

Crawley Borough Council

Report to the Audit Committee

22nd July 2020

Audit and Risk Manager's Annual Report 2019/2020

Report of the Audit and Risk Manager – FIN/504

1. Purpose

1.1 This report has been prepared to:

- Summarise the work undertaken by Internal Audit during 2019/2020 and provide an overall opinion on the adequacy of the Council's governance arrangements, risk management systems and internal control environment.
- Summarise the effectiveness of audit work.
- Provide a statement on conformance with the Public Sector Internal Audit Standards.

2. Recommendations

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

3. Reasons for the Recommendations

3.1 To comply with the requirements set out in the Public Sector Internal Auditing Standards 2013 (updated 2017).

3.2 The Audit and Governance Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

4. Background

4.1 Introduction

The main purposes of the report are to:

- Summarise the work undertaken by the Council's Internal Audit Section and provide management and Members with an opinion on the adequacy and effectiveness of the Council's governance arrangements, risk management systems and internal control environment.
- Comment on the performance of the Internal Audit Section during the year.
- Provide a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance improvement programme.

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

4.2 Quarterly Reports

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

4.3 Annual Audit Plan

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

4.4 Staffing

During 2019/2020, the internal audit section operated with three full time members of staff with additional resources supplied by the use of contract staff. All auditors have the requisite experience to effectively fulfil their responsibilities; the Audit and Risk Manager is a Member of the Certified Institute of Internal Auditors, one Senior Auditor has passed the CISA computer audit exams and the other Senior Auditor is a Certified Fraud Examiner. The contract member of staff has many years' experience in internal auditing both local government and the organisations.

5. Relevant Policies

5.1 Statutory and Policy Background

The Accounts and Audit Regulations 2015 require the Council to undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control. Proper practices as stated within the Regulations are now defined as the Public Sector Internal Audit Standards (PSIAS). PSIAS replaced the CIPFA Code of Practice for Internal Audit in Local Government (2006) with effect from 1 April 2013.

5.2 Relevant Government Policy / Professional Standards

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

5.3 Relevant Council Policy

Section 1.12 of the Council's Constitution supports the statutory requirements outlined above at section and states 'The Head of Corporate Finance is responsible for the proper administration of the financial affairs of the Council and provision of an adequate internal audit function'. The Audit and Risk Manager reports on a quarterly basis the results of internal audit work, and on an annual basis to provide an opinion on the overall adequacy and effectiveness of the Council's governance arrangements, risk management systems and internal control environment.

6. Compliance with the Public Sector Internal Audit Standards

- 6.1 The Council's Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) which came into effect from 1st April 2013.
- 6.2 In line with this standard, I can confirm that for the period 2019/2020, the Internal Audit section was compliant with PSIAS.
- 6.3 Section 1320 of PSIAS - Reporting on the Quality Assurance and Improvement Programme – states that 'the chief audit executive (Audit and Risk Manager) must communicate the results of the quality assurance and improvement programme to senior management and the board'. A review was undertaken as at 31st March 2020 and I can confirm that the Internal Audit Service was compliant for 2019/2020/.
- 6.5 The Internal Audit Team has maintained its independence throughout 2019/2020 in accordance with PSIAS.

7. Effectiveness of Internal Audit

7.1 Progress against Annual Audit Plan'

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

During the year, all audits were started, and the majority completed or substantially completed. However due to the COVID-19 pandemic, a number of audits were not finalised, and these are shown in the table below. This was due to the limited availability of staff due to the Council's response to COVID-19.

Overall, I am satisfied that from the work that was undertaken, the audit assurance levels in previous years and the stability of both systems and staff in the financial year 2019/2020, that there were no significant internal control issues and that I am therefore able to form an overall opinion – see 8.2 below.

I am working with the Head of Corporate Finance (S151 Officer) to review the audit plan for 2020/2021.

7.2 Other Work

During the last few week of the financial year 2019, one member of the Audit and Risk section worked in the Council's Community Hub to provide emergency assistance to the community. This continued into 2020/2021 and the impact of this, and the ongoing impact of COVID-19 on our work, will be reported to the Audit Committee on a quarterly basis, and be included in my Annual Report next year.

7.3 Implementation of Agreed Actions

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

7.4 Reporting

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

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

8. Opinion on the Control Environment

- 8.1 This section of the report draws attention to any issues the Audit and Risk Manager considers are particularly relevant to the preparation of the Annual Governance Statement and includes an opinion on the overall adequacy and effectiveness of the Council's governance arrangements, risk management systems and internal control environment and discloses any qualifications to that opinion, together with the reasons for the qualification.
- 8.2 My overall opinion is that "**Substantial**" assurance can be given that there is generally a sound system of internal control designed to meet the Council's objectives, and that the controls are generally being applied consistently. The opinion is based upon audit work undertaken during the year and project work. My opinion also takes into account the number of outstanding agreed action items from audit follow ups and management's positive approach to implementing agreed actions.
- 8.3 However, the opinion provided must be considered in light of the current (at time of writing) ongoing COVID-19 pandemic, and the impact of this on the Council. My opinion is based on internal audit work undertaken during 2019/2020, the majority of which took place prior to COVID-19 and the resulting emergency measures being implemented.
- 8.4 COVID-19 measures have resulted in a significant level of challenge to the Council and put pressure on the expected control environment; the need for prompt and urgent action by officers has required changes to some procedures and control arrangements for example, Business Grant Funding. The level of impact this had in 2019/2020, and continues to have in 2020/2021, is changing as the situation develops. In respect of this annual report it has not been possible to fully quantify the additional risk that may have arisen from such emergency and short-term measures or fully determine the overall impact on the framework of governance, risk management and control.
- 8.5 We will seek to provide assurance to stakeholders in the coming months that the internal control environment continued to be sound and that risk management and governance arrangements were operating satisfactorily.

Assurance Areas:

Governance

The Council is committed to the principles of good corporate governance, which are already demonstrated through many aspects of good practice. The Annual Governance Statement, which is prepared collaboratively by CMT and which I review as part of my role of Head of Audit, does not show any significant governance issues for 2019/2020. However, the effects of COVID-19 are considered during the last few weeks of the year. I am satisfied that the Annual Governance Statement accurately reflects the governance arrangements in place for 2019/2020.

The Audit and Risk section attends the Corporate Project Assurance Group, the Town Hall Board and the Procurement Board.

CMT monitor performance on a regular basis and address issues in a timely manner.

The Governance Committee meets on a quarterly basis.

Risk Management

The Council's Risk Management Strategy was updated in 2015.

This Strategy is a move in the culture from being risk adverse to risk cautious. A risk adverse culture is one where there is a tendency to try and mitigate all risks. A risk cautious culture is one where account is taken of the significance of the risk, the costs of the mitigation and the potential missed benefits in deciding whether to mitigate risks.

One consequence of this change was that there was greater challenge as to the need for some controls. The second change in emphasis is away from completing forms (such as risk matrices) and towards ensuring that due consideration is given to risks and that they are managed. For instance, there will be an expectation that managers can articulate how they have considered risks rather than expecting it to be recorded in a prescribed format.

The Audit and Risk section, during the normal course of their work, focus on the risks within systems and look at how they are controlled by management. The outcome of this work is reported to the Audit Committee on a quarterly basis.

Strategic risks are constantly under review by the Corporate Management Team, and are formally discussed on a quarterly basis. The outcome of these discussions, along with the risks, are reported to the Audit Committee quarterly.

Additionally, the risk register for the new Town Hall, which is updated regularly, is presented to the Audit Committee on a regular basis.

Internal Control

Whilst we were unable to complete all of the audits in the 2019/2020 Internal Audit Plan, I can confirm that internal controls are basically sound and we did not identify any significant weaknesses.

All findings are followed up to ensure that agreed actions have been satisfactorily implemented, and the outcome of this work is presented to the Audit Committee on a quarterly basis.

Summary of Work Undertaken in 2019/2020 (in chronological order)

INTERNAL AUDIT ASSURANCE OPINIONS	
AUDITS	
Housing Repairs – Gas Servicing	Satisfactory
Commercial Properties Including Rents	Substantial
Section 106 and Community Infrastructure Levy	Substantial
Publication Scheme	Substantial
Community Grants	Substantial
Housing Rents	Substantial
Procurement	Substantial
Housing Repairs Tender	Substantial
NNDR	Substantial
Creditors	Substantial
Council Tax	Substantial
Housing Benefits	Substantial
Cash and Bank	Satisfactory
Treasury Management	Substantial
Payroll	Not finalised
Sundry Debtors	Not finalised
Car Parking Income	Not finalised
FMS	Not finalised
Treasury Management	Not finalised
Budgetary Control	Not finalised
DWP CIS Compliance	Not finalised

MAJOR PROJECTS
<p>Attend Town Hall Project Board on a monthly basis Attend in an advisory capacity and provide advice on internal control, risk management and governance arrangement</p>
<p>Attend Corporate Project Assurance Group (CCPAG) on a monthly basis The group provides an assurance role and does not have decision making powers. It was created following the significant issues that were identified with the delivery of the data centre project. As a result the Council has re-instated good project management and can demonstrate strong governance in project management.</p>
<p>Attend Information Project Board on a regular basis Provide advice on internal control, risk management and governance arrangement</p>