Infrastructure Levy (subject to Cabinet approval on 7th February 2018). A Programme Manager for Three Bridges station has been appointed and started on 11th September in order to engage closely with GTR Southern and Network Rail and to co-ordinate progress delivery of the station forecourt improvement scheme to detailed design stage and the submission of a planning application next spring. Intensive discussions are taking place with GTR Southern and Network Rail to agree the proposed delivery schedule. Both organisations have joined the Three Bridges Project Steering Group alongside Crawley Borough Council and West Sussex County Council. Revised designs for the Three

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Bridges Station improvement scheme – including the forecourt and an eastern access for pedestrians alongside a vehicle drop off – have been drawn up and are due to be presented at public information sessions and meetings during February, ahead of a report to Cabinet, which will seek approval for the fully costed scheme on 21st March.

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 stalling of two phases of the Forge Wood development together with two market led schemes continues to impact the housing delivery programme. This impact has been mitigated through proactively bringing forward other schemes and currently the programme remains on track to achieve the pledge.

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.

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.

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.

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. At the end of February 2018 all existing virtual services and systems will have completed their migration.

A 2nd Phase of work is now being planned to move additional Physical infrastructure to the Surry 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.

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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. 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 8th 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.

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Summary of Current Strategic Risks

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

Town Centre (removed as included in the LEP Infrastructure – Crawley Growth Programme)

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 2017/2018

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

ENDS

Agenda Item 5

Appendix a

Appendix A

Internal Audit Plan 2017/2018

Progress Report as at 31st January 2018

Audit	Audit Plan Year	Audit Opinion-Assurance	Number of High Priority Findings	Comments
A. Work Completed in the Current Period				
Housing Benefits	2017/18	Substantial		
Council Tax	2017/18	Substantial		
Budgetary Control	2017/18	Substantial		
NNDR	2017/18	Substantial		
B. Work In Progress				
Risk Management Awareness and Training	2017/18			
Grants	2017/18			Moved to 2018/2019
Museum	2017/18			
New Town Hall	2017/18			Ongoing advice to Project Tear
GDPR Implementation	2017/18			Ongoing to support implementation
Council Tax	2017/18			
Cash and Bank	2017/18			
Sundry Debtors	2017/18			
FOI Requests – day to day work				
Other Work				
Mid Sussex District Council	2017/18			Work is ongoing.

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Appendix B

TOWN HALL PROJECT RISK REGISTER

File Ref: Town Hall Project	Created by: Mike Pidgeon	Date Created: 02/03/2017	
Name of Doc: Risk Register	Monitored by: Project Board	Date Printed: 26/02/2018	
Version No: V9			
File path: T:\Town Hall Project\townhallprojectriskregister .doc		No of Pages 1 of 1	

Risk ID	Risk Description	Original Risk	Target Risk	Current Risk	Mitigating Actions	Review Date/Comment
Page 17	Listing of existing Town Hall building	2 5 10	1 5 5	1 5 5	<ul style="list-style-type: none"> Awaiting the 28 days for the comments on the DCMS decision to expire. DCMS intend to issue a five year Certificate of Immunity. 	All risks are considered at Fortnightly Officer Board meeting
2a	Errors in detailed design specification or contract documentation	2 4 8	1 4 4	2 4 8	<ul style="list-style-type: none"> Consultant Architects appointed to oversee design brief Internal/External procurement and legal advice taken on all aspects of the contractual arrangements 	
2b	Delays in CBC making key decisions prevents scheme proceeding	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 Robust project management structure established Delegated authorisation procedure agreed by Cabinet 	

Risk ID	Risk Description	Original Risk	Target Risk	Current Risk	Mitigating Actions	Review Date/Comments
2c	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. 	
3a	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 Minimise delays/ad-hoc changes 	<ul style="list-style-type: none"> Historic England have caused delays in tendering process Inflation has increased likely build costs
	Cost of Project borrowing Project 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, however indication are that interest rates will increase in the current year. Internal borrowing will reduce the need to go to the market 	
4a	Loss of support 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 Keep project to timetable and budget and stakeholders up to date with progress Regular consultation with Members to ensure scheme as 	

Risk ID	Risk Description	Original Risk	Target Risk	Current Risk	Mitigating Actions	Review Date/Comments
					finally proposed has cross-party support.	
4b	Loss of support for project (Staff)	2 2 4	1 2 2	2 2 4	<ul style="list-style-type: none"> As above (4a) but tailored approach Consider some small scale additional benefits for staff during decant period 	
4c	Loss of support 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 	
5.	CBC lacking the necessary experience and/or skills to complete the development	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. 	
6a	Planning permission: application requires amending which impacts on financial viability of the scheme.	2 4 8	1 2 2	2 3 6	<ul style="list-style-type: none"> Pre app meetings held between Westrock and planning officers 	
6a	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 	
7.	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. 	
8a	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 	
8b	Staff facilities 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 detailed design stage 	

Risk ID	Risk Description	Original Risk	Target Risk	Current Risk	Mitigating Actions	Review Date/Comments
8c	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 	
9.	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 • Initial network to be constructed as part of phase 1 of the scheme • Sufficient resources/project management allocated to project. • Project Manager appointment 	
10a	Commercial office space 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 	
10b	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 	
11.	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 	
12a	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 	

Risk ID	Risk Description	Original Risk	Target Risk	Current Risk	Mitigating Actions	Review Date/Comments
13	Phase 1 decant works delay construction programme	3 5 15	1 2 2	3 4 8	<ul style="list-style-type: none"> Detailed decant programme agreed and signed off by Project Board/CMT Works/moves programme to allow sufficient contingency should programme slip Progress ahead of construction programme 	
14.	Data centre 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 	
15.	Opposition from the public prior to construction	3 4 12	2 2 4	2 4 8	<ul style="list-style-type: none"> Effective communication and publicity campaign Advantages of scheme clearly set out in the business case 	
15.	Opposition from the public during construction	3 2 6	2 2 4	3 2 6	<ul style="list-style-type: none"> Establish clear communications plan for the construction period Ensure clear signage and access/egress provision to existing building for public 	
17.	Building as completed not to required quality/specification	2 4 8	1 2 2	2 4 8	<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 	
18.	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) 	

Risk ID	Risk Description	Original Risk	Target Risk	Current Risk	Mitigating Actions	Review Date/Comments
					<ul style="list-style-type: none"> • Consultation programme to include all relevant authorities with regard to health & safety matters 	
19.	Facilities specification including car park is not attractive to potential tenants	2 3 6	1 2 2	2 3 6	<ul style="list-style-type: none"> • Maintain regular dialogue with Westrock to ensure specification meets both their and CBC's requirements 	

Crawley Borough Council

Report to the Audit Committee

6th March 2018

Internal Audit Annual Plan 2018 - 2019

Report of the Audit and Risk Manager – FIN/438

1. Purpose

- 1.1 The Committee has a responsibility to assess the adequacy of the Council's internal audit and risk management arrangements. This includes considering and reviewing the adequacy of the Internal Audit Budget and Resource Plan and approving the Internal Audit Plans ensuring that appropriate risk assessments have been carried out when formulating these.

2. Recommendations

The Committee is requested to make any recommendations they wish on the proposed 2018 – 2019 Annual Internal Audit Plan.

3. Reasons for Recommendations

The Audit Committee has responsibility to review the proposed Internal Audit Plan.

4. Background

- 4.1 The Council has a statutory duty to “undertake an adequate and effective internal audit of its accounting systems and of its system of internal control” – Accounts and Audit Regulations 2011 – Regulation 6. This responsibility is delegated to the Head of Finance, Revenues and Benefits.
- 4.2 The plan was reviewed by the Corporate Management Team members in January 2018 and the following Plan agreed.

5 Supporting Information and Analysis

- 5.1 The 2018/2019 annual audit plan allows for examination of the main financial areas from a systems and from an IT perspective, and is key to ensuring the Council's finances remain properly controlled, whilst also undertaking strategic and service based work each with a varying risk to the organisation.
- 5.2 The plan also includes some specific reviews from previous audit work; this is to ensure the Council is being consistent in their approach to these areas year on year.

Agenda Item 6

- 5.3 A total of 220 days has been set aside in the plan for the work that we will be undertaking as part of the shared service arrangement with Mid Sussex District Council.
- 5.4 The Appendix includes an outline scope for each audit area. A detailed scope and objectives for each audit will be agreed with the Heads of Service prior to the commencement of each individual review.
- 5.5 Best practice dictates that an audit plan should be prepared to meet the audit needs of the organisation, regardless of the level of resources available to deliver the plan. If the days required exceed the days available, then it is for management to decide whether additional resources should be made available or whether they are happy to accept the risks involved in not doing some of the reviews, and which reviews should be omitted.
- 5.6 The service will be delivered using a mix of in-house staff and specialist external consultants.
- 5.7 In considering the plan, Members should consider whether:-
- It accurately reflects the audit needs of the Council and the external auditors;
 - There are audits that should be included that have been omitted;
 - There are topics that the Committee does not consider to require that Internal Audit cover.

6. Implications

- 6.1 The plan needs to provide sufficient coverage to meet the Council's statutory duty to undertake an adequate and effective internal audit plan.
- 6.2 The plan can be met with the proposed budget.

7. Background Papers

- 7.1 None.

Report author and contact officer: Gillian Edwards, Audit and Risk Manager
(01293) 438384

ENDS

Agenda Item 6

Appendix a

APPENDIX

INTERNAL AUDIT PLAN 2018/2019

Audit	Risk	Days
Fundamental Systems (including those identified by Ernst and Young)		
Ernst and Young Year End Testing	High	2
Council Tax	High	8
NNDR	High	10
Housing Benefits	High	10
Creditors	High	8
Sundry Debtors	High	8
Payroll	High	8
Cash and Bank	High	6
FMS	High	6
Budgetary Control	High	8
Asset Management	High	6
Treasury Management	High	5
Projects – Capital and Revenue		
Museum	High	2
Town Centre Regeneration	High	4
Town Hall Redevelopment	High	12
K2 Tender	High	6
Gas Servicing Tender	High	4
Other		
Purchasing of Goods and Services	High	8
Grants	High	8
Publication Scheme Review	High	2
Ethics	High	8
DWP CIS Security Compliance 2018/2019	High	4
Commercial Properties including Rents	High	8
Risk Management Workshops	High	8
Business Continuity, Business Impact Assessments, Health and Safety	High	12
Fraud Risk Assessment	High	8
Housing Repairs – Gas Servicing	High	8
Leasehold Income	High	8
Computer Audit		
<ul style="list-style-type: none"> • Data Centre Migration - 10 • To be agreed – 15 days 	High	25
Contingency		
		21
Follow Up Audits		
	High	12
Freedom of Information Requests		
		100

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Appendix a

Specific to Audit and Risk Manager		
Liaison with External Auditor		2
Preparation of Annual Governance Statement		8
Quality Control and Review of Files		20
Staff Management		18
Liaison with Head of Finance, Revenues and Benefits		6
Audit Committee Reports and Attendance		12
Non-specific advice and liaison		12
Preparation of Annual Internal Audit Plan		6
PSIAS Peer Review		5
PSIAS Compliance		8
Sussex Audit Group		3
Study, training and courses		2
General Administration		2
Prepare for GDPR		6
Specific to Auditors		
Non-specific advice and liaison		8
Sussex Audit Group		3
Study, training and courses		4
Cheque control/bank administration		2
General Administration		4
Election Duty		4
Mid Sussex District Council		220
		708

Crawley Borough Council

Report to the Audit Committee

6th March 2018

Internal Audit Charter – January 2018

Report of the Audit and Risk Manager – FIN/439

1. Purpose

- 1.1 As stated in the Public Sector Internal Audit Standards (PSIAS), the Committee has a responsibility to review and approve the Internal Audit Charter.

2. Recommendation

- 2.1 The Committee is requested to review and approve the Internal Audit Charter, attached as an Appendix to this report.

3. Reasons for the Recommendations

- 3.1 The Committee has a responsibility to give their approval to the Internal Audit Charter.

4. Background

- 4.1 The Public Sector Internal Audit Standards (PSIAS) were updated in April 2017. The Standards are mandatory for internal audit in public services, including local government. The Charter reflects the changes made to the International Professional Practices Framework (IPPF) of the Global Institute of Internal Auditors on which the PSIAS is based. In addition, amendments were made to the public sector requirements and public sector interpretations which form part of the PSIAS. The Internal Audit Charter has been prepared to reflect the new standards and brought to the Audit Committee for approval.
- 4.2 Public Sector Internal Audit Standard 1000 requires that Purpose, Authority and Responsibility be defined in an Audit Charter. The Charter establishes Internal Audit's position within the organisation, including the nature of the Audit and Risk Manager's reporting relationship with the Audit Committee, authorises access to personnel, records, and physical properties relevant to audit work, and defines the scope of internal audit activities. The senior management and board representatives for Internal Audit's client organisations is set out in the Charter. Final approval of the Internal Audit Charter resides with Crawley Borough Council's Audit Committee.

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- 4.3 The Audit and Risk Section works to the Charter, which complies with the Public Sector Internal Audit Standards (PSIAS) as applied in the UK, based on international standards. The Charter is required to be reviewed and considered by the Audit Committee on an annual basis. The PSIAS were refreshed in March 2017 and, to ensure that Crawley Borough Council's Internal Audit Service Charter reflects the key changes, it has been prepared to reflect these.
- 4.2 The Audit Committee has a key function in ensuring that effective corporate governance arrangements are maintained in the Council. The Internal Audit Charter provides evidence of such arrangements in respect of the Internal Audit function, and has been prepared to reflect the recent refresh of the Public Sector Internal Audit Standards.

5. Background Papers

- 5.1 Accounts and Audit Regulations 2015;
Public Sector Internal Audit Standards 2017

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

ENDS



Audit and Risk Section

Internal Audit Charter

2018

Gillian Edwards
Audit and Risk Manager
January 2018

Date of next scheduled review: January 2021

INTERNAL AUDIT CHARTER - JANUARY 2018

Introduction

- 1 Internal audit at Crawley Borough Council is provided by an in house team of staff.
- 2 There is a statutory requirement to provide an internal audit service and the service itself is regulated by [The International Standards on Auditing \(UK and Ireland\)](#), [Public Sector Internal Audit Standards](#) (PSIAS) and the Local Government Application Note (LGAN). The internal audit function is also governed by the Council's Financial Procedure Rules.
- 3 Regulation 5 of the [Accounts and Audit Regulations 2015](#) requires that "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".
- 4 The PSIAS are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:
 - Definition of Internal Auditing
 - Code of Ethics, and
 - International Standards for the Professional Practice of Internal Auditing (including interpretations and glossary).

Internal audit must comply fully with these [standards](#), elements of which also form part of this Charter.
- 5 The PSIAS sets out the responsibility for the "Chief Audit Executive" to ensure compliance with the standards. There is no requirement within the PSIAS to adopt this job title and this role is fulfilled by the Audit and Risk Manager.

Definition of Internal Audit

- 6 The definition of Internal Audit is set out in the Public Sector Internal Audit Standards, adopted by CIPFA, and updated in March 2016.

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

Code of Ethics

- 7 As a fundamental requirement, internal auditors in UK public sector organisations must conform to the Code of Ethics set out in Section 6 of the PSIAS. The code is based on four principles. They are:

1. Integrity
2. Objectivity
3. Confidentiality
4. Competency

The Audit and Risk Manager must also conform to the Chartered Institute of Public Finance and Accountancy (CIPFA) [Standard of Professional Practice on Ethics](#) (SOPP on Ethics). The SOPP is based on the International Federation of Accountants (IFAC) Code of Ethics, which CIPFA has adopted in full.

If individual auditors have membership of another professional body, such as the Institute of Internal Auditors ([IIA](#)), then he or she must also comply with the relevant requirements of that organisation.

Lastly, internal auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's *Seven Principles of Public Life*, information on which can be found at www.public-standards.gov.uk

The Board and Senior Management

- 8 Under the PSIAS, this Charter is required to define the “Board” and “Senior Management”. Both the board and senior management have specific and complementary roles and responsibilities set out within the PSIAS. With the exception of matters relating to employment (see below), the “**Board**” is the Audit Committee.
- 9 The Audit and Risk Manager is not a statutory post within the definition of the Local Government Act 1972. The Chief Executive and Corporate Directors are therefore responsible for the appointment and remuneration of the Audit and Risk Manager where the service is provided in-house and would constitute “the Board”.
- 10 **Senior Management** comprises of the members of the Corporate Management Team (CMT).

The Scope of Internal Audit Activity

- 11 The Audit and Risk Manager is required to manage the provision of a complete audit service to the authority which will include systems, probity, performance management, computer and contract audit.
- 12 There are no limitations on the scope of activities of the Internal Audit Service. The scope of the Internal Audit Service allows for unrestricted coverage of all the authority's activities, including both financial and non-financial systems of internal control.

Consulting Services

- 13 With the introduction of the PSIAS, internal audit may also provide “consultancy” services. This work could take any form, provided that the independence of the service is not compromised, but will typically include special reviews or assignments where requested by management, which fall outside the approved work plan and for which a contingency is included in the audit plan. There will be no significant variation in consultancy work without approval by the Board.

Responsibilities and Objectives of Internal Audit

- 14 The Charter frames objectives for internal audit that take account of the Council’s corporate aims of conducting of business with integrity whilst maintaining the highest ethical standards.
- 15 Consistent with these corporate aims, the key objectives of Internal Audit relate to:
- Internal Control Systems
 - Risk Management
 - Anti-Fraud and Anti-Corruption Framework

Internal Control Systems

- 15.1 The primary objective of Internal Audit is to contribute to the review of the effectiveness of the entire control environment of the organisation. This is achieved by adopting a predominantly risk-based approach to audit.
- 15.2 The internal control system comprises the whole network of systems established within the authority to provide reasonable assurance that corporate objectives will be achieved. As stated in PSIAS, the internal audit activity must evaluate risk exposures relating to the organisation’s governance, operations and information systems regarding the:
- Achievement of the organisation’s strategic objectives;
 - Reliability and integrity of financial and operational information;
 - Effectiveness and efficiency of operations and programmes;
 - Safeguarding of assets; and
 - Compliance with laws, regulations, policies, procedures and contracts.
- 15.3 Accordingly, in the conduct of planned audits, the Internal Audit Service may:
- Review the reliability and integrity of financial information and the means used to identify, measure, classify and report such information
 - Review the means of safeguarding assets and, as appropriate, verify the existence of such assets;
 - Appraise the economy and efficiency with which resources are employed, identify opportunities to improve performance and recommend solutions to problems;
 - Review the established systems to ensure compliance with those policies, procedures, laws and regulations which could have a significant impact on operations, and determine whether the authority is in compliance;

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Appendix a

- Review operations and activities to ascertain whether results are consistent with objectives and whether they are being carried out as planned.

Risk Management

15.4 The Internal Audit Service has a role in, and provides advice about, risk management and where appropriate assists in the preparation and promotion of the authority's risk management policy statement and approved strategy. It is not the role of Internal Audit to manage risks.

Anti-Fraud and Anti-Corruption

15.5 Senior Management have clearly defined responsibilities for Risk Management, Internal Control, Internal Audit and preventing Fraud and Corruption, which are set out in the authority's Financial Procedure Rules and the Anti-Fraud and Anti-Corruption Strategy. All suspected frauds and irregularities shall be reported to the Fraud and Inspections Manager, and where appropriate, the Audit and Risk Manager

15.6 The Internal Audit Service has a role in fraud prevention, detection and investigation and may assist in the development and maintenance of an Anti-Fraud and Anti-Corruption Strategy and fraud response plan.

Management Responsibilities

15.7 The existence of Internal Audit does not diminish the responsibility of management to establish systems of internal control to ensure that activities are conducted in a secure and well-ordered manner.

16 To accomplish the objectives, the Audit and Risk Manager will:

- Prepare a detailed Annual Audit Plan setting out the work to be undertaken in any given financial year and how this links with the organisation's objectives and priorities.
- Prepare the internal audit budget and resource plan.
- Ensure a system of close supervision of audit work and maintain a review of audit files, adherence to standards and quality of audits.
- Formally report the results of audits and the recommendations made to Senior Management, other relevant managers and the Board. Where management has accepted a level of risk that may be unacceptable to the organisation and this is not resolved with Senior Management, the Audit and Risk Manager will report this to the Board.
- Follow up to make sure that corrective actions are taken.
- Provide an annual audit opinion to those charged with governance based on an objective assessment of the framework of governance, risk management and control, sufficient to inform the organisation's governance statement.
- Undertake annually a review of the effectiveness of internal audit (as required by Public Sector Internal Auditing Standards) and report the outcomes to Senior Management and the Board as part of the Quality Assurance and Improvement Programme (QAIP). At least once every five years, the Internal Audit Service will also commission an external assessment or peer review.

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Appendix a

Resources

- 17 The resources available to internal audit are finite however; it is through the audits undertaken annually from which Internal Audit determines a level of confidence on the control environment within the authority. Such audits allow the Section 151 Officer to place reliance on the work undertaken and to gain assurance on the control environment from the independent review of the key financial systems. A set of 'governance' audits has been established which will be undertaken within each financial year. This will be complemented by a regular review of those areas identified as high risk through the Strategic, Project and where appropriate, individual Service Risk Registers. This will ensure that key work streams which are considered business critical and a high risk to the Council are reviewed on a timely basis. This process will largely determine the level of resources required.

Staffing

- 18 The PSIAS states that "Internal auditors must possess the knowledge, skills and other competencies needed to perform their individual responsibilities. The internal audit activity collectively must possess or obtain the knowledge, skills and competencies".
- 19 The Audit and Risk Manager must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced. The Audit and Risk Manager is a qualified Member of the Chartered Institute Internal Auditors.
- 20 The job descriptions and recruitment processes provide for the appointment of individuals with an appropriate set of skills, competencies and qualifications to meet the standard, either individually or as a combined internal audit activity.
- 21 All internal audit staff are trained in order to be able to perform each element of their assignments with due professional care.
- 22 All staff are encouraged to enhance their knowledge, skills and other competencies through continuing professional development (CPD). Where staff are members of professional bodies, they must also comply with any CPD requirements of their membership.

Independence

- 23 The main determinant of the effectiveness of Internal Audit is that it is seen to be independent in its planning and operation. To ensure this, Internal Audit will operate within a framework that allows:
- Unrestricted access to senior management
 - Reporting in its own name
 - Segregation from line operations

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Non Audit Duties and Avoidance of Conflicts of Interest

- 24 Every effort is made to preserve objectivity by ensuring that all internal auditors are free from any conflicts of interest and the undertaking of non-audit duties is kept to a minimum, except where this represents 'consultancy', which is agreed by the S151 Officer and the Audit Committee in advance. Any consultancy work must not impair the objectivity of the Audit and Risk section, or raise issues of conflict of interest. Internal auditors are required within the PSIAS to refrain from participating "in any activity or relationship which may impair or be presumed to impair their unbiased assessment".
- 25 Conflict of interest is a situation in which an internal auditor, who is in a position of trust, has a competing professional or personal interest. Such competing interests can make it difficult to fulfil his or her duties impartially. A conflict of interest exists even if no unethical or improper act results. A conflict of interest can create an appearance of impropriety that can undermine confidence in the internal auditor, the internal audit activity, and the profession. A conflict of interest could impair an individual's ability to perform his or her duties and responsibilities objectively.
- 26 Where internal audit staff are required to undertake non-audit duties, such as election duties, the Audit and Risk Manager will make it clear that those audit staff are not fulfilling those duties as internal auditors. The Audit and Risk Manager will ensure that within the service there remains sufficient impartiality to enable the actions and activities of those internal audit staff to be subject to audit by those independent from the activity.
- 27 Internal auditors are not permitted to audit areas in which they have worked, for a period of at least 12 months.
- 28 If any member of the Internal Audit Service, or any individual or organisation engaged to act on its behalf considers that there is, or is perceived to be a conflict of interest, this must be declared to the Audit and Risk Manager, who will direct alternative and independent resources to the audit. If the Audit and Risk Manager finds themselves in that position, they will declare this in writing to the Corporate Management Team and another independent person or body will be appointed to fulfil this role.

Relationships with Elected Members and Reporting

- 30 The Audit and Risk Manager will report periodically to Senior Management and the Board in accordance with Standard 2060 in the PSIAS. The programme of planned reports for a calendar year is shown below.

March	Quarterly Report on Internal Audit Activity Q3
March	Annual Review of Effectiveness as part of the QAIP
March	Internal Audit Plan for forthcoming financial year
July	Annual Report on Internal Audit Activity
September	Quarterly Report on Internal Audit Activity Q1
November	Quarterly Report on Internal Audit Activity Q2

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Appendix a

- 31 Internal Audit aims to apply appropriate levels of transparency in reporting on work undertaken and recommendations for improvement. Reporting arrangements are designed to clearly show the standards and controls which services are measured against and the auditor's opinion on whether these have been met as well as applicable conclusions, recommendations and action plans. Reports deliberately do not include operational detail which might contain personal or commercially sensitive data.

Rights of Access

- 32 The rights of access for the internal auditor are provided for by the Accounts and Audit Regulations 2015, sections 5(2)-5(3) and these provisions have been enhanced since the 2011 Regulations.
- (2) Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit -
- (a) make available such documents and records; and
 - (b) supply such information and explanations;
- as are considered necessary by those conducting the internal audit.
- (3) In this regulation "documents and records" includes information recorded in an electronic form.
- 33 There are consequently no limitations on internal audit's access to records. Internal Audit staff have the authority to:
- access council premises at reasonable times
 - access all assets, records, documents, correspondence and control systems
 - receive any information and explanation considered necessary concerning any matter under consideration
 - require any employee of the authority to account for cash, stores or any other authority asset under his/her control
 - access records belonging to third parties, such as contractors when required.
 - have direct access to the Corporate Directors, Service managers and any Member or body of Members considered appropriate and any other person charged with the governance of the authority.
- 34 Internal auditors are bound by the rules of confidentiality of their professional institutes, local Conditions of Service and the employee's contract of employment.

Review of This Charter

This Charter will be reviewed and updated as necessary, and in any event, not less than every three years.

Date of next scheduled review: January 2021

Gillian Edwards
Audit and Risk Manager
January 2018

Glossary

CMIIA – Chartered Member of the Institute of Internal Auditors
CCAB - Consultative Committee of Accountancy Bodies

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**Crawley Borough
Council**
Audit planning report
Year ended 31 March 2018

March 2018

Audit Committee

Crawley Borough Council

Town Hall, The Boulevard

Crawley, West Sussex

RH10 1UZ

Dear Audit Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 6th March 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Paul King

For and on behalf of Ernst & Young LLP

Enc

Private and Confidential

6 March 2018

Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the the PSAA website (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 (updated February 2017)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee and management of Crawley Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Crawley Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Crawley Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2017/18 audit strategy

Overview of our 2017/18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error (management override)	Fraud risk	No change in risk	As identified in ISA 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 would otherwise appear to be operating effectively.
Valuation of Property, Plant and Equipment and Investment Properties	Inherent risk	No change in risk	Property, Plant and Equipment was valued at £775m at 31 March 2017 and Investment Properties were valued at £21m as at that date. These represent significant balances in Crawley Borough Council's accounts and will be subject to valuation changes. Management is required to provide material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.
Pension Liability Valuation	Inherent risk	No change in risk	Employees of Crawley Borough Council may take part in West Sussex County Council's pension fund. At 31 March 2017, Crawley's obligations under this fund were valued at £11,823,000. The valuation of this liability was based on an actuarial report and on work that involves significant estimation uncertainty.



Overview of our 2017/18 audit strategy

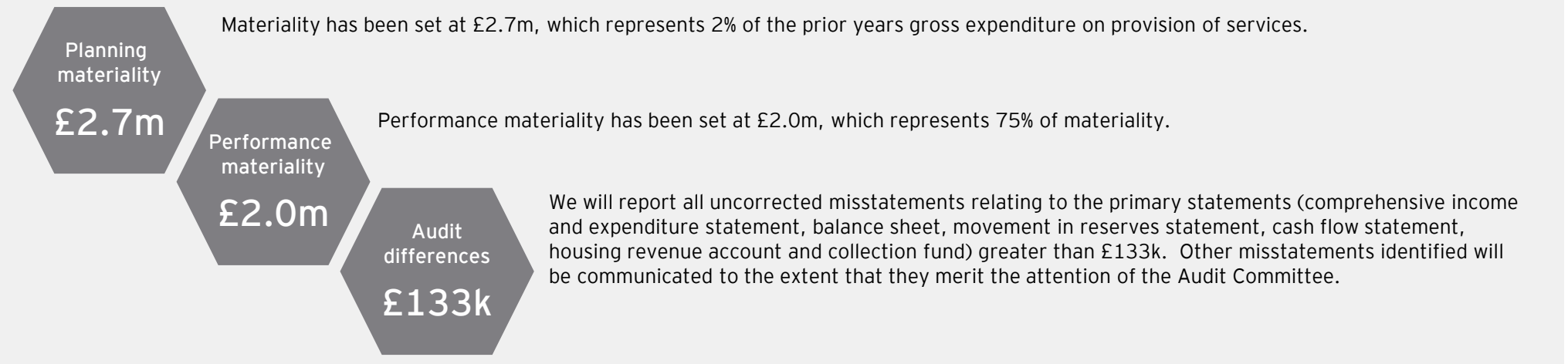
The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
NNDR Appeals Provision	Inherent Risk	Increase in risk	The Valuations Office Agency issued new rateable values on 1 April 2017 and there is a risk that appeals could increase in year.
Earlier deadline for production of the financial statements	Area of focus	New focus	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 many financial statements although we note that Crawley Borough Council did meet these deadlines in the previous two years.

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Materiality



Overview of our 2017/18 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Crawley Borough Council give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Audit team changes

Audit Manager

Jo Taylor replaces Malcolm Haines as audit manager. Jo has twelve years government and public sector audit experience.

There are no other significant changes to our team.



02 **Audit risks**

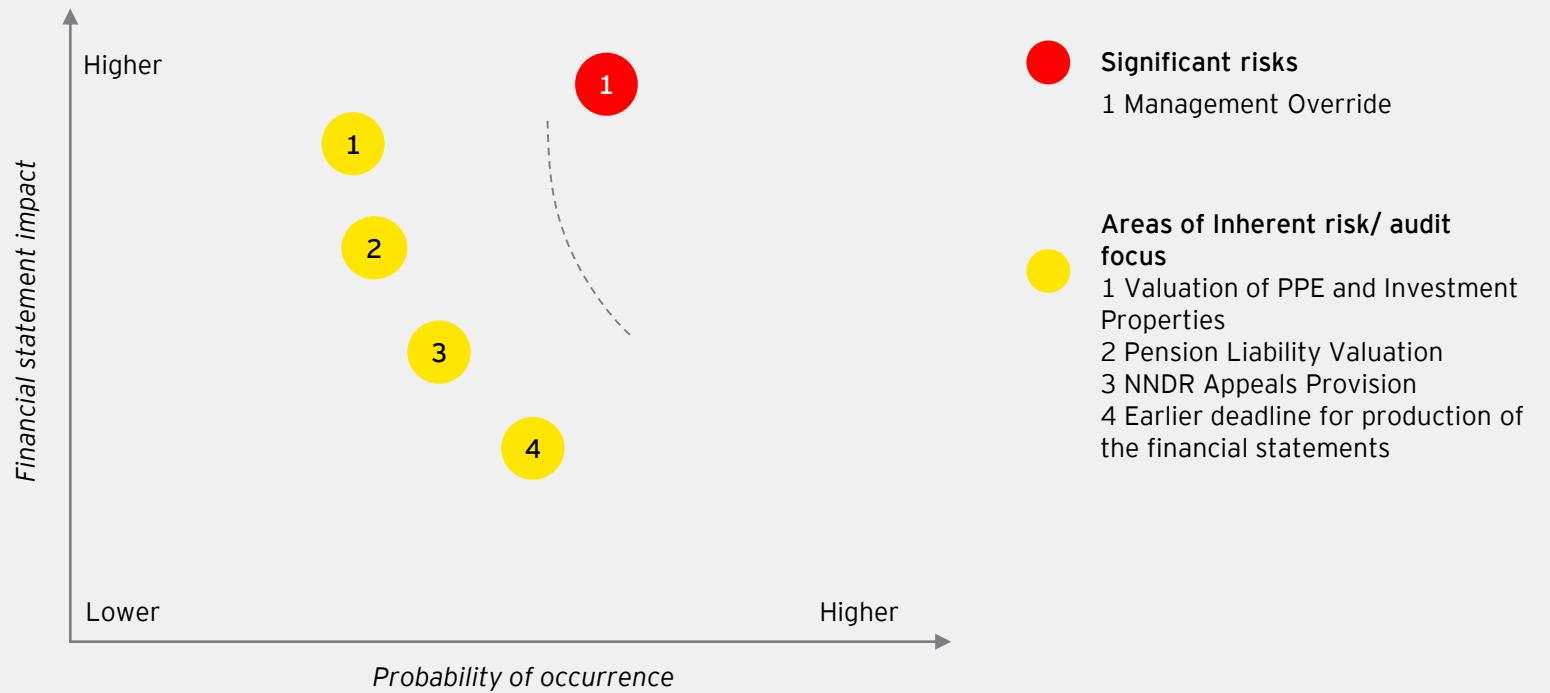


Risk assessment

Risk assessment

We have obtained an understanding of your strategy, reviewed your principal risks as identified in your 2016/17 Statement of Accounts and combined it with our understanding of the sector to identify key risks that impact our audit.

The following 'dashboard' summarises the significant matters that are relevant for planning our year-end audit:





Our response to significant risks

Misstatements due to fraud or error (management override)

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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.

What will we do?

Our response will include:

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- ▶ Reviewing accounting estimates for evidence of management bias.
- ▶ Evaluating the business rationale for significant unusual transactions.

Other areas of inherent risk

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk?

Valuation of Property, Plant and Equipment and Investment Properties

Property, Plant and Equipment was valued at £775m at 31 March 2017 and Investment Properties were valued at £21m as at that date. These represent significant balances in Crawley Borough Council's accounts and will be subject to valuation changes. Management is required to provide material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Detailed valuation work is undertaken by the Council's valuers Wilks, Head and Eve.

Investment Properties and high value items of Land and Buildings are valued at the reporting date. For Council Dwellings and the remaining Other Land and Buildings, Wilks, Head and Eve undertake detailed revaluation work at the end of December and the Council applies an uplift adjustment to reflect estimated valuation movements in the last three months of the year. We note that in 2016/17, Housing Stock was estimated to have increased in value by £5,708,000 in the last three months of the year and Other Land and Buildings were estimated to have increased in value by £452,000 in that period. Adjustments to reflect those changes in value had not been included within the first draft account presented for audit, although this was corrected during the audit process.

What will we do?

We will:

- ▶ Consider the work performed by the Council's valuers Wilks, Head and Eve, including the scope of the work performed on valuations at 31 December 2017 and a comparison of valuation findings with market trends and Land Registry data; data and assumptions used by the valuers; and qualifications and expertise.
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for Investment Properties. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer.
- ▶ Review any assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated.
- ▶ Consider changes to useful economic lives as a result of the most recent valuation.
- ▶ Test accounting entries have been correctly processed in the financial statements.
- ▶ Review arrangements to calculate uplift movements in last three months of the year for Council Dwellings and Other Land and Buildings. We will test calculations in detail and check they are reflected in the draft accounts.

Audit risks

Other areas of inherent risk

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk?

Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by West Sussex County Council.

Crawley Borough Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2017 this totalled £11,823,000.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to West Sussex County Council.

Accounting for this scheme involves significant estimation and judgement and this is why management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What will we do?

We will:

- ▶ Liaise with the auditors of West Sussex County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Crawley Borough Council.
- ▶ Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used.
- ▶ Review and test the accounting entries and disclosures made within Crawley Borough Council's financial statements in relation to IAS19.



Audit risks

Other areas of inherent risk

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk?

NNDR Appeals Provision

Crawley Borough Council's NNDR Appeal Provision was valued at £2,152,000 at 31 March 2017. The Valuations Office Agency published new rateable values on 1 April 2017 and appeals against those values are expected. We note that approximately 25% of all business rates received by the Council relate to Gatwick Airport.

What will we do?

We will:

- ▶ Monitor any appeals against the new ratings issued on 31 March 2018 and assess what impact these have on the value of the appeals provision at 31 March 2018 and the way that it is accounted for and disclosed.
- ▶ Compare the levels of all other appeals at 31 March 2018 and 31 March 2017 to assess the impact of the new ratings which have been introduced on Crawley Borough Council's NNDR income stream.

Audit risks

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk?

Earlier deadline for production of the financial statements

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.

The Council now has less time to prepare the financial statements and supporting working papers. Risks to the Council could include complex areas of accounting being time-pressured; slippage in delivering data for analytics work in format and to time required; and managing a new timetable for internal quality assurance arrangements.

As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- good quality draft financial statements and supporting working papers by the agreed deadline;
- appropriate Council staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions.

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere. Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

What will we do?

We are working with the Council to address these challenges, for example:

- Agreeing a streamlined presentation of audit working papers.
- Testing Council Dwelling valuations and exit packages during the interim audit visit instead of the final audit visit.
- Testing Investment Property and Property, Plant and Equipment valuations in March 2018, in advance of the final audit visit.
- Exploring options for early testing of additions and disposals and an early review of accounting policies disclosure.



Value for Money

Background

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. For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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.

In considering your proper arrangements, we draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

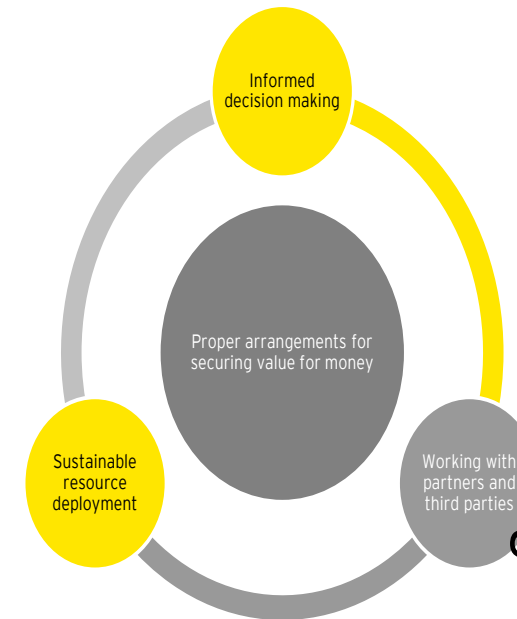
We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of no significant risks for 2017/18.

We note that the Council is 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. At this stage the plans are insufficiently advanced to constitute a significant Value for Money risk, but we will monitor their progress throughout the audit and as part of our audit planning for 2018/19.





04 **Audit materiality**

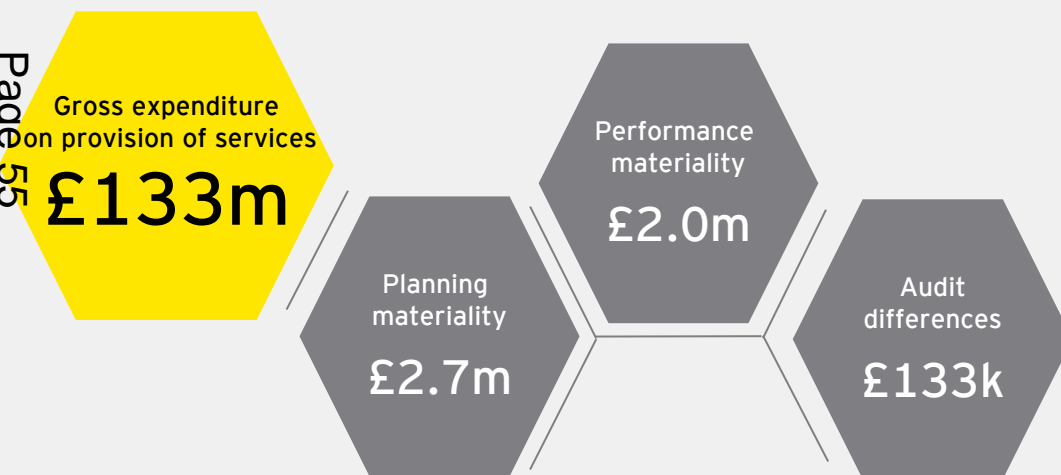


Materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at £2.7m. This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We consider that gross expenditure on provision of services is the area of biggest interest to the users of the Council's accounts. We have provided supplemental information about audit materiality in Appendix D.

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We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £2.0m which represents 75% of planning materiality. This reflects our experience that draft accounts have in previous been of a reasonable quality.

Audit difference threshold - we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, housing revenue account, and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the audit committee, or are important from a qualitative perspective.

Specific materiality - We have set a materiality of £1 for remuneration disclosures, related party transactions, members' allowances and exit packages which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to these.

05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (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.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

For 2017/18 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

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

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit:

We will regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.



06

Audit team



Audit team

Paul King
Associate Partner

Jo Taylor
Audit Manager

Sejal Patel
Lead Auditor

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Property, Plant and Equipment and Investment Properties	Gerald Eve, Wilks Head and Eve and EY Estates
Pensions disclosure	Hymans Robertson, PWC and EY Actuaries

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



07 **Audit timeline**





Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	November 2017		
Walkthrough of key systems and processes	November 2017		
Testing of routine processes and controls Interim audit testing	February and March 2018		
Audit Committee meeting	6 th March 2018	Audit Committee	Audit Planning Report and Interim audit update
Year end audit	June 2018		
Audit Completion procedures	July 2018		
Audit Committee meeting	25 th July 2018	Audit Committee	Audit Results Report Audit opinions and completion certificates Annual Audit Letter



08

Independence



Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Crawley Borough Council, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, no non-audit services were planned. No additional safeguards were required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Relationships, services and related threats and safeguards

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2017

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2017 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-20167>



09

Appendices



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Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£
Audit Fee - Code work	65,313	65,313	65,313
Total audit	65,313	65,313	65,313
Other non-audit services not covered above (Housing Benefits)	11,386	11,801	11,801*
Total other non-audit services	11,801	11,801	11,801
Total fees	77,114	77,114	77,114

All fees exclude VAT

** - we are discussing an additional fee with the Council for follow up work carried out at the request of DWP*

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

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Regulatory update

In previous reports to the Audit Committee, we highlighted the issue of regulatory developments. The following table summarises progress on implementation:




Earlier deadline for production and audit of the financial statements from 2017/18	
Proposed effective date	Effective for annual periods beginning on or after 1 April 2017.
Details	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that 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 audited accounts by 31 July.
Impact on Crawley Borough Council	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>We are working with the Council to address these challenges, for example:</p> <ul style="list-style-type: none"> • Agreeing a streamlined presentation of audit working papers. • Testing Council Dwelling valuations and exit packages during the interim audit visit instead of the final audit visit. • Testing Investment Property and Property, Plant and Equipment valuations in March 2018, in advance of the final audit visit. • Exploring options for early testing of additions and disposals and an early review of accounting policies disclosure.

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Appendix C

Required communications with the Audit Committee


We have detailed the communications that we must provide to the Audit Committee.



			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.	
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report	
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit results report	

Required communications with the Audit Committee (continued)



		Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit results report
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	Audit results report
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Audit results report
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit results report

Required communications with the Audit Committee (continued)

 Our Reporting to you




Required communications	 What is reported?	 When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence. 	Audit Planning Report and Audit Results Report

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	 What is reported?	 When and where
External confirmations	<ul style="list-style-type: none"> ▶ Management’s refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	Audit results report
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit results report

Appendix C

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	<ul style="list-style-type: none"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results report
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit Planning report Audit results report
Certification work	Summary of certification work undertaken	Certification report

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Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- ▶ The locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- ▶ The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

Certification of claims and returns annual report 2016-17

Crawley Borough Council

February 2018

Ernst & Young LLP



EY

Building a better
working world Page 81

Members of the Audit Committee
Crawley Borough Council
Town Hall
The Boulevard
Crawley
West Sussex
RH10 1UZ

23 February 2018
Ref: CBC/BEN01/16-17

Direct line: +44 20 7951 2000
Email: pking1@uk.ey.com

Certification of claims and returns annual report 2016-17 for Crawley Borough Council

This report summarises the results of our certification work on Crawley Borough Council's 2016-17 housing benefit claim.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

For 2016-17, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions (DWP) and did not undertake an audit of the claim.

Summary

Section 1 of this report outlines the results of our 2016-17 certification work and highlights the significant issues and those issues reported to the DWP.

We checked and certified the housing benefits subsidy claim with a total value (in terms of subsidy claimed) of £48,454,410. We met the submission deadline of 30 November 2017 (actual submission date 28 November). We issued a qualification letter on the same date, the details of which are included in section 1. Our certification work found errors which resulted in extra testing and extrapolation in a qualification letter, as per the PSAA's Module 1 guidance. However, no amendments were made to the claim as a result of our work.

The housing benefits subsidy claim fees for 2016-17 were published by the Public Sector Audit Appointments Ltd (PSAA) in March 2015 and are now available on the PSAA's website (www.psa.co.uk).

We welcome the opportunity to discuss the contents of this report with you at the 11 March 2018 meeting of the Audit Committee.



We would also like to express our thanks to the Head of Finance, Revenues and Benefits and her team; the Council's claim was again well prepared and, as with previous years, we found a low number of errors in the cases examined.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Paul King', is shown within a light blue rectangular box.

Paul King
Associate Partner
Ernst & Young LLP
Enc

Contents

- 1. **Housing benefits subsidy claim** 1
- 2. **2016-17 certification fees** 3
- 3. **Looking forward**..... 4

1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£48,454,410
Amended/Not amended	Not amended
Qualification letter	Yes
Fee – 2016-17	£11,801
Fee – 2015-16	£11,386
Recommendations from 2015-16	Findings in 2016-17
We made no recommendations in 2015/16.	N/a

Local Government administers the Government’s housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive ‘40+’ or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of prior year claims. We found errors and carried out extended testing in a small number of areas.

Extended and other testing identified a small number of errors which, had the Council corrected, would have had only a negligible impact on the claim. We have reported underpayments, uncertainties and the extrapolated value of the errors in a qualification letter. The DWP then decides whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid. These are the main issues we reported:

Rent allowances – incorrectly input non-dependent deductions

Our initial sample found one error where earned income had been input incorrectly leading to an overpayment of £851. Our original qualification letter dated 28 November 2017 extrapolated this error against the headline cell 094 which calculated a £58,473 subsidy adjustment. However, we re-examined this and noted that our extended testing sample was taken from a sub-population of non-dependent income cases. As such, in accordance with Appendix 1 of Module 1 guidance, we re-calculated the extrapolation, which came out as £3,267 underpayment of subsidy. This led to cell 099 being overstated and cell 113 understated by £3,267. The error was applied across the full year. A further sample of 40 cases was selected, with the emphasis on non-dependent deductions, and no further errors were found

No amendments were made to the claim for this error.

Rent allowances – incorrectly input earned income

Initial testing found one case where earned income had been incorrectly input into the benefit award calculation, and then further cases in our extended sample of 40 cases. This led to an extrapolation in our qualification letter dated 28 November 2017 of £99,283 based on sample testing errors of £1,342. However, we have re-examined our work in response to the DWP letter dated 8th December 2017 and found that our testing workbooks are showing overpayments where overpayments do not exist. We have re-examined the affected cases and are left with only the original error identified in the initial sample. As this was an

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Housing benefits subsidy claim

underpayment (of a type that could also lead to overpayments), then any extrapolation becomes zero.

No amendments were made to the claim for this error.

Other reporting matters

We have no other issues to report.

2. 2016-17 certification fees

The PSAA determine a scale fee each year for the audit of claims and returns. For 2016/17, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) in March 2016 and are available on the PSAA's website (www.psa.co.uk).

Claim or return	2016-17	2016-17	2015-16
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	11,801*	11,801	11,386

*since the date of certification, the DWP has twice written to us requiring further work and clarification over some of the issues and numbers in the 28 November 2017 qualification letter. This has resulted in extra audit hours at Manager and Associate Partner level which will result in a request for extra fee. This will be in the region of £500 and has yet to be agreed with management. Once agreed, we will update the committee accordingly.

3. Looking forward

2017/18

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to (PSAA) by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2017/18 is £11,386. This was set by PSAA and is based on final 2015/16 certification fees.

Details of individual indicative fees are available at the following web address:

<https://www.psaa.co.uk/audit-fees/201718-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

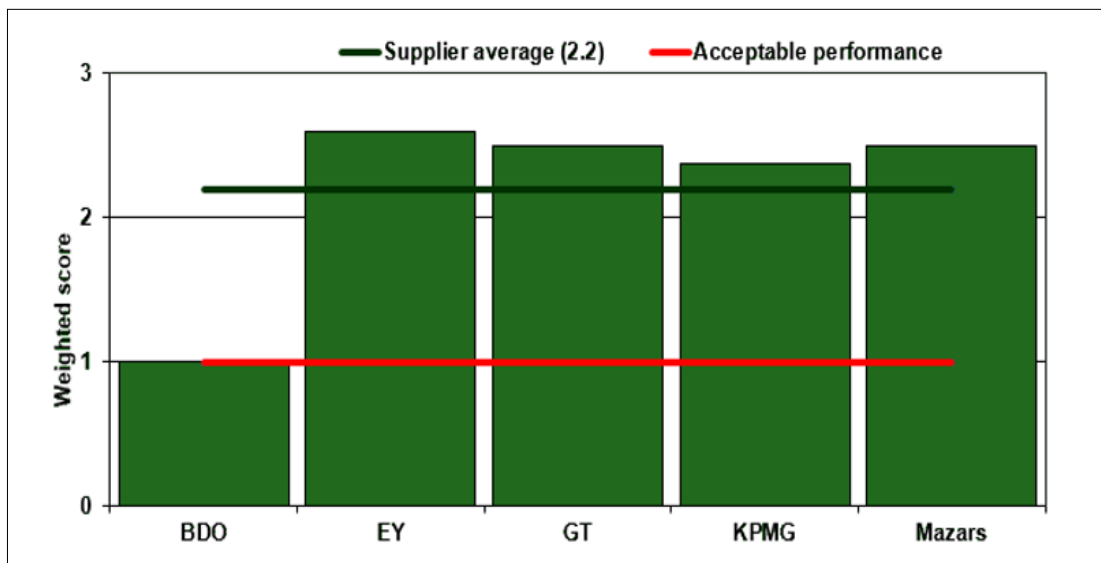
We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Head of Finance, Revenues and Benefits before seeking any such variation.

2018/19

From 2018/19, the Council will be responsible for appointing their own reporting accountant to undertake the certification of the housing benefit subsidy claim in accordance with the Housing Benefit Assurance Process (HBAP) requirements that are being established by the DWP. DWP's HBAP guidance is under consultation and is expected to be published around January 2018.

We would be pleased to undertake this work for you, and we are discussions with officers to provide a competitive quotation for this work.

We currently provide HB subsidy certification to 106 clients, through our specialist Government & Public Sector team. We provide a quality service, and are proud that in the PSAA's latest Annual Regulatory and Compliance Report (July 2017) we score the highest of all providers, with an average score of 2.6 (out of 3).



As your statutory auditor we can provide a comprehensive assurance service, making efficiencies for you and building on the knowledge and relationship we have established with your Housing Benefits service.

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