

Agenda Item No: **6** Report No: **200/12**  
Report Title: **Interim Report on the Council's Systems of Internal Control 2012/13**  
Report To: **Audit and Standards Committee** Date: **3 December 2012**  
Ward(s) Affected: **All**  
Report By: **Director of Finance**  
Contact Officer  
Name: **David Heath**  
Post Title: **Head of Audit and Performance**  
E-mail: [David.Heath@lewes.gov.uk](mailto:David.Heath@lewes.gov.uk)  
Tel no: **01273 484157**

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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 seven months of 2012/13, 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 seven months of 2012/13 (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 Internal Audit function at Lewes operates in accordance with the Code of Practice for Internal Audit published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code sets out how the Head of Audit and Performance should report to the Audit and Standards Committee, including keeping the Committee informed of any emerging issues in respect of internal control, corporate governance and risk management.

##### **3 Internal Control Environment at Lewes District Council**

- 3.1 The Annual Report on the Council's Systems of Internal Control for 2011/12 included the opinion of the Head of Audit and Performance 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, PKF, and the Council's work on risk management. In the seven 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 2012/13

- 4.1** This section of the report summarises the work undertaken by Internal Audit during the first seven months of the year, compared to the annual plan that was agreed by the Audit Committee in March 2012. Further information on each of the audits completed since the previous meeting of the Committee is given at Appendix A.
- 4.2** Table 1 shows that a total of 429 audit days have been undertaken compared to 441 planned. The variance of 12 days is mainly due to time spent in preparation for Agile Working and the move to Southover House. It is anticipated that further time will be required for these activities, but efforts will be made to ensure that audit days will be closer to plan by the year end.

Table 1: Plan audit days compared to actual audit days for April to October 2012

Audit Area	Actual audit days for the year 2011/12	Plan audit days for the year 2012/13	Actual audit days to date	Pro rata plan audit days to date
Main Systems	268	215	210	
Central Systems	122	85	19	
Departmental Systems	69	145	59	
Performance and Management Scrutiny	39	71	48	
Computer Audit	57	70	1	
Environmental Audit	61	36	19	
Management Responsibilities/Unplanned Audits	169	129	73	
<b>Total</b>	<b>785</b>	<b>751</b>	<b>429</b>	<b>441</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.

- 4.3** *Main Systems*: The initial work was on completing 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 PKF's work on the Council's accounts for 2011/12. A summary report was finally issued. The work on behalf of PKF to test the Council's subsidy claims for Benefits and NDR for 2011/12 has been completed and is awaiting sign off by PKF. This work has again involved additional testing at the request of PKF.
- 4.4** *Central Systems*: A final report was issued for the audit of Business Continuity Planning. Audits of Newhaven Business Centre and Partnerships are at the draft report stage.
- 4.5** *Departmental Systems*: Final reports were issued for the audits of Contaminated Land and Air Quality, Environmental Health and Licensing. An audit of Planning and Development Control is underway. Audits of Economic Development, and Waste and Recycling are at the planning stage.
- 4.6** *Performance and Management Scrutiny*: Internal Audit has provided the resources for a review of the organisation of corporate property management on behalf of the Chief Executive, the result of which was an options paper to the Corporate Management Team (CMT). There has been a review of the AGS process for 2011/12.

- 4.7** The involvement of Internal Audit in the Agile Working project, and the resources required for this work, have been far more than originally planned and this situation will continue until the end of the year. For example, Internal Audit is represented on the Agile Working Project Board in order to advise on internal control and provide a quality assurance role for the project – a review of project planning and risk management processes has been carried out for the Project Board in the run up to the sign off of Stages 1 and 2 of the project. In addition, Internal Audit has provided advice on aspects of the IT and Records Management workstreams, has worked with officers in Finance on proposals for the re-design of the procedures for receiving income and processing invoices.
- 4.8** *Computer Audit:* Internal Audit completed the IT aspects of the testing of the main financial systems on behalf of PKF. An audit of Change Control is at the planning stage.
- 4.9** *Environmental Audit:* During June 2012, Internal Audit examined the Council's annual EMAS statement prior to its submission to Lloyd's Register Quality Assurance (LRQA) verifier. The verifier's assessment of the statement and Internal Audit's coverage of EMAS during 2010/11 informed the LRQA decision to confirm the Council's registration for the period up to May 2014. Earlier, a final report was issued for the last audit from the 2011/12 programme. Audits of EMAS: Biodiversity and EMAS: Procurement from the 2012/13 programme are at the draft report stage, and the audit of EMAS: Waste and Recycling is being planned to coincide with the corresponding audit within Departmental Systems.
- 4.10** *Management Responsibilities/Unplanned Audits:* This category provides resources for support for the Audit Committee, liaison with PKF and managing the Follow Up procedures, as well as special projects or investigations.
- 4.11** Internal Audit has been coordinating the Council's preparations for the 2012/13 NFI data matching exercise which is run by the Audit Commission. The base data was forwarded to the Audit Commission in October 2012, and the results will be returned to the Council in February 2013 for the investigation of reported matches. Internal Audit is working with colleagues in Audit and Performance (APD) to review the Council's risk management methodology and the pam (Platform for Achieving More) risk tool to further develop risk management at the Council.
- 4.12** Final reports were issued for the audit of the controls over changes to suppliers' payment details which was requested by the Chair of the Audit and Standards Committee, and for the investigation of a reported cash loss at the Fort Road offices. A final report has been issued for a review of email monitoring that was carried out at the request of the Director of Finance. A review of proposals to make the interfaces between key systems more efficient is at the draft report stage.

#### **Follow up of Audit Recommendations**

- 4.13** 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 2012/13 was on confirming the implementation of the recommendations in the previous year. The results of this work were reported to the September meeting of the Audit and Standards Committee.

#### **Quality Reviews/Customer Satisfaction Surveys/Performance Indicators (PIs)**

Page 3 of 7

- 4.14** The results of the Internal Audit quality reviews, customer satisfaction surveys and PIs for 2011/12 were reported to the June 2012 meeting of the Audit Committee. The results enabled the Head of Audit and Performance to report that the Internal

Audit service at Lewes is fully effective, is subject to satisfactory management oversight and complies with the CIPFA Code of Practice and the Accounts and Audit Regulations.

#### **4.15 Risk Management**

**4.16** 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.

**4.17** 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.

**4.18** In response to the Government's national deficit reduction plan, the Corporate Management Team (CMT) has put in place a phased programme to make savings in the Council's budgets. The target is to achieve savings of £0.7m in 2012/13 and £0.6m in 2013/14. As reported to Cabinet in November 2012, the Government is expected to announce further real term reductions in funding for local authorities when it releases details of the Local Government Finance Settlement for 2013/4 and 2014/15. The Head of Audit and Performance has reviewed with CMT the impact on the control environment of the savings achieved so far, and has obtained assurance that there has been no adverse effect on the operation of controls. This exercise will be ongoing while the Council has in place a programme of savings.

**4.19** The Annual Report on Risk Management was presented to Cabinet at its July 2012 meeting, and to the September 2012 meeting of the Audit and Standards Committee. This report confirmed the strategic risks identified by CMT and the action plan for risk management for the year ahead.

#### **5 System of management assurance**

**5.1** 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 were responsible in 2011/12. A joint statement by the Chief Finance Officer (Section 151) and Monitoring Officer confirmed that there were no significant governance issues for the Council in 2011/12. Nothing has arisen in the first seven months of the financial year to change these assessments.

#### **6 Corporate governance**

**6.1** 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 were reported to the June 2012 meeting of the Committee.

**6.2** 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 2011/12 was reported to the September 2012 meeting of the Committee.

## **7 External assurance**

**7.1** 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 results of these external reviews have helped inform the opinion on the internal control environment. The recent results are summarised below.

**7.2** Grant Claim Certification for 2010/11 (December 2011) was presented to the January 2012 meeting of the 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.

**7.3** Annual Audit Letter for 2011/12 (October 2012) – This report outlined the key findings from PKF's audit of 2011/12. PKF concluded that:

- the financial statements give a true and fair view of the Council's financial affairs, and income and income and expenditure for the year were properly accounted for in accordance with the Code of Practice on Local Authority Accounting in the UK 2011/12.
- internal controls remain adequate, although there was one area where the control environment could be strengthened. Action has been taken to ensure the authorisation of purchase orders remains within officers' formal limits and orders are only placed by officers who are on the authorised list.
- the AGS was not inconsistent or misleading with other information they are aware of from the audit of the financial statements.
- an unqualified opinion was appropriate for the Whole of Government Accounts assurance statement.
- in all significant respects 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 conclusion.
- the Council has continued to exhibit clear financial leadership from the top of the organisation, with member and officer involvement in reviewing financial matters ensuring the financial position is documented and impacts on developed financial plans.
- the Council continues to recognise that the short term will be extremely challenging and, through its annual budget preparation and medium term financial planning processes, is confident that the current level of available reserves provides it with sufficient funding to support core services and key priorities over the period.

**7.4** Annual Governance Report for 2011/12 (September 2012) – The key findings and conclusions from this report were summarised in the Annual Audit Letter (see above). In addition, PKF concluded that: [Page 5 of 7](#)

- Internal Audit has satisfactorily carried out a programme of work and we were able to place reliance on their work for the testing of the effectiveness of specific controls.

## **8 Financial Appraisal**

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

## **9 Risk Management Implications**

**9.1** Internal Audit seeks to ensure that key aspects of the Council's control arrangements comply with best practice standards. However, 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 the potential for significant risks not to be properly monitored or mitigated.

## **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 Equality Screening**

**11.1** This report is for information only and involves no key decisions. Therefore, screening for equality impacts is not required. However, if Internal Audit note equalities issues during their work these will be raised with the Equality Officer to ensure that appropriate equality impact screening is carried out.

## **12 Background Papers**

**12.1** Annual Audit Plan 2012/13 and Strategic Audit Plan 2012/13 to 2014/15 that were presented to the Audit and Standards Committee on 19 March 2012.

## **13 Appendices**

**13.1** Appendix A - Statement of Internal Audit work and key issues.

**13.2** There is no Log of Significant Outstanding Recommendations (normally Appendix B) for this report.



## **APPENDIX A**

### **STATEMENT OF INTERNAL AUDIT WORK AND KEY ISSUES**

#### **Audit report: Monitoring of emails**

**Date of final issue: 19 November 2012**

#### **Overall opinion:**

The Director Finance (DoF) requested Internal Audit to examine the procedures and controls governing the monitoring of emails coming into the Council's GroupWise system. The study originated in concerns raised by a Councillor into possible security lapses in the Council's handling of an email sent to the Council on 5 August 2012.

From the audit work carried out during this review Internal Audit believes that there is a sound system of internal control covering the receipt and monitoring of emails coming into the Council, and that compliance with controls is good. The email sent on 5 August 2012 was handled in accordance with the normal control arrangements for incoming emails, and was intercepted because it had an attachment.

The report contains no recommendations.

#### **Main points:**

- Since 2009, the Council has had to comply with the security requirements of the Government's Code of Connection (CoCo). The Code defines the standards that an authority must meet before being able to connect to the secure Government Connect Secure Extranet (GCSX) network that links central government with all local authorities in England and Wales.
- To ensure the protection of its IT network the Council introduced a number of the recommended controls, including validation of email attachments, in addition to those controls that were mandatory. These achievements were recognised in June 2009, with Government Connect signing off on the Council's connection to GCSX.
- The current CoCo is being replaced in November 2012 with a new Public Service Network (PSN) CoCo, which provides a less prescriptive approach to protecting IT networks. This development may offer scope to adapt the ways in which the Council monitors email traffic but any changes to the control framework should be done only as part of a planned and structured move to comply with PSN standards.
- Internal Audit has obtained an overview of the email monitoring arrangements in four neighbouring authorities via discussions with the respective Internal Audit teams. The monitoring arrangements are broadly comparable, as might be expected for each authority to be allowed access to GCSX. All five authorities (including Lewes DC) operate similar controls to protect against viruses and spam, and to quarantine encrypted items. However, Lewes DC does more in terms of monitoring email content and attachments by its adoption of the recommended controls in the CoCo.