

Agenda Item No: **6**

Report No: **19/13**

Report Title: **Interim Report on the Council's Systems of Internal Control 2012/13**

Report To: **Audit and Standards Committee** Date: **28 January 2013**

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

Tel no: **01273 484157**

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 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 nine 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 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 2012/13

- 4.1** This section of the report summarises the work undertaken by Internal Audit during the first nine 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 548 audit days have been undertaken compared to 565 planned. The variance of 17 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 December 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	213	
Central Systems	122	85	44	
Departmental Systems	69	145	95	
Performance and Management Scrutiny	39	71	62	
Computer Audit	57	70	4	
Environmental Audit	61	36	32	
Management Responsibilities/Unplanned Audits	169	129	98	
Total	785	751	548	565

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 corresponding work for 2012/13 is to begin shortly.
- 4.4** The work on behalf of PKF to test the Council's subsidy claims for Benefits and NDR for 2011/12 has been completed and has been signed off by PKF. This work has involved additional testing, at the request of PKF, and this additional testing noted errors in the way that applicants' payslip information has been assessed. The result is that PKF have issued a letter of qualification. A summary report on the subsidy claim work has been finally issued.
- 4.5** *Central Systems:* Final reports were issued for the audits of Business Continuity Planning and Land Charges. Draft reports have been issued for the audits of Partnerships and Newhaven Enterprise Centre. Audits of Insurance and Housing Management are at the planning stage.
- 4.6** *Departmental Systems:* Final reports were issued for the audits of Contaminated Land and Air Quality, Environmental Health and Licensing. Audits of Planning and

Development Control, and Waste and Recycling are underway. An audit of Economic Development is at the planning stage.

- 4.7** *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).
- 4.8** 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 was 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, processing invoices and managing accounts journal entries.
- 4.9** *Computer Audit:* Internal Audit completed the IT aspects of the testing of the main financial systems on behalf of PKF. An audit of IT Change Control is underway, and is being managed to limit any disruption to the essential work of the IT Section on the Agile working project. Internal Audit is assisting IT managers in evaluating an operating difficulty in the Council's links with the Bank Automated Clearing System (BACS) during December 2012.
- 4.10** *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. The standard follow up visit by a LRQA verifier took place in January 2013; the result was a positive outcome with no significant issues raised.
- 4.11** Earlier, a final report was issued for the last audit from the 2011/12 programme. Reports for the audits of EMAS: Biodiversity and EMAS: Procurement from the 2012/13 programme have been finally issued. The audit of EMAS: Waste and Recycling is underway as part of the corresponding audit within Departmental Systems.
- 4.12** *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.
- 4.13** 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.
- 4.14** 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. Final reports have also been issued for a review of email monitoring that was carried out at the request of the Director of Finance, and for an investigation of a potential conflict of interest for a member of staff. A review of proposals to make the interfaces between key systems more efficient is at the draft report stage.

Follow up of Audit Recommendations

- 4.15** 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. An examination of the progress of recommendations made in 2012 is underway.

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

- 4.16** 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.

Risk Management

- 4.17** 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.
- 4.18** 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.
- 4.19** 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 has been to achieve savings of £0.7m in 2012/13 and £0.6m in 2013/14. The Government has announced further real term reductions in funding for local authorities with the recent release of details of the Local Government Finance Settlement for 2013/14 and 2014/15. Cabinet will consider the impact of the Finance Settlement at its meeting on 13 February 2013. 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.
- 4.20** 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 nine 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 submissions from PKF 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:

- 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.

7.5 Planning Letter 2012/13 (November 2012) – The letter setting out the proposed fees and programme of work for the review of the financial year 2012/13 is presented separately to this meeting of the Committee.

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 that was presented to the Audit and Standards Committee on 19 March 2012. This can be found at :
<http://cmis.lewes.gov.uk/CmisWebPublic/Binary.ashx?Document=4895>

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: HR Review – Conflict of Interest

Date of final issue: 17 December 2012

Overall opinion:

During November 2012, Internal Audit was requested to examine the circumstances of a recent disciplinary hearing. The hearing had examined the conduct of Officer A, and concerns arising from the officer's outside business interests. The Head of Department asked Internal Audit to assess whether the outside business interests continued to represent a conflict of interest.

Internal Audit concluded that there is the potential for there to be a conflict of interest that, if not acted upon, could be prejudicial to the reputation of the Council. The conflict arises from the nature of Officer A's outside business interests, and the perceived link between this business and the officer's work for the Council.

Officer A had declared the outside business interests prior to starting the permanent full time post in September 2012, and had been advised to avoid potential conflicts of interest. However, the advice was given in general terms, with differing accounts of what was said at different times, and was not sufficiently detailed to ensure that Officer A had a clear understanding of the actions that would represent a conflict of interest.

It was Internal Audit's view that Officer A should be given time to show that the business interests need no longer be a concern for the Council. To help in this process, and ensure proper guidance, Officer A should be given a written statement of the activities that would give rise to a conflict of interests. This was done during December 2012.

The report contained one recommendation.

Audit report: HB Subsidy Claim

Date of final issue: 3 January 2013

Overall opinion:

Internal Audit has carried out the annual testing of the Benefit subsidy claim on behalf of PKF. The testing has been conducted in accordance with PKF instructions, using workbooks supplied by the Audit Commission, and has been subject to compliance checks by PKF personnel. PKF issued their Auditor's Certificate on the outcome of the claim on 28 November 2012.

There were no recommendations in the report.

Main points:

- The Internal Audit testing examined samples of 96 claims, and identified errors in nine individual claims. These errors are not considered significant in terms of the accuracy or validity of the overall subsidy claim. This is based upon an Internal Audit assessment that the individual errors are isolated, and are not indicative of systemic issues. A replacement claim was submitted that included an adjustment of £902 made as a result of the test findings.
- Because the initial test results included an error arising from the misinterpretation of a claimants' income, PKF requested that additional testing be carried out to determine the extent and potential impact of any other errors of this type. The additional testing found further errors that triggered a qualification of the subsidy claim, and this was set out in the PKF Qualification Letter dated 28 November 2012.

The extrapolated effect of the errors was £138. The claim was not adjusted for these errors.

- The value of the subsidy claim is approximately £41 million.

Audit report: EMAS: Biodiversity

Date of final issue: 4 January 2013

Overall opinion:

From the audit work carried out during this review Internal Audit has obtained full assurance that there is a sound system of internal control covering EMAS Biodiversity, and compliance with controls is good. There were no recommendations in the report.

Main points:

- The Government's Biodiversity Strategies for England have been incorporated into the Council's management plans for Sites of Nature Conservation Importance (SNCI) within the District. The Council has reported to the Sussex Biodiversity Record Centre under the requirements of the Governments Single Data List 160-00 which measures the biodiversity performance of Local Authorities by focusing upon Local Sites. The Grounds Maintenance contract management plan for the use of Pesticides/Pest Control was revised in March 2011.
- Castle Hill nature reserve received a Green Flag award in 2011, and a dormouse monitoring project has been implemented at Marstakes Common. Additionally, there is satisfactory accounting for Higher Level Stewardship and Natural Improvement Area grants, and there are effective work plans for the Community Rangers.
- The Council is an active partner on the Sussex Downs Biosphere project.

Audit report: EMAS: Procurement

Date of final issue: 4 January 2013

Overall opinion:

From the audit work carried out during this review Internal Audit has obtained partial assurance that there is a sound system of internal control covering EMAS: Procurement. Controls are in place and in some areas there is reasonable compliance. However, there are gaps in the control processes which weaken the system, to the extent that the Council is not working consistently in accordance with its Sustainable Procurement Policy.

The report contained one recommendation.

Main points:

- A number of the Council's contractors have made notable environmental commitments. For example, three of the Council's major contractors, EDF, the Landscape Group, and Zurich Insurance have recognised environmental credentials. Other contracts have notable environmental aspects, for example electricity and gas are provided by Laser who use green energy sources, and the contract car arrangements use only cars with a carbon emissions performance of 175g CO₂/km or better.
- The above position is largely as it was at the time of the last audit in April 2010. These achievements have been partly as a result of general market forces which influence contractors to adopt good environmental practice, but there are other examples where Council officers have obtained environmental assurances from contractors. Council publications show a continued commitment to environmental

issues. In particular, the Council Plan for 2012/13 confirms the ongoing support for the protection of the environment and the encouragement of sustainability.

- However, with no one acting as EEO since June 2012 there has been no one with the responsibility to coordinate the Sustainable Procurement agenda with the result that the Council is not meeting some key objectives in its Sustainable Procurement Policy (SPP) which forms part of the Council's Procurement Strategy. Also, there is a risk that the Council will not be able to maintain the achievements outlined above as current contracts come to an end.
- The Head of Audit and Performance has recently taken over responsibility for EMAS: Procurement and is preparing an action plan of priorities for the short to medium term.

Audit report: Land Charges

Date of final issue: 4 January 2013

Overall opinion:

From the audit work carried out during this review Internal Audit has obtained full assurance that there is a sound system of internal control covering Land Charges, and compliance with controls is good. In particular, details provided on search forms are complete and accurate, fees are correctly charged and income is promptly banked. Also, standard searches are completed and despatched promptly, unacceptable searches are returned in a timely manner and searches from the national land information service (nlis) are administered correctly. The services available to clients are published on the LDC website.

Normally audit reporting is by exception in that the findings and conclusions cover those areas that require attention, and recommendations outline the necessary changes in procedures and controls. The satisfactory situation means that there are no improvements that need to be made within the scope and objectives of the audit, and there are no recommendations.