

**Agenda Item No:** 9 **Report No:** 110/12  
**Report Title:** Annual Report on the Council's Systems of Internal Control 2011/12  
**Report To:** Audit Committee **Date:** 25 June 2012  
**Ward(s) Affected:** All  
**Report By:** Director of Finance  
**Contact Officer**  
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#### **Purpose of Report:**

**To inform Councillors on the adequacy and effectiveness of the Council's systems of internal control for 2011/12.**

#### **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 2011/12 (as shown in Section 3).
  - 3 To note that the satisfactory opinion on internal control is taken forward into the Council's Annual Governance Statement 2011/12 that is to be published with the Statement of Accounts 2011/12 and be presented to the September 2012 meeting of the Committee.
  - 4 To report to the Cabinet on the Council's systems of internal control.
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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.

### **3 Opinion of the Head of Audit and Performance on the Internal Control Environment at Lewes District Council for the year ended 31 March 2012**

**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 risk management process has identified that most risks are mitigated by the effective operation of controls or other measures. 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 2011/12**

**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 2011/12 that is presented separately to this meeting of the Audit Committee.

### **5 Risk Management**

**5.1** Since Cabinet approved the Risk Management Strategy in September 2003, the development of risk management at the Council has been managed via a series of action plans. The outcome is that the Council has in place all the elements of the risk management framework outlined in the strategy and the arrangements are maintained at best practice standards.

**5.2** 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 outside the Council's control, including a major incident, a 'flu' pandemic, a downturn in the national economy or a major change in government policy or legislation. The Council has put in place improved planning and response measures to mitigate the effects of such occurrences, and continues to monitor risks and the effectiveness of controls.

**5.3** Risk related issues, including the action plans for further developments, are summarised in the annual report to Cabinet. A copy of the June 2011 Cabinet report was presented to the September 2011 meeting of the Audit Committee.

The corresponding report for 2012 is to be presented to the July 2012 Cabinet meeting and subsequently to the Audit Committee.

- 5.4** During 2011/12 the Head of Audit and Performance conducted an ongoing monitoring exercise to review Cabinet reports at the call over stage. The results were positive, with only one report referred back to the author for re-consideration of the risk implications.
- 5.5** The overall satisfactory situation noted by Internal Audit has helped to inform the opinion on the internal control environment.

## **6 System of Management Assurance**

- 6.1** The Council operates a management assurance framework. The framework has enabled senior officers to confirm the proper operation of internal controls, including compliance with the Constitution, in those services for which they were responsible in 2011/12.
- 6.2** A joint statement by the Chief Finance Officer (Section 151) and Monitoring Officer has confirmed that there were no significant governance issues for the Council in 2011/12.

## **7 Corporate Governance**

- 7.1** In June 2012, the Head of Audit and Performance reviewed the Council's Local Code of Corporate Governance, and concluded that the arrangements remain satisfactory and fit for purpose. These results are reported separately to this meeting of the Audit Committee.
- 7.2** From 2008, the Council has been required to produce an Annual Governance Statement (AGS) which is underpinned by its Local Code of Corporate Governance. The AGS for 2011/12 will be reported to the September 2012 meeting of the Audit Committee with the statement of accounts for 2011/12.

## **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 is subject to a rolling programme of external inspections and audits, and the recent results are summarised below.
- 8.2** Annual Audit Letter for 2010/11 (November 2011) – This report outlined the key findings from PKF's audit of 2010/11. PKF concluded that:
- the Council had effectively managed the transition to financial reporting under International Financial Reporting Standards (IFRS), and issued an unqualified opinion on the financial statements.
  - the key financial systems are generally adequate as a basis for preparing the financial statements, although there are deficiencies in internal controls in some aspects of purchase ordering and the authorisation of manual journals.

- the AGS is not inconsistent or misleading with other information they are aware of from the audit of the financial statements.
- the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and issued an unqualified value for money opinion.
- the Council has continued to manage its finances well in the year, through robust budget monitoring and members and officer involvement in reviewing financial matters.
- the Council Plan and medium term financial strategy support continued delivery of the Council's core services and key priorities over this challenging period.

**8.3** Annual Governance Report for 2010/11 (September 2011) – The key findings and conclusions from this report were summarised in the Annual Audit Letter (see above). In addition, PKF concluded that:

- Internal Audit has satisfactorily carried out a comprehensive programme of work on the key financial systems, and PKF were able to place reliance on this work for their testing of the effectiveness of specific controls.

**8.4** Grant Claim Certification for 2010/11 (December 2011) was presented to the January 2012 meeting of the Audit Committee. PKF concluded that:

- the Council's arrangements for preparing grant claims and other returns to Government departments are generally operating adequately, and all final claims were fairly stated in the reports to Government departments.
- the Council should review the effectiveness of the procedures to address issues arising from its quality assurance checks on Housing and Council Tax Benefits claims.
- PKF were able to rely on the work of Internal Audit. and the workbooks were completed to a good standard.

**8.5** The results of these external reviews 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 Sustainability Implications**

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

## **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 Equality Screening**

**12.1** I have given due regard to equalities issues and, as this is an internal monitoring report with no key decisions, screening for equalities is not required.

## **13 Background Papers**

None.

## **14 Appendices**

None.