

Agenda Item No: 8 **Report No:** 136/17

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

Report To: Audit and Standards Committee **Date:** 25 September 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 five 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 five 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). 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 formal integration of the Internal Audit and Counter Fraud Teams in both councils took place on 1 July 2017. Prior to this formal change, progress had 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 five 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 188 audit days have been undertaken compared to 256 days planned in the first five months of the year.

Table 1: Plan audit days compared to actual audit days for April to August 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	126	
Central Systems	83	65	13	
Departmental Systems	86	65	1	
Performance and Management Scrutiny	8	45	3	
Computer Audit	2	5	2	
Management Responsibilities/Unplanned Audits	113	147	43	
Total	639	622	188	256

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 68 days has arisen mainly from the retirement of the Senior Auditor in January 2017, with the vacancy filled on 4 September 2017. 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 A1.
- 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 summary report has been prepared, together with a separate draft report on the issues arising from the review of Non-Domestic Rates (NDR). It is the intention that these reports will be issued by the end of September 2017.
- 4.4** The work on behalf of BDO to test the Council's HB subsidy claim 2015/16 was completed, and the audited claim submitted, during July 2017. BDO's initial planning for this work had set out the standard testing requirements and identified the likely need for significant additional testing to address the issues noted in the previous year's claim. The standard testing and the initial additional testing were completed in late September. The timetabled date for BDO to have signed off and submitted the audited claim was at the end of November 2016, but that date was not met because of the extra work that was required. This included further additional testing, reperformance by BDO, and the resolution of queries and challenges. The overall value of the claim was £36.5m. In July 2017, DWP confirmed the results of the audit - there had been an overpayment of subsidy of £6,976, but with a related understatement of £2,367 the net effect was a recovery of £4,609 by DWP.
- 4.5** The work on the HB subsidy claim for 2016/17 is underway. BDO have identified the need for significant additional testing to address the issues noted in the 2015/16 claim, and it is unlikely that the audited claim will be submitted by the end of November 2017.
- 4.6 *Central Systems:*** A draft report has been prepared for the audit of Ethics, with the work having been done by the Audit Manager at EBC. Planning for the audits of EBC/LDC compliance with the Regulatory Powers Act (RIPA) and the General Data Protection Regulation (GDPR) is underway.
- 4.7 *Departmental Systems:*** The audit of Estates Management, incorporating work on the corresponding function at EBC, began in January 2017 but was 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.
- 4.8 *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.
- 4.9 *Computer Audit:*** Internal Audit has examined the IT aspects of the main financial systems (see 4.3 above).
- 4.10 *Management Responsibilities/Unplanned Audits:*** This category provides resources for activities such as support for the Audit and Standards Committee,

managing the Counter Fraud Team, liaison with BDO, managing the Follow Up procedures, as well as for special projects or investigations.

- 4.11** A review of Strategic Procurement has been completed by HACF, and a draft report has been considered by CMT. A review of the Prevent and Protect Strategy – also being carried out by HACF – is underway.
- 4.12** 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 328 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 2017/18 has been on confirming the implementation of the recommendations that had been agreed in the previous year.

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 were reported to the June 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 Counter Fraud 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 EBC with input from ESFOG partners. Recent Hub activities have included 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.

LDC Counter Fraud Team

- 7.3** At present, countering housing tenancy fraud and abandonment, and preventing RTB fraud, are the main operational priorities for the Counter Fraud 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 two of suspected housing application fraud. Two properties have been returned to stock after cases of abandonment, and the successful prosecution of a case of subletting will lead to the return of a further property shortly. Two cases of suspected RTB fraud are being investigated. The team is assessing 44 withdrawn RTB applications to determine whether any cases indicate potential fraud.
- 7.4** Recent months have seen a number of case referrals that have required extensive liaison with a range of Council services and external agencies to protect residents and prevent fraud. The team will be working further with front line staff to help in recognising possible issues such as attempted identity fraud.
- 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 is 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 Counter Fraud Team at EBC, a member of that team carries out the DWP liaison work for LDC and thus allows the LDC team to focus on case work in other areas. In the period since April 2017, there have been eight referrals to SFIS, and 39 information requests have been actioned.
- 7.6** 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.

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 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. The savings target for 2017/18 is £0.6m, half of which is to come from the continuing Joint Transformation Programme (JTP) with EBC. This target is expected to be achieved although the realization of some of the JTP saving is likely to be deferred, reflecting the timing of key phases of the programme.
- 8.5** 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 five 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 was presented to the June 2017 meeting of the Committee – a version of that AGS with minor amendments will be issued with the financial statements for 2016/17.

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 Council's current external auditors are BDO, and the results of their 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.

12 Future external audit arrangements

- 12.1** Under the provisions of the Local Audit and Accountability Act 2014, the Secretary of State for Communities and Local Government has specified that a company, Public Sector Audit Appointments (PSAA) Limited, will appoint auditors to local government, police and some NHS bodies.
- 12.2** The Council has opted into the PSAA arrangements, and has recently been consulted on the appointment of the external auditor for the period of five years from 2018/19. PSAA have appointed Deloitte LLP, and the Council has responded to the consultation to confirm its acceptance of the appointment, which will start on 1 April 2018. Deloitte LLP will also be the external auditors for EBC.
- 12.3** BDO will carry out the audits of the 2017/18 accounts and the 2017/18 HB subsidy claim, and will therefore be working with the Council until at least November 2018.

13 Financial Appraisal

- 13.1** There are no additional financial implications from this report.

14 Sustainability Implications

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

15 Risk Management Implications

- 15.1** 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.

16 Legal Implications

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

17 Equality Screening

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

18 Background Papers

[2017/18 Annual Audit Plan](#)

19 Appendices

- 19.1** Appendix A1 - Table of abbreviations.
- 19.2** There is no statement of Internal Audit work and key issues (normally Appendix A2) for this report.
- 19.3** There is no Log of Significant Outstanding Recommendations (normally Appendix B) for this report.

APPENDIX A1

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
NDR – Non Domestic Rates
NFI – National Fraud Initiative
PIs – Performance Indicators
PSIAS – Public Sector Internal Audit Standards
PSAA - Public Sector Audit Appointments
QAIP – Quality Assurance and Improvement Programme
RO – Returning Officer
RTB – Right to Buy
SFIS – Single Fraud Investigation Service
WGA – Whole of Government Accounts