

Agenda Item No: 9 **Report No: 237/07**
Report Title: Interim Report on the Council's Systems of Internal Control 2007/08
Report To: Audit Committee **Date: 3 December 2007**
Ward(s) Affected: All
Report By: Director of Finance and Community Services
Contact Officer(s): David Heath, Head of Audit and Performance

Purpose of Report:

To inform Councillors of the Internal Audit work of the Audit and Performance Division for the first seven months of 2007/08.

To inform Councillors on the adequacy and effectiveness of the Council's systems of internal control during the first seven months of 2007/08.

Officers Recommendation(s):

- 1 To receive the interim report by the Head of Audit and Performance.
- 2 To note that the overall standards of internal control were satisfactory during the first seven months of 2007/08 (as shown in Section 3).

Reasons for Recommendations

- 1 The remit of the Audit Committee includes a duty to agree a three-year Strategic Audit Plan and an Annual Plan, and keep them under review, and to keep under review the probity and effectiveness of internal controls for both financial and other operational risks.

Information

2 Background

- 2.1 The Internal Audit function at Lewes operates in accordance with the auditing guidelines published as a Code of Practice for Internal Audit by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 2.2 The current version of the CIPFA Code (2006) specifies the requirements for reporting to the Audit Committee by the Head of Audit and Performance. As in previous years the interim reports will address both the work of the Internal Audit Section and any emerging issues in respect of the systems of internal control, corporate governance and risk management.

2.3 Councillors are reminded that any detailed discussion in open session of the conduct of audits, or the content of audit reports, may disclose exempt information as defined in the Local Government Act 1972 as amended. Any such discussions should be dealt with in closed session.

3 Internal Control Environment at Lewes District Council

3.1 The Annual Report on the Council's Systems of Internal Control for 2006/07 included the opinion of the Head of Audit and Performance that the overall standards of internal control are satisfactory. This opinion is based on the work of Internal Audit, other internal reviews and external assurance bodies. In the seven months since the start of this financial year there has been nothing to cause that opinion to be changed.

3.2 The Council's work on risk management, in particular the risk assessments carried out for the 2007/08 Service Planning exercise, has identified that most risks are mitigated by the effective operation of controls or other measures. However, there are some significant risks that are beyond its control, for example a major incident, a 'flu' pandemic, a downturn in the national economy or a major change in government policy or legislation. The Council has introduced improved planning and response measures to mitigate the effects of such occurrences, and continues to monitor risks and the effectiveness of controls.

3.3 This report outlines the work on which the above is based. The main focus of the report is the work of Internal Audit, with high level summaries of the external review processes and their results.

4 Internal Audit Performance and Effectiveness 2007/08

4.1 This section of the report informs Councillors of the work undertaken by Internal Audit during the first seven months of the year, compared against the annual programme that was agreed by the Audit Committee. There is also reference to results of the ongoing review of the effectiveness of Internal Audit.

Use of Internal Audit resources

4.2 Table 1 shows the planned audit days compared to the actual audit days.

Table 1 Plan audit days compared to actual audit days for April to October 2007

Audit Area	Plan audit days for the year	Plan audit days to date	Actual audit days to date
Main Systems	140	84	55
Central Systems	95	57	104
Departmental Systems	180	108	48
Performance and Management Scrutiny	67	40	9
Computer Audit	80	47	1
Environmental Audit	41	25	41
Management Responsibilities/Unplanned Audits	136	82	178
Total	739	443	436

Note: The 'Plan audit days to date' shows a pro rata forecast that provides a broad guide to the resources required to carry out planned audits in each area. The actual timing of the individual audits will depend on a variety of factors, including the workloads and other commitments in the departments to be audited.

- 4.3 Table 1 shows that a total of 436 audit days have been undertaken compared to 443 planned. The variance of seven days is largely caused by annual leave and sickness being more than the pro rata forecast for the period to date.
- 4.4 Central Systems has required more time than the pro rata forecast. This is mainly because the days required for the audits of Insurance and Building Maintenance, which were begun in 2006/07, were not forecast when the Annual Plan for 2007/08 was compiled. This area will be over budget at the end of the year.
- 4.5 Computer Audit has had virtually no work done so far this year. The main work is scheduled for the second half of the year.
- 4.6 Management Responsibilities/Unplanned Audits has required more resources than the pro rata forecast. This is because of the additional time required for the National Fraud Initiative (NFI) data matching exercise and liaison work with the new external auditors, PKF. There has also been unplanned work on Performance Indicator (PI) audits to address data quality issues, Local Area Agreement (LAA) Crime Prevention funding, and a major review requested by the Chief Executive. This area will be over budget at the end of the year.

Audit work undertaken

- 4.7 The paragraphs below summarise the main functional areas reviewed and the key audits undertaken. At this stage, the work has been divided between completing audits that were started in 2006/07, dealing with issues arising from previous audits and carrying out the programme for 2007/08.
- 4.8 *Main Systems:* The initial work was on the programme of targeted testing of all the major financial systems to gain assurance on the adequacy of internal controls for the purposes of the annual Statement on Internal Control (SIC). The results of this exercise were been passed to the Audit Commission to help inform their work on the Council's accounts for 2006/07. Preparations are underway for the corresponding testing of the major financial systems to help inform the work of the Council's new external auditors, PKF. Systems audits of the Creditors and Income systems are underway.

As in previous years, Internal Audit has been working on behalf of the Audit Commission in the testing of the Council's subsidy claims for Benefits and Non Domestic Rates (NDR). By mid November 2007 Internal Audit had completed the testing of both claims. The Audit Commission has yet to confirm the results of this work.

- 4.9 Central Systems:** These are the remaining systems that are administered centrally that have a significant effect on the Council's activities. The final reports on the audits of Insurance, Building Maintenance and Banking/Reconciliations have been issued. Resources allocated for an audit of the Council's complaints procedures have been used in a joint project with the Corporate Performance Officer to improve the arrangements for recording and reporting customer comments and complaints.
- 4.10 Departmental Systems:** These audits focus on key areas of activity in the departments. The audit reports on Cemeteries and Estates Management that was begun in 2006/07 have been finally issued.
- 4.11 Performance and Management Scrutiny:** The main work has been the drawing together of the information for the preparation of the SIC for 2006/07, and obtaining assurance on the adequacy of the internal control environment within three of the Council's key partnerships with outside bodies.
- 4.12 Computer Audit:** Nothing major to report (see paragraph 4.5).
- 4.13 Environmental Audit:** There has been significant work in this area. During April 2007, Internal Audit reviewed the Council's annual EMAS statement prior to its submission to the Lloyd's Register Quality Assurance (LRQA) verifier. The verifier's review of the statement and the successful Internal Audit coverage of EMAS and related environmental issues during 2006/07 have helped to confirm the Council's EMAS registration for the period 2007/08. The final reports were issued for the six EMAS audits from the 2006/07 programme and for the EMAS audits of Property Services, Finance and Coastal Protection and Flood from the programme for 2007/08. In addition, Internal Audit has been involved in reviewing the draft of the Council's Sustainability Action Plan and developing the audit approach to the plan.
- 4.14 Management Responsibilities/Unplanned Audits:** This category provides resources for special projects or investigations requested by Chief Officers, Internal Audit advice on internal control and probity, and requests for unplanned audits.

The main activity under this heading has been the work with other departments to investigate the cases of possible fraud highlighted by the NFI data matching exercise. This has required more resources than in previous years because of the additional data types now included and the greater number of transactions highlighted by the Audit Commission for investigation. No cases of fraud or misconduct have been noted in the matches investigated by Internal Audit. More time has been needed than was originally forecast to set up the working arrangements with the Council's new external auditors, PKF.

For the first time, the Council has been required to certify the annual amounts spent on LAA Crime Prevention activities which are funded by central government grant. Internal Audit has worked with Financial Services and Community Services departments to verify the expenditure,

develop new control procedures and enable the Head of Audit and Performance to provide an opinion that the Council's statement of grant usage fairly represented the eligible expenditure for 2006/07.

There has been unplanned audit work to obtain assurance as to the adequacy of the procedures that ensure the data quality for some key PIs. In addition, the Chief Executive asked Internal Audit to review the procedures for tendering painting contracts. This unplanned audit found no evidence of fraud or irregularity but has confirmed the need to update Contract Procedure Rules (CPRs) and linked procedures to reflect recent developments in procurement processes. Internal Audit has been involved in the compiling the new CPRs which are at the draft stage.

Follow up of Audit Recommendations

- 4.15** As part of the control procedures detailed in the Internal Audit Manual all audit recommendations are followed up. The purpose of this is to check whether all accepted recommendations have been implemented.
- 4.16** The early focus for follow up in 2007/08 was on confirming the implementation of the recommendations that had been agreed during 2006/07. The results of this work were reported to the June 2007 meeting of this Committee. Since then the follow up procedures have operated as normally.

Customer Satisfaction Surveys/Performance Indicators (PIs)

- 4.17** The results of the customer satisfaction surveys and PIs for 2006/07 were reported to the June 2007 meeting of this Committee. The corresponding information for 2007/08 will be reported to the June 2008 meeting.

Effectiveness of Internal Audit

- 4.18** The Annual Report on Internal Audit Performance and Effectiveness 2006/07 that was presented to the June 2007 meeting of the Committee included the summary results of a series of performance and quality reviews that are required by the CIPFA Code of Practice (2006) and the Accounts and Audit Regulations 2003 (amended in 2006).
- 4.19** The results of the reviews enabled the Head of Audit and Performance to report that the Internal Audit service at Lewes is fully effective, is subject to satisfactory management oversight and complies with the CIPFA Code of Practice and the Accounts and Audit Regulations. In the seven months since the start of this financial year there has been nothing to cause that opinion to be changed. The corresponding results for the 2007/08 reviews will be reported to the June 2008 meeting.

5 Risk Management

- 5.1** Since Cabinet approved the Risk Management Strategy in September 2003, the development of risk management at the Council has been managed via a series of action plans. The outcome is that the Council

has in place all the elements of the risk management framework outlined in the strategy and the arrangements are maintained at best practice standards.

- 5.2** The risk management process has identified that most risks are mitigated by the effective operation of the controls or other measures. However, there are some risks that are outside the Council's control (as outlined in paragraph 3.2 above) but the Council has updated the measures to address key risks in the areas of business continuity and emergency planning.
- 5.3** During 2006/07 Internal Audit examined the extent to which risk management is an integral part of the decision making processes of the Council and noted a generally positive situation. For 2007/08 the Head of Audit and Performance is monitoring Cabinet reports at the call over stage. So far the results are positive, with few reports referred back to the authors for re-consideration of the risk implications.
- 5.4** The risk management framework has been subject to regular review by the Audit Commission. This area was examined again by the Audit Commission as part of the review of the Use of Resources and the positive results are included in the outline summary at section 8.2.
- 5.5** The satisfactory situation noted by Internal Audit and the Audit Commission has helped to inform the opinion on the internal control environment.

6 System of management assurance

- 6.1** The assurance system includes provision for senior officers to confirm the proper operation of internal controls, including compliance with the Constitution, in those services for which they are responsible. In the period to the end of October 2007 there is no evidence of anything other than the continued effective operation of internal controls.
- 6.2** A joint statement by the Chief Finance Officer (Section 151) and Monitoring Officer confirmed that for 2006/07 there were no significant internal control issues.
- 6.3** In August 2007, the Audit Commission selected the Council's system of management assurance as an example of notable practice that was published on the Audit Commission's external internet site as guidance for other authorities.

7 Corporate governance

- 7.1** In May 2007, the Head of Audit and Performance compared the Council's corporate governance arrangements against the CIPFA/SOLACE framework, and concluded that the arrangements are satisfactory and fit for purpose. These results were reported to the June 2007 meeting of the Committee, and in the time since that study was completed there are no indications of any issues that would justify any change to that positive opinion.

- 7.2** In June 2007 a fully revised and updated edition of the CIPFA/SOLACE framework was published as a best practice guide for developing and maintaining a local code of governance, and to assist local authorities in reviewing the effectiveness of their own governance arrangements. In addition, a supplement to the new framework defines the proper practices for the form and content of an annual governance statement that meets the requirements of the Accounts and Audit Regulations (as amended in 2006). From 2008, this governance statement will replace the annual Statement on Internal Control (SIC) that has formed part of the Council's accounting statements that were presented to the Audit Committee in June each year.
- 7.3** The Head of Audit and Performance is currently reviewing the Council's governance arrangements against the new framework and will report the results to the next meeting of this Committee. This report will also outline the arrangements for presenting the governance statement for 2007/08 to the June 2008 meeting of this Committee.

8 External assurance

- 8.1** The Government relies on external auditors and inspectors to periodically review the work of the Council to make sure it is meeting its statutory obligations and performing well in its services. The Council is subject to a rolling programme of external inspections and audits, and the recent results were summarised in the Annual Report on the Council's Systems of Internal Control for 2006/07.
- 8.2** The two most recent of the major external reports were the Audit Commission's Annual Audit and Inspection Letter that was issued in March 2007 and the Annual Governance Report of August 2007. These reports summarised a series of audits carried out during 2006 and 2007 across a range of Council activities. In addition to the findings on risk management that are summarised above, the Audit Commission Annual Audit and Inspection Letter concluded that:
- The Council has a positive direction of travel and continues to deliver improvements against its corporate priorities.
 - The Council achieved an overall score of 3 out of 4 in the use of resources, which equates to 'consistently above minimum requirements: performing well.' This included a top score of 4 for internal control, an achievement that Lewes shares with only two other District councils in the country.
 - The Council's governance arrangements are strong, as is financial management and the delivery of value for money.
 - An unqualified opinion was issued on the 2005/06 accounts including the Statement on Internal Control.
 - The Council's internal control arrangements covering risk management, internal audit and probity have continued to meet best practice standards.

- The Council has maintained the good arrangements it has in place for financial reporting, and the budget monitoring arrangements are well embedded and exceed the minimum requirements.
- The Council continues to manage its spending within resources.
- The Council's arrangements for asset management have continued to be effective.
- The Council Plan (BVPP) for 2006/07 complies with statutory requirements.
- The Council continues to strengthen its performance management arrangements. Performance reports to Cabinet are clear and focused on action, and there are effective scrutiny arrangements that have actively involved councillors in addressing performance issues.

8.3 The Annual Governance Report confirmed that:

- The Council's Statement on Internal Control for 2006/07 complies with proper practice and is consistent with the other information from the audit of the financial statements.

8.4 The findings of the above external reviews have helped inform the opinion on the internal control environment.

9 Financial Appraisal

9.1 There are no additional financial implications from this report.

10 Risk Management Implications

10.1 The risk assessment shows that if then Audit Committee does not ensure proper oversight of the adequacy and effectiveness of the council's systems of internal control there is a risk that a key aspect of the Councils' control arrangements will not comply fully with best practice.

11 Environmental Implications

11.1 I have completed the Environmental Implications Questionnaire and there are no significant effects as a result of these recommendations.

12 Background Papers

12.1 Annual Audit Plan 2007/08 and Strategic Audit Plan 2007/08 to 2009/10 that was presented to the Audit Committee on 19 March 2007.