

Crawley Borough Council

Minutes of Audit Committee

Wednesday, 25 July 2018 at 6.30 pm

Councillors Present:

K Sudan (Chair)

C R Eade (Vice-Chair)

R D Burrett, I T Irvine and L Willcock

Also in Attendance:

Councillors P K Lamb and A C Skudder

Officers Present:

Roger Brownings	Democratic Services Officer
Chris Corker	Operational Benefits and Corporate Fraud Manager
Gillian Edwards	Audit and Risk Manager
Karen Hayes	Head of Corporate Finance
Simon Jones	Head of Digital & Transformation
Paul Windust	Chief Accountant

Welcome

The Chair welcomed all those present to this, the Committee's first meeting of the new Municipal Year.

1. Disclosures of Interest

No disclosures of interests were made.

2. Minutes

The minutes of the meeting of the Committee held on 6 March 2018 were approved as a correct record and signed by the Chair.

3. Fraud and Investigation Team Report

The Committee considered report FIN/448 of the Operational Benefits and Corporate Fraud Manager, which focused on activity for the period from 20 February 2018 to 8 July 2018. As indicated in the report the Team had continued to perform successfully.

With regard to the Team's Active Caseload, as detailed in Section 4 of the report, and in particular a fly tipping case, the Committee was advised of the successful prosecution which had since resulted from that case. In response to Members questions, the Manager indicated that the evidence in this particular case was strong, and that whilst the Team would respond to all referrals it received regarding fly tipping, it was normally difficult to identify offenders due to a lack of evidence. The Manager emphasised that a person who disposed of waste was responsible for it, and he outlined the steps the Team would take in addressing referrals received.

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.

RESOLVED

That the Fraud and Investigation Team Report be noted.

4. Progress Report: Internal Audit and Risk Management

The Committee considered report FIN/447 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 and 2018/2019 Audit Plans, 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 this opportunity to brief the Committee on high priority findings and follow up audits. In terms of the former, she confirmed that following discussions on the matter, further fraud awareness training would be provided to services across the Council, and that this would be undertaken shortly in cooperation with the Fraud and Investigation Team.

The main focus of the report was the limited audit opinion given to the Data Centre Migration Project 2018-2019. The review's findings indicated that the project was yet to be completed, having significantly exceeded the Project's completion target, and that there was a reported large overspend against the Project's budget. The Committee discussed this matter in detail, and in so doing, Members expressed their own concerns, and indeed disappointment, with the audit review's outcomes, with particular emphasis on the generally weak arrangements in relation to the project's management. At the request of the Chair, the Head of Digital and Transformation addressed the Committee, and:

- Explained that in the short time that he had been in post, he was continuing to clarify the extent of the project work that remained to be done and what efforts were needed in order to meet that remaining workload.
- Commented that there were a number of reasons for the delay, including problems with the telephone links to the Surrey Business Centre – which were outside of the Council's control.
- Confirmed that a lot of work had been delayed more recently due to the relocation of the Town Hall Communications Room.
- Explained that whilst the report indicated that the project would be completed within a month, it was difficult to confirm at this stage whether that target would be possible.

With the Committee considering the matter further, and in response to issues and concerns raised, the Audit and Risk Manager:

- Confirmed the different categories of audit opinion, including that of limited assurance.
- Emphasised that the actual costs (as advised by the IT Manager, but yet to be confirmed by the Audit and Risk Manager) at 31 May 2018 for the Data Centre Migration Project of £703,668.78 (identified on page 15 of the report), was a combination of revenue and capital.
- Confirmed that whilst a risk register was absent for this project, such a register was expected to be available for all projects.
- Advised that with important documentation, such as a project Initiation document and a risk register being absent, the roles and responsibilities were not clearly defined.
- Commented that information gathered in the lead-up to the project, including that from various outside sources, did not suggest that the project's budget had been underestimated, and that it was only when the actual work started / difficulties came to light, that budgetary issues arose. The Head of Digital and Transformation Indicated that given the additional revenue expenditure incurred on the project came from the IT budget, it was likely that a number of IT related projects would have to be put on hold for the future.
- Confirmed that some costs had been incorrectly charged to the Project, as they related to other IT projects, and so there had been some difficulty at this stage in asserting what the actual overspend was.
- Explained that as yet information was not fully available in terms of where expenditures should have been coded to. A better breakdown would be determined as to what projects the various costs should have been coded / allocated to, to help to clarify this matter.
- Suggested that rather than being a recommendation as part of her report, an independent review should be something to be considered. The Head of Digital and Transformation suggested that such a review could, for example, be undertaken as an internal review, a peer review, or an independent review, although it would be the most effective way forward that would be sought. Consideration was also being given to establishing a workshop to seek the views of the ICT Team, which the Head of Service considered critical in terms of avoiding similar issues arising again.

With the indication that a judgement could not yet be made as to whether the Data Centre arrangements represented value for money, the Committee continued to discuss the matter in detail, including the options for the best way forward in undertaking a review into the Project's findings. At this point and in response to a question from a Member of the Committee, the Leader of the Council emphasised that the Cabinet was taking this matter very seriously, and hence the reason for his attendance at this meeting. In indicating that it was only until recently that he had been made aware of the absence of a risk register for this project, he acknowledged that a lot of processes that should have been followed hadn't been, and that having now spoken to the Chief Executive, structures were being put in place to ensure this didn't happen again. From this project's review, a number of findings, and recommendation had been raised which had since 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 had agreed to form a Corporate Project Assurance Board to ensure that capital projects were delivered in a timely and cost effective manner and to share good practice across the organisation. The Leader emphasised that we needed to keep resilience in protecting our data, and in this connection we would need to see what the

suggested review identified. The Audit and Risk Manager indicated that whilst, if necessary, follow up audits would be carried out for reviews generally, these would not be provided with a further assurance level, but would provide an update on where we were and the agreed actions to be taken. With a limited audit opinion In respect of this Project, work would be undertaken immediately, and it was intended to submit a follow up report to the Committee's meeting in October.

In taking all issues into account, and in accordance with the suggestion of the Chair, the Committee considered that a clear end date for the project be provided within 6 weeks, and that prior to the next meeting of the Committee, and in approximately 6 weeks from the date of this meeting, an update report should be circulated to Members by the Head of Digital and Transformation to update Members on costs and where we were in arranging the review on the Project as a whole to confirm value for money / fitness for purpose / the way forward (**ACTION**).

The Committee then considered the update on Risk Management. The Committee sought and received clarification on several points, including the assessment of risks relating to the new Town Hall. In response to comments from Members, the Head of Finance, Revenues and Benefits indicated that in view of potential inflation to building costs etc, the associated tender exercise continued to remain a risk and it would be important that the tender prices remained within budget. However, budgets were agreed and clearly communicated in order for the risks to be mitigated through the risk register, and to keep the project on track, and regular budget updates would be reported to CMT. All Members received a copy of the quarterly monitoring reports to Cabinet.

RESOLVED

That the Internal Audit Progress Report as at 12 July 2018, Incorporating a Risk Management Update as at 30 June 2018, be noted.

5. Audit and Risk Manager's Annual Report 2017/2018

The Committee considered report FIN/450 of the Audit and Risk Manager.

The Committee acknowledged that the Annual Report had been produced in accordance with the requirements set out in the new Public Sector Internal Audit Standards 2013 (Updated 2017). She explained that this was 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 participated.

The Audit and Risk Manager considered that in her overall opinion, for the period in question, substantial assurance could be given that there was generally a sound system of internal control designed to meet the Council's objectives, and that the controls were generally being applied consistently.

With regard to "Assurance Areas" (Governance) as set out in paragraph 8.2 of the report, and in response to a question from a Member, the Audit and Risk Manager indicated that whilst work was ongoing in respect of this Governance Area, the updating of the Anti-Fraud and Corruption and Whistle Blowing policies had now been completed.

RESOLVED

That the Audit and Risk Manager's Annual Report for the period 2017/2018 be noted.

6. Update on the Appointment of External Auditor

In introducing this item, the Head of Finance, Revenues and Benefits explained that representatives of Ernst and Young LLP had advised that due to auditing commitments with a number of other authorities on this same evening, and because the nature of our Statement of Accounts for 2017/2018 (being the main item on this meeting's agenda) were considered sound, they had sent their apologies for absence, but were contactable during the meeting should Members have issues to raise.

The Committee considered report FIN/444 of the Head of Finance, Revenues and Benefits. Following the demise of the Audit Commission, new arrangements were needed for the appointment of external auditors. The Local Audit and Accountability Act 2014 required authorities to either opt in to the Appointing Person regime or to establish an auditor panel and conduct their own procurement exercise. The purpose of this report was to update the Committee on the process of appointing external auditors for Housing Benefit Subsidy Assurance from 2018/19 for five years.

The Committee acknowledged that Ernst and Young LLP had been re-appointed by Public Sector Audit Appointments Limited (PSAA) as the Council's auditor from 2018/19 onwards, for the Core Accounts audit. At the time Councillors were notified that PSAA could only procure the audit of the Council's accounts and that Housing Benefit Subsidy audit was outside of the framework and the Council was required to make separate appointments.

In terms of the audit fees for both the Core Accounts and the Housing Benefit Subsidy Assurance, paragraph 6.1 of the report refers, the Committee was advised of the need for a clerical correction as follows:-

Delete under the heading of "2018/19" the sum of £50,219, and replace with £50,291.
Delete under the heading of "2018/19" the total sum of £62,778, and replace with £62,850.

RESOLVED

- (1) That it be noted that the Council has engaged Ernst & Young LLP as the Council's external auditor for Housing Benefit Subsidy Assurance from 2018/19 for five years.
- (2) That, subject to the clerical correction above, the agreed fee arrangements as set out in paragraph 6.1 of the report, be noted.

7. Annual Audit and Certification Fees 2018/2019

The Committee considered a letter from Ernst and Young LLP on the Annual Audit and Certification Fees for 2018/2019. The letter was attached as Item 8 of the agenda.

RESOLVED

That the Annual Audit and Certification Fees for 2018/2019 be noted.

8. Audit Results Report for the year ended 31 March 2018

The Committee considered the Audit Results Report for the year ended 31 March 2018 which was included as Item 9 of the agenda. The report set out the current status of the audit, indicating that subject to satisfactory completion of items identified in the report, Ernst and Young LLP had completed its audit of the Council's financial statements for the year 2017/2018.

The Committee considered matters raised, and in so doing noted that it was proposed to issue an unqualified opinion on the financial statements and that in terms of value for money, the report was satisfied that in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in the use of its resources.

The Committee sought and received clarification on a number of issues raised, whilst in response to a comment from a Member, the Head of Finance, Revenues and Benefits confirmed that the unqualified opinion on the financial statements, was based on the Council's state of accounts overall, and did not reflect individual projects, for which, if highlighted as having difficulties, agreed actions would be put in place.

The Head of Finance, Revenues and Benefits advised the Committee that Ernst and Young LLP had been very complimentary regarding the work of Paul Windust (Chief Accountant) and his Team in progressing and completing the financial statements.

RESOLVED

That the Audit Results Report for the year ended 31 March 2018 be received and noted.

9. Approval of the 2017/2018 Statement of Accounts

The Committee considered report FIN/445 of the Head of Finance, Revenues and Benefits which sought the Committee's approval of the 2017/18 Statement of Accounts, to comply with the statutory deadline of 31 July 2018.

The 2017/18 Statement of Accounts was attached as Appendix C to the report. As indicated in the Audit Results Report (Minute No. 8 above refers), the financial statements were still subject to Ernst and Young LLP concluding outstanding matters before the deadline date of 31 July, although no material changes were expected.

As explained in Section 7 of the report FIN/445, The Audit Results Report showed an unadjusted audit difference that related to the pension liability disclosed in the Balance Sheet. This error was identified by the auditors of the West Sussex County Council Pension Scheme and was due to the actuary's estimate of the pension scheme assets being short of the actual value, of which, the Council incurred a share. The audit difference was below the materiality level for the Council, and for the reasons set out in the report, management did not consider it necessary to amend the Statement of Accounts.

The Chair took this opportunity to thank Karen Hayes (the Head of Finance, Revenues and Benefits) and Paul Windust (Chief Accountant), and indeed all staff in the Finance Team for the excellent work which had been undertaken.

RESOLVED

- (1) That the 2017/18 Statement of Accounts be approved.
- (2) That the rationale as to why the unadjusted audit difference has not been corrected, be approved.
- (3) That the Chair of the Committee be authorised to sign the 2017/18 Letter of Representation.
- (4) That should changes to the financial statements be identified as part of Ernst and Young LLP concluding outstanding matters, the Chair be authorised to agree those changes.
- (5) That the Chair of the Committee be authorised to sign the 2017/18 Statement of Accounts on behalf of the Council

UPDATE

It is confirmed that since this meeting, the 2017/18 Statement of Accounts has been signed off, with no amendments made to the Statement that was presented to and agreed by the Committee.

Closure of Meeting

With the business of the Audit Committee concluded, the Chair declared the meeting closed at 8.05 pm

K SUDAN
Chair