

# **Crawley Borough Council**

## **Report to the Audit Committee**

**25<sup>th</sup> July 2017**

### **Audit and Risk Manager's Annual Report 2017/2018**

Report of the Audit and Risk Manager – *FIN/450*

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#### **1. Purpose**

1.1 This report has been prepared to:

- Summarise the work undertaken by Internal Audit during 2017/2018 and provide an overall opinion on the adequacy of the Council's governance arrangements, risk management systems and 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 reports and note progress to date.

#### **3. Reasons for the Recommendations**

- To comply with the requirements set out in the new Public Sector Internal Auditing Standards 2013 (updated 2017).
- The Audit and Governance Committee is responsible for reviewing the effectiveness of the Council's system of internal control.

#### **4. Background**

##### **Introduction**

4.1 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 2017/2018, the internal audit section operated with 3 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.

### **Statutory and Policy Background**

- 5.1 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). The PSIAS replaced the CIPFA Code of Practice for Internal Audit in Local Government (2006) with effect from 1 April 2013.

### **Relevant Government Policy / Professional Standards**

- 5.2 Internal Audit follows the Public Sector Internal Audit Standards (PSIAS) which came into force on 1<sup>st</sup> April 2013.

### **Relevant Council Policy**

- 5.3 Section 1.12 of the Council's Constitution supports the statutory requirements outlined above at section and states 'The Head of Finance, Revenues and Benefits 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 1<sup>st</sup> April 2013.
- 6.2 These standards require the Audit and Risk Manager to undertake an annual self assessment of the internal audit service against a Quality Assurance and Improvement Plan (QAIP) checklist and to outline the results as part of the Annual Audit Report.
- 6.3 Section 1320 of the 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'.
- 6.4 In line with this standard, I can confirm that for the period 2017/2018, the Internal Audit was compliant with the PSIAS. This is supported by the outcome of the Peer Review, undertaken by Wealden District Council, as part of a reciprocal arrangement across East and West Sussex, in which all Heads of Audit participate.
- 6.5 The Internal Audit Team has maintained its independence throughout 2017/2018 in accordance with the 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, the majority of audits were completed, with 3 audits carried forward into the new financial year. These have now been completed.

### **7.2 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.

### **7.3 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. During the period under review, a new process was introduced whereby the auditor meets 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. The number of outstanding agreed action items from audit follow ups has also been taken into account.

Assurance Areas:	
Governance	<p>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, shows that there are three areas of non-compliance with the CIPFA/SOLACE Framework. These relate to the Anti-Fraud and Corruption and Whistle Blowing policies not updated until February 2018, the Disaster Recovery arrangements had not been tested and operational risk management arrangements being inconsistent. The Governance Committee meets on a quarterly basis.</p>
Risk Management	<p>The Council's Risk Management Strategy was updated in 2015.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>In relation to significant risks it is expected that there would also be evidence of the consideration of risks. However, that often exists in the form of notes from one to ones or other meetings, reports, e mails, etc. There is no need for that evidence to be duplicated through being recorded elsewhere.</p>

	<p>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.</p> <p>During the period under review, Internal Audit undertook an audit of Operational Risk Management, which focused on how risks are being managed at service level. Whilst some areas managed their operational risks well and with confidence, others struggled and in some cases, were not aware of the risks that could impact upon their service area. To address this weakness, the Audit and Risk section will undertake some targeted risk management training in 2018/2019.</p>
Internal Control	Internal controls are basically sound in most areas and we did not identify any significant weaknesses.

#### Summary of Work Undertaken in 2017/2018 (in chronological order)

INTERNAL AUDIT ASSURANCE OPINIONS	
AUDITS	
Queen's Square Regeneration	Substantial
Playgrounds	Substantial
Human Resources	Substantial
Section 106 Agreements	Substantial
Commercial Properties including Rents	Substantial
Little Trees Cemetery	Substantial
Grounds Maintenance	Satisfactory
Housing Benefits	Substantial
Council Tax	Substantial
Publication Scheme Review	N/A
Budgetary Control	Substantial
Responsive Repairs	Substantial
Housing Rents	Substantial
Procurement Audit	Satisfactory
NNDR	Substantial
NNDR Revaluation	Substantial
Risk Management Awareness and Training	N/A
Creditors	Substantial
Cash and Bank	Satisfactory
FMS	Substantial
DWP CIS Compliance 2017/2018	Substantial
Treasury Management	Substantial
Sundry Debtors	Substantial
Payroll	Substantial
IT Risk Assessment	N/A