

**Agenda Item No:** 8

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

**Report To:** Audit and Standards Committee      **Date:** 22 January 2018

**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 nine 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 nine months of 2017/18 (as shown in Section 3).
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**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 were first applied from 1 April 2013. The PSIAS have been updated, with new standards published in March 2017. The new standards are not materially different from the previous version, and so have not been separately reported to the Committee.
- 2.2 The PSIAS 2017 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.

### **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 nine 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 381 audit days have been undertaken compared to 465 days planned in the first nine months of the year.

Table 1: Plan audit days compared to actual audit days for April 2017 to December 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	220	
Central Systems	83	65	51	
Departmental Systems	86	65	3	
Performance and Management Scrutiny	8	45	24	
Computer Audit	2	5	5	
Management Responsibilities/Unplanned Audits	113	147	78	
<b>Total</b>	<b>639</b>	<b>622</b>	<b>381</b>	<b>465</b>

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 84 days has arisen mainly from the retirement of the Senior Auditor in January 2017, with the vacancy filled on 4 September 2017, the additional time being spent on management tasks arising from the JTP, and a period of six weeks

absence for a team member following an operation. It is estimated that the audit days will be closer to plan by the year end, but there will be a shortfall in the time available for audit work.

- 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 final report has been issued, together with a separate final report on the issues arising from the review of Non-Domestic Rates (NDR). Preparations for the corresponding work for 2017/18 are underway.
- 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 well advanced. BDO had identified the need for significant additional testing to address the issues noted in the 2015/16 claim. The timetabled date for BDO to sign off and submit the audited claim was the end of November 2017 but, because of the extra work required, Internal Audit is now working towards the completion of testing and submission of the claim at the end of February 2018.
- 4.6 In order to avoid similar delays in the completion of the audit of the HB subsidy claim for 2017/18, Internal Audit assisted operational managers to engage external consultants Branch and Lee to carry out data analysis of the HB files. Branch and Lee have performed a similar service for EBC for the last two years, and this has been shown to have positive impacts on the records of HB claims ahead of the formal audit. Branch and Lee reported their results on 14 November 2017, and service managers have been revising procedures and carrying out training to address the issues raised in the report.
- 4.7 **Central Systems:** A final report has been issued for the audit of Ethics, with the work having been done by the Audit Manager at EBC. A final report has been issued for a review of EBC/LDC compliance with aspects of the Regulatory Powers Act (RIPA), and a similar review of compliance with the General Data Protection Regulation (GDPR) at both councils is at the draft report stage. HACF has carried out an independent consultancy review of options for the future management of the

Lewes and Eastbourne Leisure Trusts – the results of the review were reported to the November 2017 meeting of the Committee. HACF is leading on an audit of the Joint Ventures and Council Companies that have been established by both EBC and LDC to help provide services and improve the councils' respective financial positions – the audit is underway.

- 4.8 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 has now restarted and is being carried out by the team's two Audit Managers as part of the shared service arrangements. Initial discussions have been held with client managers on the planned audit of the procedures for managing the Housing Register – a start date has yet to be agreed.
- 4.9 Performance and Management Scrutiny:** The initial work in this category has been in reviewing the data that supports the Annual Governance Statement (AGS) for 2017. Recent work has included assessing the impact of the JTP on the client liaison arrangements and audit planning procedures.
- 4.10 Computer Audit:** Internal Audit has examined the IT aspects of the main financial systems (see 4.3 above).
- 4.11 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.
- 4.12** HACF has carried out an independent consultancy review of the options for the future management of strategic procurement at both councils. The results of the review were reported to the November 2017 meeting of the Committee. A review of the Prevent and Protect Strategy – also being carried out by HACF – is at the draft report stage.
- 4.13** 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. 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 identify those that are the result of error or coincidence, and then the examination of the remaining matches to assess the likelihood of fraud - 335 matches have been examined, with 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 Review of 2017/18 Audit Plan**

**7.1** As part of the report to the March 2017 meeting of the Committee that detailed the Annual Audit Plan, HACF advised that there would be a nine month review of the Audit Plan for 2017/18 to assess whether any significant changes are necessary.

**7.2** That review has taken place and the results of the review are now presented to the Committee. The review takes account of a range of issues, in particular the Joint Transformation Programme, the impact of the significant extra work on the Benefits subsidy claim with BDO, the time between the retirement of the Senior Auditor and the arrival of the replacement, and the extra audit days worked by HACF. There has been a significant impact on the number of days available to complete the audit programme for 2017/18, and there has been a need to re-assign some tasks.

**7.3** HACF advises that the significant aspects of the annual audit plan will be covered. The exceptions are:

- The audit of Legal Services (in Central Systems) will be scheduled into the Annual Plan for 2018/19.
- The planned audits of Members Allowances and Expenses, and Licensing (in Departmental Systems) will be scheduled into the Annual Plan for 2018/19.

Other audits in the programme for 2017/18 that are planned or underway will continue to a normal conclusion.

## **8 Combatting Fraud and Corruption**

### **Local initiatives**

**8.1** 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.

**8.2** A sub group of six authorities within ESFOG are working together in a 'Hub' approach to coordinate counter 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 Counter Fraud Teams at EBC and LDC will use a shared web link to receive these reports. The Hub is working on the development of data sharing arrangements that will facilitate exercises to combat fraud on issues that cross council boundaries, for example NDR (see 8.6 below).

## **Counter Fraud Team**

- 8.3** At present, countering housing tenancy fraud and abandonment, and preventing RTB fraud, are the main operational priorities for the Counter Fraud Team at Lewes because of the evidence of this being a high risk area for the Council. There are 15 cases of suspected abandonment and/or subletting under investigation, plus one of suspected housing application fraud. Five properties have been returned to stock after cases of abandonment. Further property returns are anticipated in current cases where evidence gives a strong indication that the tenant no longer lives at the property. Three cases of suspected RTB fraud are being investigated, and 19 RTB applications have been withdrawn since April 2017 after intervention by the team. The team will assess the withdrawn applications to determine whether the cases indicate potential fraud.
- 8.4** 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.
- 8.5** A meeting has been held with managers in Homes First as the next stage in the development of a standard approach to combatting abandonment and subletting across the property portfolios of both EBC and LDC. The first step in this standardisation process was the introduction of a consistent method of checking RTB applications for both EBC and LDC.
- 8.6** NDR is a development priority for the shared service, with the aim to have a coordinated approach to counter business rates fraud across the county via a methodology developed with Hub partners.
- 8.7** 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 Counter Fraud colleagues 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 24 referrals to SFIS, and 67 information requests have been actioned.

## **9 Risk Management**

- 9.1** 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.
- 9.2** 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.

- 9.3** The Annual Report on Risk Management will be presented to the March 2018 meeting of the Committee. The report forms part of the annual reporting cycle on risk as set out in the Risk Management Strategy. In addition to providing an assessment of strategic risks facing the Council, the report will include the results of a review of the risk management framework.
- 9.4** 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.
- 9.5** 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.
- 9.6** 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.

## **10 System of management assurance**

- 10.1** 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 nine months of the financial year to change these assessments.

## **11 Corporate governance**

- 11.1** 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 was issued with the financial statements for 2016/17.

## **12 External assurance**

- 12.1** 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.

**12.2** Annual Audit Letter for 2016/17 (October 2017) – This report summarises the key issues from the work carried out by BDO during the year, and was presented to the November 2017 meeting of the Committee. The report confirms the interim results that were included in the Audit Completion Report that was presented to the September 2017 meeting of the Committee. The key issues were:

- BDO issued an unmodified true and fair opinion on the financial statements for the year ended 31 March 2017.
- BDO identified a number of immaterial misstatements, but these were found to have no material impact on the opinion on the financial statements.
- BDO did not find any significant deficiencies in internal controls.
- BDO were satisfied that the Annual Governance Statement (AGS) was not misleading or inconsistent with other information they were aware of from the audit.
- BDO issued an unmodified opinion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- BDO noted that, whilst there is a funding gap in the Medium Term Financial Strategy (MTFS) the Council has appropriate arrangements to remain financially sustainable over a period of the MTFS. All of the required savings for 2017/18 have been identified.
- 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 - the relevant section of the statement was submitted in advance of the statutory deadline.
- BDO noted that the Council had made progress against all the recommendations that were raised in respect of the New Homes Project, and there is evidence that the learning from this project has been applied to other capital projects.
- The BDO review of grant claims and returns for the year ended 31 March 2017 is in progress, and the results will be reported on completion of this work.

### **13 Future external audit arrangements**

**13.1** 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.

**13.2** 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.

**13.3** 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.



## **14 Financial Appraisal**

**14.1** There are no additional financial implications from this report.

## **15 Sustainability Implications**

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

## **16 Risk Management Implications**

**16.1** 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.

## **17 Legal Implications**

**17.1** There are no legal implications arising from this report.

## **18 Equality Screening**

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

## **19 Background Papers**

[2017/18 Annual Audit Plan](#)

## **20 Appendices**

**20.1** Appendix A1 - Statement of Internal Audit work and key issues.

**20.2** Appendix A2 - Table of abbreviations.

**20.3** 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: Ethics**

**Date of issue: 4 December 2017**

#### **Overall opinion:**

From the audit work carried out during this review Internal Audit has obtained partial assurance that the Council has an adequate framework of policies and procedures governing ethical standards.

The framework is set out in the Council's Local Code of Corporate Governance, which includes the responsibilities for monitoring and review. In many respects the framework is operating as intended and provides reasonable control over the ethics related objectives, programmes and activities of the Council. For example, the Constitution includes appropriate codes of conduct for Councillors and Officers, is available to all staff and Councillors, and is aligned to national standards. Guidance is available to Councillors and staff on their responsibilities and duties, and guidance on the range of training available is on Infolink. The Council includes ethical risks within its standard risk management methodology. As a result, there is evidence of the consideration and mitigation of ethical risks, with high visibility given to governance and reputational risks in the Strategic Risk Register.

However, there are gaps in the control processes which weaken the system, and there is a need to introduce additional controls (or improve compliance with existing controls) to reduce the risk to the Council. The report contains seven recommendations.

#### **Main issues**

Councillors are required to complete declarations of interest, and the audit noted that all Councillors had submitted a current declaration. However, Internal Audit concluded that the declarations do not represent a complete or accurate representation of Councillors' interests, with insufficient transparency for some of the property holdings and employments in particular. Councillors are responsible for ensuring the adequacy of their declarations, but it is not clear that there are adequate means to ensure that Councillors comply with the requirements of the Localism Act 2011. The result is a significant reputational risk for the Councillors and the Council. Councillors are to be reminded that accurate and complete declarations of interests are required under the Localism Act, and Democratic Services will undertake checks to identify any obvious errors or inconsistencies before the declarations are uploaded onto the Council's website.

The hospitality register for officers contains a number of reported items. With the merger of services at Lewes District Council and Eastbourne Borough Council it would appear reasonable to apply the same limit (£25) for the recording of gifts and hospitality by officers at both authorities.

The comparative absence of hospitality forms from Councillors may indicate that these are not routinely completed, and that there is scope to remind Councillors of the importance of recording gifts and hospitality valued at more than £50.

The audit examined the ways in which the Council publicises its policies and procedures and, in the main, the situation was found to be satisfactory. However, in a number of areas, including the Complaints and Grievance policies, it was not evident that the policies are soundly based or that they achieve the stated aims. None of the policies show a date or the name/title of the person responsible for their upkeep, and therefore it is not possible to know how current these policies are. In the case of the Complaints Policy, the reporting of complaints as part of the corporate governance arrangements is not accurate or complete. A project to introduce effective complaints procedures is underway.

The audit noted that the previous form of staff surveys have not been carried out since 2015. However, there has been extensive consultation on the staffing and organisational changes arising from the Joint Transformation Programme (JTP).

## **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  
LATC – Local Authority Trading Company  
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