

Report To:	Audit and Standards Committee
Date:	21 January 2019
Report Title:	Interim Report on the Council's Systems of Internal Control 2018/19
Report of:	David Heath, Head of Audit and Counter Fraud
Ward(s) Affected:	All
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 2018/19, and to summarise the work on which this opinion is based.
Officer recommendation(s):	To note that the overall standards of internal control were generally satisfactory during the first nine months of 2018/19 (as shown in Section 2).
Reasons for recommendations:	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.
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1 Introduction

- 1.1** 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 were updated in March 2017. The updated standards are not materially different from the previous version, and so have not been separately reported to the Committee.
- 1.2** The PSIAS 2017 continue to specify the requirements for the reporting to the Audit and Standards Committee and senior management by the 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.
- 1.3** 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.

- 1.4 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.

2 Internal Control Environment at Lewes District Council

- 2.1 The Annual Report on the Council's Systems of Internal Control for 2017/18 was presented to the July meeting of the Committee. The report included the opinion of HACF that the overall standards of internal control are generally satisfactory. This opinion is based on the work of Internal Audit, the internal assurance framework, external reviews, 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.

3 Internal Audit work 2018/19

- 3.1 Table 1 shows that a total of 499 audit days have been undertaken compared to 497 days planned in the first nine months of the year.

Table 1: Plan audit days compared to actual audit days for April to December 2018

Audit Area	Actual audit days for the year 2017/18	Plan audit days for the year 2018/19	Actual audit days to date	Pro rata plan audit days to date
Main Systems	347	308	341	
Central Systems	67	65	56	
Departmental Systems	3	87	7	
Performance and Management Scrutiny	34	30	11	
Computer Audit	5	25	10	
Management Responsibilities/Unplanned Audits	101	158	74	
Total	557	673	499	497

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 two days is not material, and it is estimated that the audit days will remain close to plan by the year end.

- 3.2 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 2018. Further information on each of the audits completed since the previous meeting of the Committee is given at Appendix A1.
- 3.3 **Main Systems:** The key 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 2017/18. The testing was completed and a final report issued. The results contributed to the overall opinion given by HACF (see Section 2 above). The corresponding work for 2018/19 is underway.

- 3.4** The work on behalf of BDO to test the Council's HB subsidy claim 2016/17 has been the other main priority and is now complete. BDO had identified the need for significant additional testing to address the issues noted in the 2015/16 claim and other errors noted in the current claim. The timetabled date for BDO to sign off and submit the audited claim was the end of November 2017 but, because of the significant extra work required and BDO's other commitments, the claim was submitted in the last week of September 2018.
- 3.5** The corresponding exercise to test the Council's HB subsidy claim 2017/18 is now the main priority and the work is underway. The results from the initial sample testing have helped to inform BDO's work on the Council's 2017/18 accounts. BDO have identified the need for significant additional testing to address the issues noted in the 2016/17 claim, but BDO are looking at ways to try to shorten the timetable for this exercise.
- 3.6** **Central Systems:** An audit of Safeguarding at both councils has been completed by audit personnel in Eastbourne, and a final report has been issued. A final report has been issued for the annual audit of Ethics. The review of joint ventures and Council owned companies has been completed and a draft report has been issued.
- 3.7** **Departmental Systems:** The audit of Estates Management, incorporating work on the corresponding function at EBC, began in 2017 but was put on hold to free resources for the work on the HB subsidy claim and the testing of the main financial systems - the audit has been completed by audit personnel in Eastbourne and a final report has been issued. An audit of the Licensing of Houses in Multiple Occupation (HMO) has been carried out by personnel in Eastbourne, and a draft report has been issued. An audit of the other aspects of Licensing is underway.
- 3.8** **Performance and Management Scrutiny:** The initial work in this category was the review of the data that supports the Annual Governance Statement (AGS) for 2018, with the main task being the examination of the revised Strategic Risk Register.
- 3.9** **Computer Audit:** Internal Audit has examined the IT aspects of the main financial systems, and is examining the controls over the implementation of the CX Housing Management system. An audit of Cyber Security is at the planning stage.
- 3.10** **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.
- 3.11** CMT requested Internal Audit to carry out an assurance review to support the establishment of the newly configured Health and Safety (H&S) service. The review includes site visits to two key service areas – the Eastbourne Crematorium and the Waste and Recycling (W&R) service for LDC. A final interim report was issued on the W&R aspects of the review, and the results of the H&S review of the crematorium have been included in a draft report that also covers other aspects of the Bereavement Services at the location. Internal Audit has also carried out a

review of the management of statutory building compliance at both councils; an interim report was issued in June 2018, with a final report issued during October 2018.

- 3.12** Internal Audit has coordinated the Council's work on the NFI data matching exercise that began in 2016. The Council received over 2,000 separate matches detailed across 93 reports, each report setting out different types of potential frauds among benefit claimants, housing tenants, and anyone receiving payments or discounts from the Council. The exercise has involved 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. Because the work is resource intensive and services have experienced staffing issues during the JTP process, the investigation of matches was being done in Internal Audit but not as a priority task. That work has now ceased.
- 3.13** The preparations for the 2018 NFI exercise are underway, with the Counter Fraud Investigations Manager in Eastbourne taking the coordination role for both councils. The necessary data downloads have been submitted and a targeted approach to the examination of reported matches will be in place when the matches are received in February 2019.

4 Follow up of Audit Recommendations

- 4.1** All audit recommendations are followed up to determine whether control issues noted by the original audits have been resolved. The focus for follow up in 2018/19 has been on confirming the implementation of the recommendations that had been agreed in the previous year.

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

- 5.1** The results of the Internal Audit quality reviews and customer satisfaction surveys for 2017/18 were reported to the July meeting of the Committee. The results enabled the HACF to report that the Internal Audit service at Lewes achieves its aims, and objectives, and operates in accordance with the Internal Audit Strategy as approved by the Audit and Standards Committee.
- 5.2** The November 2018 meeting of the Committee received HACF's recommendations for a revised set of Key Performance Indicators (KPIs) that will cover the Internal Audit service at both Lewes and Eastbourne. The results of the KPIs will be included in the annual performance report for 2018/19, together with the results from the client questionnaires.

6 Peer Review

- 6.1** The External Peer Review of LDC Internal Audit has been completed. The review was carried out by the Principal Auditor at Chichester District Council. The overall results of the review are that the LDC Internal Audit service generally conforms to the standards set by PSIAS 2017.
- 6.2** The Peer Review examined the service in four key sections – Purpose and positioning; Structure and resources; Audit execution; Impacts – comparing service activities to the statements of good practice contained within the PSIAS. The

review also took account of the results from the client questionnaires sent to CMT, Heads of Service and the Chair of the Audit and Standards Committee.

- 6.3** The review found that the Internal Audit service fully complies with 43% of the statements of good practice and, for the remainder, complies with the PSIAS requirements in all material respects. The exceptions were in areas such as annual appraisals, succession planning, and the rotation and technical development of audit staff who are not professionally qualified. No remedial action is planned because the service complies with Council policies in these areas, but these do not meet PSIAS requirements in all respects.
- 6.4** Where the service is planning remedial action is in completing the audit manual which is in the processing of being re-worked following the merger with Eastbourne Borough Council. The work is underway, and includes the recent procurement of the Pentana audit management system, but no target date for completion has been set. In another area, the service commits to more regular team meetings to facilitate the transfer of knowledge between team members.

7 Review of 2017/18 Audit Plan

- 7.1** As part of the report to the March 2018 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 2018/19 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 staffing changes arising from the Joint Transformation Programme (JTP), the impact of the significant extra work on the HB subsidy claim, the loss of audit days due to sickness, and the extra days worked by HACF. There has been a significant impact on the number of days available to complete the audit programme for 2018/19, 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 2019/20.
 - The planned audits of Arrears Collection and Customer Services (in Departmental Systems) will be scheduled into the Annual Plan for 2018/19.

Other audits in the programme for 2018/19 that are planned or underway will continue to a normal conclusion. A number of these audits may run on into the early months of 2019/20.

8 Combatting Fraud and Corruption

Local initiatives

- 8.1** 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. Since 2014/15, a

sub group of authorities within ESFOG, including LDC and EBC, have been working as a 'Hub' to coordinate new counter fraud initiatives across East Sussex.

- 8.2** The Hub has been administered by officers at Eastbourne, with input from ESFOG partners as appropriate. Lewes and Eastbourne Counter Fraud activities have benefitted from Hub funding in the provision of training, the introduction of a shared case management system, a shared approach to publicity for Hub activities, and the set-up of an on-line system to allow the public to report suspected frauds.
- 8.3** Hub partners have agreed to wind down Hub activities and for it to no longer exist as a formal entity. Hub funds have been set aside to cover known future commitments, with the balance divided among members to fund local Counter Fraud initiatives. Counter Fraud staff in the member authorities continue to share information and liaise on individual cases.

Counter Fraud Team

- 8.4** 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 20 cases of suspected abandonment and/or subletting under investigation, plus two of suspected housing application fraud. Six properties have been returned to stock after joint action by officers in Housing, Legal Services and Counter Fraud to address cases of abandonment or anti-social behaviour. Further property returns are anticipated in current cases where evidence gives a strong indication that the tenant no longer lives at the property.
- 8.5** Since April 2018, 27 new RTB applications have been received for checking to prevent fraud and protect the Council against money laundering. In the same period, 19 RTB applications have been approved and passed for processing, and nine applications are currently under review. In the same period, seven RTB applications have been withdrawn or closed after intervention by the team. The team will assess these applications to determine whether the cases indicate potential fraud. Three cases of suspected RTB fraud are under investigation.
- 8.6** Audit and Counter Fraud 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. A member of that Eastbourne Counter Fraud team and a member of the HB team share the DWP liaison work for LDC, and this arrangement allows the LDC Counter Fraud team to focus on case work in other areas. In the period since April 2018, there have been 12 referrals to SFIS, and 29 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 Annual Report on Risk Management and the Strategic Risk Register was presented to the March 2018 meeting of the Committee. The report recommended a change to the circulation of the report, with the Committee becoming the principal recipient of the Strategic Risk Register. 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 the Council's 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** CMT has reviewed the Strategic Risk Register, and the results of the review were reported to the September 2018 meeting of the Committee.
- 9.4** HACF will continue to monitor the impact on the control environment of the changes arising from JTP, and will liaise with managers who are working to ensure that the control environment keeps pace with these changes.
- 9.5** The December 2018 Cabinet meeting received reports on the Council's current financial performance and the draft budget proposals for 2019/20. In summary, the wider economic picture remains challenging and there is no end in sight to austerity for local government. The budget report contained a detailed risk analysis that highlighted a range of financial risks, potential outcomes and possible mitigations in areas such as pay and price inflation, and changes in government legislation. The risks assessed as having a 'High' likelihood and the most significant impact were probable increases in interest rates and their effect on borrowing costs, and the government reductions to retained business rates.

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 senior managers are required to consider whether there were any significant governance issues during 2017/18. None were reported and, at its meeting on 26 June 2018, CMT confirmed that there were no significant governance issues to report.

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 2018 was presented to the July 2018 meeting of the Audit and Standards Committee.

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.

12.2 Audit Completion Report (September 2018) – This report summarised the key issues from work carried out by BDO during the year ended 31 March 2018. When the report was published it represented an interim position because BDO were in the process of completing the audit – the Council had not prepared the draft and final Statement of Accounts in accordance with the new statutory deadlines. The interim key issues highlighted in the report overview section were:

- BDO had not identified any significant audit risks since the presentation of their Audit Plan in February 2018, and there were no significant changes to the planned audit approach.
- BDO had not identified any material misstatements, although the audit was still in progress and could result in audit differences.
- BDO were satisfied that, despite the recognised funding gap in the Medium Term Financial Strategy (MTFS), the Council has appropriate arrangements to remain financially sustainable over the period of the MTFS. All the required savings for 2018/19 had been identified.
- BDO anticipated issuing an unmodified opinion on the arrangements to secure economy, efficiency and effectiveness in the use of resources.
- Subject to successful completion of outstanding work, BDO anticipated issuing an unmodified opinion on the Council's financial statements, and on the consistency of other information in the Statement of Accounts with the financial statements.

12.3 Grant Claims and Returns Certification for year ended 31 March 2017 (November 2018). The key points were:

- The audit of the HB subsidy claim identified a high level of errors within the cases tested. This situation, together with the prior year issues identified in the previous audit, required a significant amount of extra testing comprising ten samples of 40 cases, and 100% testing of 129 non-HRA cases.
- The additional work required to be completed by BDO and the Council meant that the audit was completed and a qualified certification issued on 28 September 2018, significantly later than the national deadline of 30 November 2017.
- The claim was valued at £35,127k. The audit identified the need for five different types of amendments to the claim totalling £49k. Because the total level of errors was below the allowed threshold, this did not result in further changes to the total amount of subsidy claimed. A final adjustment of the claim resulted in an increase of £678.
- The review of the returns for the Pooling of Housing Capital Receipts was completed satisfactorily without amendment or qualification. Total receipts were recorded as £1,964k, of which £408k was payable to DCLG.

12.4 Future external audit arrangements

- 12.5** 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.
- 12.6** The Council has opted into the PSAA arrangements, and was 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 responded to the consultation to confirm its acceptance of the appointment, which started on 1 April 2018. Deloitte LLP will also be the external auditors for EBC. Initial contacts have been made with representatives of Deloitte LLP to establish the relationship and begin the audit planning process.
- 12.7** BDO is finalising the audit of the 2017/18 accounts and is carrying out the audit of the 2017/18 HB subsidy claim, and will therefore be working with the Council for some months into 2019. HACF obtained cost quotations from Deloitte LLP and other companies for the independent check and sign off of the HB subsidy claim exercises after the BDO contract has ceased. Deloitte LLP has been appointed to this role for the 2018/19 HB subsidy claim.

13 Financial Appraisal

- 13.1** There are no financial implications arising from the recommendations in this report other than those already contained within existing budgets.

14 Legal Implications

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

15 Risk Management Implications

- 15.1** If the Council does not have an effective risk management framework that is subject to proper oversight by Councillors it will not be able to demonstrate that it has in place adequate means to safeguard Council assets and services, and it could be subject to criticism from the Council's external auditor or the public.

16 Equality analysis

- 16.1** An equalities impact assessment is not considered necessary because the report is for information only and involves no key decisions.

17 Background Papers

Report to the Audit and Standards Committee – Annual Audit Plan 2018/19, 19 March 2018

[2018/19 Annual Audit Plan](#)

18 Appendices

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

18.2 Appendix A2 - Table of abbreviations.

18.3 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: 20 November 2018

Introduction

Internal Audit has reviewed the procedures and controls that cover the ethics related objectives, programmes and activities of the Council. The review sought to obtain assurance that the Council has in place an adequate framework of policies and procedures governing ethical standards at the Council, and that the framework is operating as intended.

The review was planned as a light touch review that concentrated on following up the findings from the corresponding audit in 2017, and identifying any significant omissions. The initial assessment, carried out as part of the planning for the review and using the results from the 2017 exercise and other audits, was that no significant omissions were likely.

Overall opinion

From the audit work carried out during this review Internal Audit has obtained substantial 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.

As in previous reviews, the framework is largely 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 and is available to all staff and Councillors and aligned to national standards. Guidance is available to Councillors and staff on their responsibilities and duties, and adequate guidance on types of training is available 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. Recommendations made during the last audit have largely been implemented, although there remain gaps in some of the control processes in one area.

Declaration of Councillors' interests

Councillors are required to complete declarations of interest, and the 2017 audit noted that all Councillors had submitted a declaration. However, the audit concluded that the declarations did not represent a complete or accurate representation of Councillors' interests, with insufficient transparency for some of the property holdings and employments in particular. The situation was judged to be a significant reputational risk for the Councillors and the Council.

It is the personal responsibility of every Councillor to ensure that their declarations are complete and accurate, and Democratic Services are entitled to accept the submissions at face value. However, the 2018 audit has noted an improved position, with many of the previous gaps in the declarations having been addressed as a result of officers working with Councillors to clarify the requirements. There remain some gaps in the register, and Internal Audit believes that a small number of Councillors still do not comply with the requirements of the Localism Act 2011.

APPENDIX A2

Table of abbreviations

AGS – Annual Governance Statement
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
DWP – Department of Work and Pensions
EBC – Eastbourne Borough Council
ESFOG – East Sussex Fraud Officers Group
ESPB - East Sussex Prevent Board
GDPR - General Data Protection Regulation
HACF – Head of Audit and Counter Fraud
HB – Housing Benefit
HRA – Housing Revenue Account. Refers to Council owned housing
HSO – Health and Safety Officer
ISO – International Organisation for Standardisation
IT – Information Technology
JTP – Joint Transformation Project
LATC – Local Authority Trading Company
LDC – Lewes District Council
LLP – Limited Liability Partnership
NDR – Non Domestic Rates
NFI – National Fraud Initiative
PFSS - Property and Facilities Shared Service
PIs – Performance Indicators
PSIAS – Public Sector Internal Audit Standards
PSAA - Public Sector Audit Appointments
QAIP – Quality Assurance and Improvement Programme
RTB – Right to Buy
SFIS – Single Fraud Investigation Service
SPB - Strategic Property Boards
WGA – Whole of Government Accounts
W&R – Waste and Recycling