

Agenda Item No: 9 **Report No: 124/07**

Report Title: Annual Report on the Council's Systems of Internal Control 2006/07

Report To: Audit Committee **Date: 27 June 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 on the adequacy and effectiveness of the Council's systems of internal control for 2006/07.

Officers Recommendation(s):

- 1** To receive the annual report by the Head of Audit and Performance.
 - 2** To note that the overall standards of internal control were satisfactory during 2006/07 (as shown in Section 3).
 - 3** To note that the satisfactory opinion on internal control is taken forward into the Council's Statement on Internal Control for 2006/07 that is presented to the Committee as part of a separate report on the Statement of Accounts 2006/07.
 - 4** To report to the Cabinet on the Council's internal control systems.
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Reasons for Recommendations

- 1** The remit of the Audit Committee includes a duty 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. There is a further duty to consider the annual report by the Head of Audit and Performance and to report annually to the Cabinet on the adequacy and effectiveness of internal controls within the Council.

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 latest version of the CIPFA Code (2006) specifies the requirements for the reporting to the Audit Committee by the Head of Audit and Performance. The Code requires that the annual report should include

an opinion on the Council's internal control environment together with a range of specific supporting information.

- 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 Opinion of the Head of Audit and Performance on the Internal Control Environment at Lewes District Council for the year ended 31 March 2007

- 3.1** 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, and the Council's work on risk management. The overall position is that, whilst recommendations have been made to improve procedures and controls in some areas, there were no instances in which internal control problems created significant risks for Council activities or services. In most cases managers have addressed the control issues since the respective audits, and within those recommendations not yet implemented there are no issues that create significant risks for the Council.
- 3.2** This report outlines the work on which the above opinion is based, including high level summaries of the external review processes and their results.

4 Internal Audit Work 2006/07

- 4.1** The work carried out by Internal Audit has been sufficient to enable the Head of Audit and Performance to issue an unqualified opinion on the overall adequacy and effectiveness of the Council's control environment. The work carried out by Internal Audit is summarised in the Annual Report on Internal Audit Performance and Effectiveness 2006/07 that is presented separately to this meeting of the Audit Committee.

5 Risk Management

- 5.1** Cabinet agreed the Council's Risk Management Strategy and an initial action plan at its meeting on 3 September 2003. The Council has put in place all the elements of the risk management framework outlined in the strategy. The maintenance and further development of the framework is managed through annual action plans that are monitored by the Head of Audit and Performance.
- 5.2** The risk management process, in particular the risk assessments carried out for the 2006/07 Service Planning exercise, has identified that most risks are mitigated by the effective operation of controls or other measures. However, there are some risks that are outside the Council's control, including a major incident or disaster, a downturn in the national economy or a major change in government policy or legislation. The Council has put in place measures to address key risks, with new business continuity arrangements based upon the risk and control data provided by service managers.

- 5.3** Risk related issues were summarised in the annual reports to CMT and Cabinet, and a copy of the 10 January 2007 Cabinet report was presented to a previous meeting of this Committee.
- 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 8.1.
- 5.5** During 2006/07 Internal Audit carried out one audit to examine the extent to which risk management is an integral part of the decision making processes of the Council. The audit noted that a majority of the reports to Council, Cabinet and Committees showed a satisfactory treatment of risk.
- 5.6** The overall 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 Council introduced a system of management assurance in 2004/05 and it was further enhanced during 2005/06. The assurance system has enabled senior officers to confirm the proper operation of internal controls, including compliance with the Constitution, in those services for which they are responsible in 2006/07.
- 6.2** A joint statement by the Chief Finance Officer (Section 151) and Monitoring Officer has confirmed that there have been no significant internal control issues for the Council in 2006/07.

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. This high level review will be supplemented by a more detailed study when new CIPFA/SOLACE guidelines on corporate governance are published later this year.

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 has recently undergone a series of inspections and audits, and the results are summarised below.

- Comprehensive Performance Assessment (CPA) - the inspection took place in November 2003 and the Council was judged as 'Good' overall, with high level results in financial management, standards of financial conduct and the systems of internal financial control. The inspection included the results of a Benefit Fraud Inspection in which the Council was judged 'Fair' overall. The Audit Commission has advised that these assessments remain

valid until the next main inspection unless there is contrary evidence from their interim assessments.

- Annual Audit and Inspection Letter (March 2007) - The letter summarised a series of audits carried out during 2006 across a range of Council activities. The Audit Commission 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.
- Benefit and Non Domestic Rates Subsidy Claims Audit - The Audit Commission's review took place in late 2006 and approved the Council's claims without qualification.
- Data Quality Review - The Audit Commission's review took place in November 2006 and concluded that the Council's management arrangements for data quality met the required standard and its data quality systems and processes are robust.
- Benefits Fraud Inspectorate (BFI) Inspection Report – The November 2006 inspection examined the Council's performance in dealing with claims processing and noted that performance in key areas is improving.

8.2 The results of these external [Page 4 of 6](#) views have helped inform the opinion on the internal control environment.

9 Financial Appraisal

9.1 There are no additional financial implications arising from this report.

10 Environmental Implications

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

11 Risk Management Implications

11.1 The risk assessment shows that if the 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 Council's control arrangements will not comply fully with best practice.

12 Background Papers

None.

13 Appendices

None.

