

# Crawley Borough Council

## Report to the Audit Committee

25<sup>th</sup> July 2018

### Progress Report: Internal Audit and Risk Management

Report of the Audit and Risk Manager – *FIN/447*

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#### 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 12<sup>th</sup> July 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 31<sup>st</sup> January 2018, the following reviews have been completed.

Audit Title	Audit Opinion
Budgetary Control	Substantial Assurance
NNDR	Substantial Assurance
Cash and Bank	Satisfactory Assurance
Risk Management Awareness and Training	Not Applicable
Creditors	Substantial Assurance
FMS	Substantial Assurance
Treasury Management	Substantial Assurance
Sundry Debtors	Substantial Assurance
DWP CIS Compliance	Substantial Assurance
Payroll	Substantial Assurance
Data Centre Migration Project 2018-2019	Limited 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 High priority findings in this period

We have identified the following 23 high priority findings in this period which were as follows:

##### **Risk Management Awareness and Training 2017-2018 - 2 high priority findings**

The Council's Risk Management Strategy, last revised in June 2015, states that Managers are expected to actively consider the risks associated with operations, projects and services for which they are responsible and that they should be able to articulate those risks along with actions taken to mitigate those risks.

Where a risk is significant, it is also expected that this can be evidenced and one way to show this is by maintaining a risk register, although this is only one option.

In order to assess how operational risks were managed, we devised a short questionnaire and sent to all Service Managers for completion. Once these had been returned, the Senior Auditor met with a number of these Managers to explore further the responses they had provided.

Our assessment is that whilst it is clear that some managers are aware of and confident about managing their operational risks, in other areas Managers were less able to identify their operational risks.

I have therefore raised two findings, and action has been agreed to address the weaknesses identified.

##### Risk Management Awareness

As noted above, the awareness of operational risks varied greatly across the Council. It has therefore been agreed that the Audit and Risk section will undertake training on risk in general and operational risk in particular. Timing will be dependent on availability of staff across the Council.

##### Fraud Awareness Training

Only a small number of Service Managers identified the risk of fraud in their service although it is accepted that some areas are more susceptible to this than others. It has been agreed that the Fraud and Inspections Manager will assess, with the Audit and Risk Manager, whether further fraud awareness training would be beneficial and if so, arrange to undertake this.

##### **Data Centre Migration Project 2018-2019 - 21 high priority findings**

Following a fire at South Oxfordshire District Council in January 2015, which completely destroyed their Council offices, Crawley Borough Council took a decision to seek more resilient hosting of its IT systems. A report was presented to the Cabinet in September 2015 where approval was given to relocate the data centre to the Surrey Business Centre as part of partnership agreement with Surrey County Council.

We have recently completed a review of this project, for which I have given Limited Assurance about the adequacy of controls in place and their effectiveness.

From this review, a number of findings, and recommendation have been raised which have been discussed with Management and actions agreed with the, Head of Finance, Revenues and Benefits, the Head of Digital and Transformation, Deputy Chief Executive and the Chief Executive, who has agreed to form a Corporate Project Assurance Board to ensure that

capital projects are delivered in a timely manner and to share good practice across the organisation. The main issues identified are as follows:

### **Delay**

It was anticipated that the timescale for completion of the migration of the Data Centre from the Town Hall to the Surrey Business Centre was 6 – 9 months, with an anticipated commencement date of March 2016. The project is not yet complete but we are advised by the IT Manager that this will be achieved next month (August 2018).

There are a number of reasons for the delay, including the requirement to upgrade the network and problems with the telephone links to the Surrey Business Centre.

### **Budget**

An original capital budget of £209,000 was approved by Cabinet in September 2015, being £175,000 for the commission of a specialist infrastructure consultants with experience of managing data migration projects and £34,000 to create the internet connections required for the relocation. The capital budget was subsequently increased to £385,000 through delegated approvals although it is noted that the sum of £65,000 initially placed in the capital budget, for the sale of a piece of equipment has now been removed as it is now deemed to be worthless. At the time of this report, capital expenditure charged on this project was £461,980.

The revenue budget for the Data Centre for the last two years is £126,600 (being £63,300 per annum). This relates to increased running costs identified in the report to Cabinet and this was allocated to the IT revenue budget for the year's 2016/2017 and 2017/2018 and is included in current and future budgets. Revenue spend to date is £426,303. Taking into account the budgeted amount of £126,600, additional costs are £299,703. Of this, £100,753 was reported at Quarter 4, so there is £198,950 of costs absorbed within the IT division which could have been used on other schemes within the IT section.

However, I am advised from discussions with IT Management that some costs have been incorrectly charged to the Data Centre Migration Project as they relate to other IT projects and that the actual costs as at 31<sup>st</sup> May 2018 for the Data Centre Migration Project are £703,668.78. I will seek to confirm the accuracy of this revised figure prior to the meeting.

In addition, a Manager from the ICT department will attend the meeting to clarify where the expenditure should have been coded.

### **Project Management**

Project Management arrangements were weak, with important documentation, such as a Project Initiation Document and a risk register being absent and roles and responsibilities were not clearly defined. We also found that key decisions were not recorded.

### **Procurement Code**

There is concern that the Procurement Code has not been followed when using consultants. We are currently concluding a piece of work on the use of consultants in the IT department and will report the outcome of this work at the next meeting.

### **Value for Money and Fitness for Purpose**

Whether or not the new Data Centre arrangements represent value for money and meet the expectations and requirements of the Council was not within the scope of this review. I have, however, recommended that an independent review be undertaken, in the form of a post project review, to confirm this.

On a positive note, the external Consultants advised the Council that that the network upgrade was considered to be the best and most secure way to present public access wi-fi.

I am also advised that without the network upgrade, the Disaster Recovery site at Bewbush would not have been possible.

It is noted that prior to this review, a Corporate Project Assurance Group was being set up, to be Chaired by the Chief Executive, and this will oversee the major projects of the Council in terms of governance and delivery.

#### 4.4 Follow up Audits

We have confirmed that status of agreed actions as part as follows:

##### **Procurement**

###### Maintenance of the Contracts Register

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

##### **Status of Agreed Action: Implemented.**

An officer was assigned the responsibility for maintaining the Contracts Register as at 31<sup>st</sup> October 2017, however, this officer left the Council on 19<sup>th</sup> February 2018.

The Procurement Manager has confirmed that responsibility for this has been assigned to the new Project Support Officer.

##### **Cash and Bank**

###### Anti-Fraud and Corruption Policy was in need of Updating

The Anti-Fraud and Corruption policy had not been updated since 2012 and was out of date.

##### **Status of Agreed Action: Implemented.**

The Anti-Fraud and Corruption policy has been updated and this was submitted to CMT on 13<sup>th</sup> March 2018.

##### **Grounds Maintenance**

###### Incomplete and Inconsistent Recording of Information

We found that when jobs were completed or passed to another department for action, comments were not being made on the CRM system, nor the request closed so that the contact centre are made aware of the status of each job.

##### **Status of Agreed Action: Not implemented but active work in progress**

A new CRM system is being worked on by the IT department and in the meantime, regular meetings take place with the Contact Centre and the Neighbourhood Services Manager to improve the flow of information. Patch Leaders continue to work to improve information held and the Neighbourhood Services Manager will review closed, pending, and open requests in July to ascertain if there have been improvements in June.

## **Sundry Debtors**

We identified that no targets were set for the recovery of debts, which was stated as an aim of the Council in its Corporate Debt Management Policy, which was last updated in October 2016.

### **Status of Agreed Action: Implemented.**

The Corporate Debt Management Policy has been updated and has removed the requirement to set targets for the recovery of debts.

## **4.5 Freedom of Information (FOI) Requests**

Between 1<sup>st</sup> February 2018 and 30<sup>th</sup> June 2018, we have processed 332 requests, and of these, 25 responses were sent to the requester outside of the 20 working day deadline. This was largely due to the complexity of the requests.

## **5. Strategic Risks Update**

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

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

- **Town Hall and District Heat Network**

The Council are in discussions with Westrock regarding a potential mixed use development which would see the provision of a new town hall, commercial office space and residential units on the town hall and adjacent car park site. A recommendation on the preferred option was presented to Cabinet early in 2017 and was approved at full Council on 22<sup>nd</sup> February 2017. This proposal will require a partial demolition of the current building to allow for the development of a new Town Hall within the site. Planning permission for the scheme was granted on June 5<sup>th</sup> 2018 and the majority of staff have now been decanted from the proposed demolition area. A risk register for the scheme, attached at Appendix B, is updated by the project team on a fortnightly basis and will be shared with the Audit Committee.

- **LEP Infrastructure – Crawley Growth Programme**

CBC, together with WSCC (the lead body) 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 was approved by Planning Committee on 29<sup>th</sup> January this year. The tender process to commission a works contractor has begun and the Queensway and the Pavement works are due to start in the new year and to finish in October next year. Design work has begun on several other Crawley Growth programme schemes, including Station Gateway and Manor Royal Gatwick Road sustainable transport improvements. An update on the programme was reported to Cabinet in June 2018 [PES/298](#)

- **Three Bridges Railway Station**

On 11<sup>th</sup> February 2015 [SHAP/43](#), Cabinet approved the allocation of £430,000 of S106 funding towards the delivery of improvement works to the Station Forecourt. Network Rail have formally agreed to extend the S106 funding spend deadline to end March 2021.

Member approval has been granted to reallocate £1.5 million of Borough Council capital programme funding, originally earmarked for the Queens Square regeneration scheme, to the Three Bridges station improvements programme. These funds are being combined with the above S106 resources along with over £1 million of Community Infrastructure Levy (approved by Cabinet on 7<sup>th</sup> February 2018).

The Three Bridges station scheme Programme Manager has been working closely with GTR Southern and Network Rail in order to progress delivery of the scheme to detailed design stage with the aim of submitting a planning application next year. GTR Southern and Network Rail have both joined the Three Bridges Project Steering Group alongside Crawley Borough Council and West Sussex County Council. On 21<sup>st</sup> March Cabinet approval was secured to commence work on the detailed design stage and to undertake comprehensive traffic modelling to determine the impact on traffic flows of the scheme, taking account of the recently upgraded traffic lights infrastructure outside Three Bridges station on Haslett Avenue East.

### **Delivering the affordable housing programme**

The Administration has pledged to 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 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.

### **Future Income Streams and Transformation Agenda**

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

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

To begin to manage these risks a new Transformation Board at CMT is being created that will bring together a high level plan to ensure coherence, manage interdependencies and change, allocate resources and ensure delivery. A further senior management group will also be created that will identify the key projects and risks beyond the transformation programme to oversee delivery and manage any negative impact from the constraint of capacity and resources. Both bodies, once formed, will undertake a more detailed risk analysis for their respective areas in the coming weeks.

### **Disaster recovery and business continuity.**

A report to Cabinet on 9<sup>th</sup> 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 2<sup>nd</sup> 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 2<sup>nd</sup> phase will also include infrastructure upgrades at remote sites, further deployment of WiFi services and remote data backups at the Town Hall, utilising the space, capacity and resilience of the new ground floor comms room.

The Bewbush Centre has been designated as the Council's main alternative site should there be no or limited access to the Town Hall building. There is a link to this centre so that

systems will remain operational in the event of the Town Hall being out of operation but the network still running and it is possible for staff to get into the CBC network via this link. Once the move to the SCC data centre is complete then staff will be able to access the CBC network in the event of a network failure in the Town Hall. 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 7<sup>th</sup> 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 8<sup>th</sup> September 2017](#), projections are being constantly updated. Projections will be refined when the outcome of Town Hall listing / tendering is known.

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

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

### **Recruitment and retention**

Recruitment and retention of key specialist and professional roles is challenging. The impact of a period of pay restraint in the public sector combined with an increase in salary levels generally in the South East has led to problems with recruitment and retention in roles such as Finance, IT, Project Management, Legal, and some Housing roles. HR officers are working with managers to ensure we promote these roles effectively. The Council promotes the use of apprenticeships and trainee roles to grow our own skills. There is a recruitment and retention scheme which will allow time limited salary uplifts on appointment but this is only a temporary incentive and it does cause pay inequality within teams. We are exploring other ways of mitigating this risk. The Job Evaluation Scheme has been amended to create a further grade at the top of the scale to assist with the recruitment and retention of third tier managers.

### **Summary of Current Strategic Risks**

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

Future Income Streams and Transformation Agenda has been added since the last meeting of the Audit Committee.

## **6 Background Papers**

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

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