

Crawley Borough Council

Report to the Audit Committee

19 July 2021

Audit and Risk Manager's Annual Report 2020/2021

Report of the Audit and Risk Manager – FIN 528

1. Purpose

1.1 This report has been prepared to:

- Summarise the work undertaken by Internal Audit during 2020/2021 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. Recommendation

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

3. Reasons for the Recommendation

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

3.2 The Audit 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 Councillors 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 2020/2021, 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 other 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

Sections G8 and G9 of the Financial and Budget Procedure Rules contained within the Council's Constitution support the statutory requirements outlined above and states:

- The Head of Corporate Finance is responsible for providing the internal audit of the Council's systems and processes, ensuring it is sufficient in its coverage and independent in its planning and operation;
- The Head of Corporate Finance is responsible for ensuring that the individual responsible for the Council's audit function has direct access to the Chief Executive, all levels of management, and Chairs of Committees, as appropriate.

- 5.4 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 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'.
- 6.3 A review was undertaken as at 31st March 2021 and I can confirm that the Internal Audit Service was compliant for 2020/2021.
- 6.4 The Internal Audit Team has maintained its independence throughout 2020/2021 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, I worked closely with the Head of Corporate Finance (S151 Officer) to ensure that risks that emerged as a result of the COVID-19 pandemic were identified in a timely manner. Where these risks necessitated a change to the Annual Audit Plan, this was agreed with the Head of Corporate Finance. Examples include our work on the Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund and the Local Authority Discretionary Grants Fund.

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 2020/2021, that there were no significant internal control issues and that I am therefore able to form an overall opinion – see 8.2 below.

7.2 Other Work

During the first few weeks of the financial year 2020/2021 a member of the Audit and Risk section continued to work in the Council's Community Hub to provide emergency assistance to the community. Additionally, they were involved in assessing eligibility for the grants referred to at 7.1 above*. They were not, however involved in the decision making process. Whilst this impacted on our ability to cover the agreed audit plan, I am satisfied that the work undertaken was sufficient to enable me to form an overall opinion on the adequacy of the Council's governance arrangements, risk management systems and internal control environment.

*It should be noted that our independence was not compromised by the Senior Auditor being operationally involved in Grants. The audit of this area was undertaken by a Contract member of staff.

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 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. Where appropriate, the Auditor continues to meet face to face – in this financial year via Microsoft Teams - 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, may be 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 This opinion is given notwithstanding:

- The identification of major control weaknesses during an audit of Car Parking permits, as reported to the Audit Committee on 3rd March 2021;
- Notification of two frauds, which have been fully investigated and reported to Ernst and Young, and which were considered to be isolated incidents.

8.4 COVID-19 measures have continued to result 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.

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 2020/2021. I am satisfied that the Annual Governance Statement accurately reflects the governance arrangements in place for 2020/2021.

In order to observe good governance, the Audit and Risk section attends the Corporate Project Assurance Group, Town Hall Board, Procurement Board, Information Management Project Board and the Information Governance Board.

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

The Governance Committee meets on a quarterly basis and one of its functions is to consider a draft version of the Annual Governance Statement and provide any comments for incorporation into the final version. The final document is then included in the Annual Statement of Accounts, which is approved by the Audit Committee (the Audit Committee retains responsibility for the Annual Governance Statement).

Risk Management

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

This Strategy was 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	<p>Whilst we were unable to complete all of the audits in the Audit Plan presented to the Audit Committee in March 2020, I am satisfied that we have reacted swiftly in identifying risk that emerged due to the COVID-19 pandemic and provided assurance on these. Audits that were removed from that Plan, and which are still required, have been incorporated into the 2020/2021 Internal Audit Plan.</p> <p>I can confirm that apart from the weaknesses identified in the Car Parking audit, internal controls are basically sound and we did not identify any significant weaknesses.</p> <p>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.</p>
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Summary of Work Undertaken in 2020/2021 (in chronological order)

INTERNAL AUDIT ASSURANCE OPINIONS	
AUDITS	Assurance Level
Procurement Cards	Substantial
Motor Vehicle Loan Scheme	Substantial
Budgetary Control	Substantial
Creditors	Substantial
Sundry Debtors	Substantial
Temporary Accommodation	Substantial
Payroll	Substantial
Car Parking – Visitor Parking Permits	No
Disabled Facility Grants	Substantial
Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund	Substantial
Local Authority Discretionary Grants Fund	Substantial
Treasury Management	Satisfactory
Cash and Bank	Substantial
NNDR	Satisfactory
Council Tax	Substantial
Fleet Management	Limited
FMS	Substantial

MAJOR PROJECTS
<p>Attend Town Hall Project Board on a fortnightly basis Attend in an advisory capacity and provide advice on internal control, risk management and governance arrangement</p>
<p>Attend Corporate Project Assurance Group (CPAG) 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 arrangements</p>
<p>Attend Information Governance Group Provide advice on internal control, risk management and governance arrangements</p>
<p>Attend Procurement Board Provide advice on internal control, risk management and governance arrangements</p>