

Agenda Item No: 10 **Report No:** 83/17

Report Title: Interim Report on the Council's Systems of Internal Control 2017/18

Report To: Audit and Standards Committee **Date:** 19 June 2017

Ward(s) Affected: All

Report By: Head of Audit and Counter Fraud

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Purpose of Report:

To inform Councillors on the adequacy and effectiveness of the Council's systems of internal control during the first two months of 2017/18, and to summarise the work on which this opinion is based.

Officers Recommendation(s):

- 1 To note that the overall standards of internal control were satisfactory during the first two months of 2017/18 (as shown in Section 3).

Reasons for Recommendations

- 1 The remit of the Audit and Standards Committee includes the duties to agree an Annual Audit Plan and keep it under review, and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the Council's arrangements for identifying and managing risk.

Information

2 Background

- 2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) has, with the other governing bodies that set auditing standards for the various parts of the public sector, adopted a common set of Public Sector Internal Audit Standards (PSIAS) that apply from 1 April 2013. The PSIAS have been updated, with new standards published in April 2016. The impact of the new standards was reported to the September 2016 meeting of the Committee.
- 2.2 The PSIAS 2016 continue to specify the requirements for the reporting to the Audit and Standards Committee and senior management by Head of Audit and Counter Fraud (HACF, formerly HAFP). These requirements are met via a series of reports, including interim reports to each meeting of the Committee.

- 2.3** Each interim report includes a review of the work undertaken by Internal Audit compared to the annual programme, an opinion of HACF on the internal control, risk management and governance environment at the Council, together with any significant risk exposures and control issues, in the period since the beginning of the financial year. Each interim report contains an appendix that includes an outline of each of the final audit reports issued since the previous meeting of the Committee, and an appendix that outlines any significant recommendations that have not yet been implemented.
- 2.4** In September 2015, Cabinet approved a strategy for the development of shared services between Lewes District Council (LDC) and Eastbourne Borough Council (EBC) based on the integration of the majority of council services via a Joint Transformation Programme (JTP). The full integration of the respective Internal Audit and Fraud Investigation Teams in both councils is due to be in place by 1 July 2017. Progress has already been made in coordinating internal audit and counter fraud activities and in sharing expertise and resources, and this forms the background to the activities outlined in this report.

3 Internal Control Environment at Lewes District Council

- 3.1** The Annual Report on the Council's Systems of Internal Control for 2016/17 included the opinion of HACF that the overall standards of internal control are satisfactory. This opinion was based on the work of Internal Audit and the Council's external auditors, BDO, and the Council's work on risk management. In the two months since the start of the financial year there has been nothing to cause that opinion to change and there have been no instances in which internal control issues created significant risks for Council activities or services.

4 Internal Audit work 2017/18

- 4.1** Table 1 shows that a total of 71 audit days have been undertaken compared to 93 planned in the first two months of the year.

Table 1: Plan audit days compared to actual audit days for April to May 2017

Audit Area	Actual audit days for the year 2016/17	Plan audit days for the year 2017/18	Actual audit days to date	Pro rata plan audit days to date
Main Systems	347	295	52	
Central Systems	83	65	1	
Departmental Systems	86	65	-	
Performance and Management Scrutiny	8	45	2	
Computer Audit	2	5	-	
Management Responsibilities/Unplanned Audits	113	147	16	
Total	639	622	71	93

Note: The 'Pro rata plan audit days to date' provides a broad guide to the resources required to carry out planned audits. 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.

The variance of 22 days has arisen mainly from the retirement of the Senior Auditor in January 2017, with the vacancy not yet filled. In addition, the HACF has been

involved in less audit work in the first two months of the year than was originally envisaged. It is estimated that the audit days will be closer to plan by the year end.

- 4.2 This section of the report summarises the work undertaken by Internal Audit, compared to the annual plan that was presented to the Audit and Standards Committee in March 2017. Further information on each of the audits completed since the previous meeting of the Committee is given at Appendix A.
- 4.3 **Main Systems:** The main work has been on the testing of the major financial systems in order to gain assurance on the adequacy of internal controls for the Annual Governance Statement (AGS) and to inform BDO's work on the Council's accounts for 2016/17. A draft report is being prepared.
- 4.4 The work on behalf of BDO to test the Council's HB subsidy claim 2015/16 was completed in May 2017, and the audited claim is expected to be submitted at some time during late June 2017. The work on the HB subsidy claim for 2016/17 is at the planning stage, with the aim of ensuring a shared and consistent EBC/LDC approach to the audit of the HB subsidy claims at both councils.
- 4.5 **Central Systems:** The current audit of Ethics is underway, with the work being done by the Audit Manager at EBC. Initial planning for the audit of EBC/LDC compliance with the Regulatory Powers Act (RIPA) is underway.
- 4.6 **Departmental Systems:** The audit of Estates Management, incorporating work on the corresponding function at EBC, began in January 2017 but has been put on hold to free resources for the work on the HB subsidy claim 2015/16 and the testing of the major financial systems – the audit will recommence as soon as resources become available.
- 4.7 **Performance and Management Scrutiny:** The main work in this category has been in reviewing the data that supports the Annual Governance Statement (AGS) for 2017.
- 4.8 **Computer Audit:** Internal Audit has examined the IT aspects of the main financial systems (see 4.3 above).
- 4.9 **Management Responsibilities/Unplanned Audits:** This category provides resources for activities such as support for the Audit and Standards Committee, managing the Fraud Investigations Team, liaison with BDO, managing the Follow Up procedures, as well as for special projects or investigations.
- 4.10 Two reviews - Strategic Procurement, and the EBC/LDC response to the Prevent and Protect Strategy – both being carried out by HACF - are underway.
- 4.11 Internal Audit continues to coordinate the Council's work on NFI data matching exercises. Internal Audit, the Investigations Team and service managers prepared for the receipt of the reported matches, and nominated officers to investigate matches in their service areas. The reported matches arrived in late January 2017 - there are over 2,000 separate matches detailed across 93 reports; additional reports are expected as the exercise progresses. Each report sets out different types of potential frauds among benefit claimants, housing tenants, and anyone receiving payments or discounts from the Council. The exercise involves analysis of the matches to weed out those that are the result of error or coincidence, and

then the examination of the remaining matches to assess the likelihood of fraud. The exercise is at an early stage, with 322 matches examined and no fraud or error noted so far. The Audit and Standards Committee will be kept advised of progress.

5 Follow up of Audit Recommendations

- 5.1** All audit recommendations are followed up to determine whether control issues noted by the original audits have been resolved. The early focus for follow up in 2016/17 has been on confirming the implementation of the recommendations that had been agreed in the previous year. The results of this work are reported separately to this meeting of the Committee.

6 Quality Reviews/Customer Satisfaction Surveys/Performance Indicators (PIs)

- 6.1** The results of the Internal Audit quality reviews, customer satisfaction surveys and PIs for 2016/17 are reported separately to this meeting of the Audit and Standards Committee. The results enabled the HACF to report that the Internal Audit service at Lewes is fully effective, is subject to satisfactory management oversight, achieves its aims, and objectives, and operates in accordance with the Internal Audit Strategy as approved by the Audit and Standards Committee.

7 Combatting Fraud and Corruption

Local initiatives

- 7.1** The Investigation Team is a member of the East Sussex Fraud Officers Group (ESFOG), a body that enables information sharing and joint initiatives with neighbouring authorities on a wide range of counter fraud work.
- 7.2** A sub group of six authorities within ESFOG are working together in a 'Hub' approach to coordinate new anti-fraud initiatives across East Sussex and Brighton. The Hub is managed by officers at Eastbourne BC with input from ESFOG partners. Current Hub projects include a shared approach to publicity for Hub activities and the development of an on-line system to allow the public to report suspected frauds – the Investigations Teams at EBC and LDC will use a shared web link to receive these reports. The next priorities will include a coordinated exercise to counter business rates fraud across the county, using a methodology developed with Hub partners.

LDC Investigations Team

- 7.3** At present, countering housing tenancy fraud and abandonment, and preventing RTB fraud, are the main operational priorities for the Fraud Investigation Team because of the evidence of this being a high risk area for the Council. Twelve cases of suspected abandonment and/or subletting are under investigation, plus one of suspected housing application fraud. One property is to be returned at the end of June 2017 after the tenant accepted that she no longer lives at the address. Two cases of suspected RTB fraud are being investigated – one involves an ongoing application. The team is assessing a number of withdrawn RTB applications because the cases could indicate potential fraud.
- 7.4** NDR is the development priority for the team, based upon some initial research, training and a small pilot study in 2016. The team will revisit the risk assessment for

NDR to determine the impact of recent government announcements on NDR, and the possible effect on rate reliefs to small businesses. The aim is to have a coordinated exercise to counter business rates fraud across the county, using a methodology developed with Hub partners.

- 7.5** Internal Audit has in place an agreement with DWP for the management of cases of HB fraud. The major work on each HB case will be the responsibility of the national Single Fraud Investigation Service (SFIS) within DWP. LDC retains a role in referring cases of suspected HB fraud to SFIS and handling requests for information. In an agreement with the Fraud Investigation Team at EBC, a member of that team carries out the DWP liaison work for LDC using existing EBC procedures and thus allow the LDC team to focus on case work in other areas.

8 Risk Management

- 8.1** Cabinet approved the Risk Management Strategy in September 2003. Since then risk management at the Council has been developed via a series of action plans, with the result that all the elements of the risk management framework set out in the strategy are in place and are maintained at best practice standards.
- 8.2** The risk management process has identified that most risks are mitigated by the effective operation of controls or other measures. However, there are some 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 sound planning and response measures to mitigate the effects of such events, and continues to monitor risks and the effectiveness of controls. The overall satisfactory situation for risk management has helped to inform the opinion on the internal control environment.
- 8.3** In response to reductions in Government funding for local authorities, the Council has been making significant savings each year in its General Fund budget (which covers all services except the management and maintenance of Council owned homes) since 2011/12.
- 8.4** The General Fund budget for 2016/17 included a savings target of £0.685m including £0.4m to be generated from the JTP with EBC, of which Phase One (creating a single team of leaders and managers across LDC, EBC and Eastbourne Homes) is the main driver. This target is expected to be achieved, although because the new JTP Phase One management restructure will not be fully completed until June 2017, some of the savings will be deferred into 2017/18.
- 8.5** General Fund savings continue to be required over the next four years, with net expenditure to reduce by £2.2m from £13.2m to £11.0m by 2020/21 - £0.9m is to be generated from the remaining elements of the JTP. In 2017/18, the JTP is required to deliver General Fund savings of £0.3m.
- 8.6** There are also pressures to reduce spending on the management and maintenance of Council owned (HRA) housing. Starting in 2016/17, the Government has required all housing authorities to reduce tenants' rents by a 1% in cash terms in each of the four years through to 2019/20. As a result, by 2019/20, total annual rent income will have fallen by £0.6m to £14.4m. This means that savings of £2.2m will

be needed to offset the expected impact of inflation on expenditure budgets over that period. A share of the JTP savings will pass through to the HRA.

9 System of management assurance

- 9.1** The Council operates a management assurance system, which enabled senior officers to confirm the proper operation of internal controls, including compliance with the Constitution, in those services for which they are responsible. As part of this process all members of the Corporate Management Team (CMT) are required to consider whether there were any significant governance issues during 2016/17. At its meeting on 30 May 2017 CMT confirmed that there were no significant governance issues to report, and there has been nothing in the first two months of the financial year to change these assessments.

10 Corporate governance

- 10.1** The Council is required to produce an Annual Governance Statement (AGS), which outlines the main elements of the Council's governance arrangements and the results of the annual review of the governance framework including the system of internal control. The AGS for 2017 is presented separately to this meeting of the Committee.

11 External assurance

- 11.1** The Government relies on external auditors to periodically review the work of the Council to make sure it is meeting its statutory obligations and performing well in its services. The results of these external reviews have helped inform the opinion on the internal control environment. The recent results are summarised below.

- 11.2** Annual Audit Letter for 2015/16 (October 2016) – This report summarised the key issues from the work carried out by BDO during the year, and was presented to the November 2016 meeting of the Committee. The key issues were:

- BDO issued an unqualified true and fair opinion on the financial statements for the period ended 31 March 2016.
- BDO identified a number of misstatements on the Cash Flow Statement and in the classification of short term investments. These were corrected before completion of the financial statements.
- BDO were satisfied that the Narrative Report, which local authorities include in the Statement of Accounts to offer interested parties guidance on the most significant matters, was consistent with the financial statements.
- BDO did not identify any significant deficiencies in the Council's framework of internal controls, but did report on areas where improvements in controls could be made including declarations of related party transactions, the documentation of Council Tax discounts, and access to some IT systems.
- BDO were satisfied that the Annual Governance Statement (AGS) was not misleading or inconsistent with other information they were aware of from their audit work.
- BDO issued an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

- BDO found that the Council has adequate arrangements for budget setting and budget monitoring, and the Council has identified sufficient savings over the next four years to balance its budget.
- BDO noted that many of the savings will arise from the Joint Transformation Programme with EBC, and BDO were satisfied that there are effective governance arrangements in place to oversee delivery of the project.
- BDO noted that the Council's Whole of Government Accounts (WGA) submission is below the threshold for further work other than to submit the WGA Assurance Statement. This was submitted on 7 October 2016 ahead of national deadline.
- BDO reported that the review of grant claims and returns for 2015/16 is in progress, and the results will be reported on completion.
- BDO reviewed the governance arrangements for Council's New Homes Project, and made a number of recommendations for improvement that should be applied to future projects.

11.3 Grant Claims and Returns Certification for year ended 31 March 2015 (April 2016). The report was presented to the June 2016 meeting of the Committee. The key points were:

- The audit identified a high level of errors within the cases tested, which required a significant amount of extra testing by BDO and the Council. No amendments were made to the final claim submitted to DWP.
- The main errors were in the administration of benefits involving non-HRA rent rebates and rent allowances. There were a small number of cases of incorrect classification of expenditure as non-HRA, when the expenditure should have been classified as HRA rent rebates.
- The audit identified deficiencies in the Council's systems and controls around the identification of prior year uncashed payments, resulting in an under claim of £556.
- As a result of the errors found in administering benefits, BDO qualified the claim across all benefit expenditure types. The additional work required to be completed by the Council and BDO meant that the audited claim was submitted to DWP in March 2016, four months after the deadline date.
- The certification of the returns for the Pooling of Housing Capital Receipts was completed satisfactorily without amendment of certification. The main reported issue was the need for the Council to have in place appropriate plans to use retained receipts by certain milestone dates, otherwise the receipts must be paid to DCLG.

11.4 As was reported to the June 2016 meeting of the Committee, DWP made a marginal adjustment to the submitted claim which was agreed at a total value of approximately £35.8m.

11.5 Financial Appraisal

11.6 There are no additional financial implications from this report.

12 Sustainability Implications

- 12.1** I have not completed the Sustainability Implications Questionnaire as this report is exempt from the requirement because it is an internal monitoring report.

13 Risk Management Implications

- 13.1** If the Audit and Standards Committee does not ensure proper oversight of the adequacy and effectiveness of the Council's systems of internal control there is a risk that key aspects of the Council's control arrangements may not comply with best practice.

14 Legal Implications

- 14.1** There are no legal implications arising from this report.

15 Equality Screening

- 15.1** This report is for information only and involves no key decisions. Therefore, screening for equality impacts is not required.

16 Background Papers

[2017/18 Annual Audit Plan](#)

17 Appendices

- 17.1** Appendix A1 - Statement of Internal Audit work and key issues.
- 17.2** Appendix A2 - Table of abbreviations.
- 17.3** There is no Log of Significant Outstanding Recommendations (normally Appendix B) for this report.

APPENDIX A1

Statement of Internal Audit work and key issues

Audit Report: Electoral Registration and Elections

Date of final issue: 27 March 2017

Overall opinion:

Internal Audit has reviewed the procedures and controls governing the administration of electoral registration and the conduct of elections at LDC. The initial focus of the audit was the local and national elections in May 2015, with the audit work begun in December 2015. Exceptionally, the audit had to be suspended to enable the staff in Democratic Services to plan and carry out an extensive programme of elections during 2016. The audit has now been completed, and the findings have been updated to take account of the elections that took place during in 2016.

From the audit work carried out during this review Internal Audit has obtained full assurance that there is sound system of internal control covering electoral registration and elections. Proper processes are in place and compliance with the processes and controls is good. The particular circumstances of May 2015 parliamentary elections and the EU Referendum in June 2016 created stresses for the electoral system nationally and locally. So far as can be determined these stresses were handled effectively with no significant adverse impact on the conduct of the elections managed by LDC. The satisfactory situation means that there are no improvements that need to be made within the scope and objectives of the audit, and the report contains no recommendations.

Main points:

Registration of electors

Registers of electors are compiled as required under the Representation of Peoples Acts, with full and edited copies of the register held in the appropriate public places and correctly circulated. The 2015 and 2016 elections were based on electoral registers that had been compiled in accordance with the new system of Individual Electoral Registration (IER), including the online registration service, which was introduced in June 2014. The IER process was supported by arrangements that enabled voter identities to be verified via cross referral to other government agencies. An additional 5,368 voters were added to the Lewes register in the period between the May 2015 Parliamentary election and the EU Referendum in June 2016.

European and overseas citizens who are entitled to vote are recorded correctly and effective measures have been introduced to encourage postal voting – these arrangements were applied to the elections during 2015 and 2016. Postal voting for the EU referendum was adopted by the highest proportion (18%) of the voters in the District since postal voting on demand was introduced in 2001.

The EU Referendum booklet issued by the UK Government and the social media campaigns encouraged people to register to vote for the EU Referendum. Nationally, this resulted in significant numbers of electors already registered attempting to re-register – in Lewes 650 of the 850 new registrations were found to be duplicate, and these required specific action to protect the integrity of the register. The Gov.uk online registration website crashed two hours before the registration deadline on 7 June 2016, which resulted

in emergency legislation being passed to extend the registration deadline to midnight on 9 June. These issues combined to create unprecedented challenges for election administrators nationally, and at Lewes their resolution required significant levels of staff overtime in Democratic Services.

Conduct of elections

In all significant respects the elections in 2015 and 2016 were planned and conducted in accordance with the timetables established by legislation, and the detailed timetables and guidance from the Electoral Commission. . Election planning was subject to a formal project management process including risk assessments and senior level monitoring.

The Electoral Commission guidance included recommended staffing levels, and these were applied in the planning, administration and management of the 2015 and 2016 elections. The Council had anticipated that there would be a higher turnout for the May 2015 and June 2016 elections, and therefore the decision was taken to provide the recommended training to all those holding key positions.

The Electoral Commission reviews the conduct of elections and assesses the performance of Returning Officers (ROs). The audit noted that, in July 2015, the Commission had reported on an issue affecting LDC – it concerned parish postal ballot packs containing a duplicate of the District ballot paper instead of the relevant parish ballot paper. Replacement ballot papers were issued and the majority of affected electors were able to return a valid vote. The error occurred in town council areas within Brighton that were subject to a joint election planning agreement with Brighton and Hove City Council (BHCC). The error had been made by the Brighton RO, but the legislation and Commission guidance is clear that ultimate responsibility lies with the Lewes RO. Internal Audit found no evidence of this issue arising in subsequent elections and so it is not considered material in the context of the overall opinion above.

Electoral expenditure

Electoral expenses are paid and accounted for correctly. There are reasonable procedures in place to meet the costs of the election support services such as printing, transport, and the set-up of polling/counting centres.

Appendix A2

Table of abbreviations

AGS – Annual Governance Statement
BCP – Business Continuity Planning
BDO – BDO, the Council's external auditors. Formerly BDO Stoy Hayward
CIPFA – Chartered institute of Public Finance and Accounting
CMT – Corporate Management Team
CTRS – Council Tax Reduction Scheme
DCLG – Department for Communities and Local Government
DFGs – Disabled Facilities Grants
DWP – Department of Work and Pensions
EBC – Eastbourne Borough Council
ESFOG – East Sussex Fraud Officers Group
HACF – Head of Audit and Counter Fraud
HB – Housing Benefit
HRA – Housing Revenue Account. Refers to Council owned housing
ISO – International Organisation for Standardisation
IT – Information Technology
JTP – Joint Transformation Project
LDC – Lewes District Council
NFI – National Fraud Initiative
PIs – Performance Indicators
PSIAS – Public Sector Internal Audit Standards
QAIP – Quality Assurance and Improvement Programme
RO – Returning Officer
RTB – Right to Buy
SFIS – Single Fraud Investigation Service
WGA – Whole of Government Accounts