

Agenda Item No: **6**

Report No: **48/13**

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

Report To: **Audit and Standards Committee** Date: **18 March 2013**

Ward(s) Affected: **All**

Report By: **Director of Finance**

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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 eleven 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 eleven 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 eleven 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 eleven 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 674 audit days have been undertaken compared to 690 planned. The variance of 16 days (2%) is mainly due to time spent in preparation for Agile Working and the move to Southover House. It is anticipated that further time will have been required for these activities during March 2013 in the run up to the move.

Table 1: Plan audit days compared to actual audit days for April 2012 to February 2013

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	250	
Central Systems	122	85	53	
Departmental Systems	69	145	126	
Performance and Management Scrutiny	39	71	65	
Computer Audit	57	70	19	
Environmental Audit	61	36	38	
Management Responsibilities/Unplanned Audits	169	129	123	
Total	785	751	674	690

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 underway.

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, Land Charges, Partnerships and the Newhaven Enterprise Centre. Audits of Insurance and Housing Management are underway.

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. Internal Audit is now also represented on the Food Waste Project Board to provide a similar service. 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, and has reviewed the proposed arrangements for new ‘paperlite’ recording systems for Disabled Facilities Grants (DFG) cases in Environmental Health.
- 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. Of the initial target for 2012/13 to 2013/14, £0.2m remains outstanding. However, the Government has confirmed further real term reductions in funding for local authorities in its Local Government Finance Settlement for 2013/14 and 2014/15 with the result that the total value of savings to be achieved by 31 March 2015 is now £0.9m. In overall terms, the Council will have made savings of 22% compared with its net budget at April 2011. 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 programme of savings continues.

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 eleven 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 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.

7.3 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.

7.4 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 was presented to the January 2013 meeting of the Committee.

7.5 Grant Claim Certification for 2011/12 (December 2012) was presented to the January 2013 meeting of the Committee. The key points were:

- PKF were satisfied with the accuracy of the preparation of grant claims and returns and were able to certify all but one without qualification.
- Issues noted in the testing of the Housing benefit subsidy claim resulted in both the amendment of the claim and the issue of a qualification letter to the Department of Work and Pensions (DWP).
- All testing in respect of the Housing and Council Tax benefit subsidy was completed by Internal Audit staff, and PKF re-performance of that work agreed with their conclusions.

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: Newhaven Enterprise Centre

Date of final issue: 21 February 2013

Overall opinion:

From the audit work carried out during this review Internal Audit has obtained substantial assurance that there is a sound system of internal control covering the Newhaven Enterprise Centre (NEC). Adequate financial and management procedures are in place, and in most areas there is reasonable compliance. For example, reasonable financial procedures enable Council officers to account for income and expenditure, and to monitor the arrangements operated by Basepoint on the Council's behalf. There are regular contacts with Basepoint staff, and the centre appears secure and well run, and assets are adequately safeguarded. The report contains three recommendations.

Main points:

- There are different interpretations of the Letting Strategy for the NEC. For example, the current emphasis for Basepoint and the Council's Finance officers is the maximisation of income via the avoidance of empty units. Basepoint have been very successful in meeting this objective of full or virtually full occupancy since March 2009. In contrast, officers in the Property, Regeneration and Enterprise Department are keen to explore the potential of the NEC to encourage small and starter businesses by seeking ways to have more established business move to other premises. There is a need for the Council to agree the future direction of the Letting Strategy including, if appropriate, formal negotiations with Basepoint on a revised strategy.
- There is a need for the Council and Basepoint to consider a revised monitoring methodology for unit occupancy, including reports that show changes in licensees, enhanced checks on occupancy and comparisons with other data sources.
- The audit reviewed the arrangements for billing and collecting NDR for businesses at the NEC, specifically whether enabling each business to pay its own rates, and thereby take advantage of any small business discounts, had created any collection problems. At the time of the audit (December 2012) there were no significant concerns, with only a single NEC licensee in payment arrears. However, there are currently 34 licensees claiming Small Business Rate Relief at a rate of 100% and these licensees will not be required to make NDR payments until April 2014 when the rate of relief is due to reduce to 50%. As a result, the present satisfactory situation in respect of collection of rates may change in 2014/15.

Audit report: Partnerships

Date of final issue: 6 March 2013

Overall opinion:

From the audit work carried out during this review Internal Audit has obtained substantial assurance that there is a sound governance framework for the Council's partnerships. Controls are in place, and in most respects there is reasonable compliance with the mandatory guidance.

The document Guidance for Partnership Working is a comprehensive summary of the measures that are required to ensure adequate governance for strategic alliances and partnerships. A register of the Council's Strategic Alliances/Partnerships and Other Partnerships is maintained, and the annual review process provides reasonable

safeguards over the Council's involvement in these bodies. Each of the Strategic Alliances/Partnerships, and some of the Other Partnerships, has a Lead Officer and a Lead Councillor representing LDC. The governance arrangements for each of the Strategic Alliances/Partnerships examined by the audit are adequate. However, there are some points that indicate there is scope to strengthen, and perhaps streamline, the ways in which the procedures are operated.

Main points:

- The corporate monitoring of partnerships, including the partnership register, annual review questionnaires and a report on partnerships to the Audit and Standards Committee, helps to ensure that there are reasonable records of the key aspects of the strategic partnerships and there is assurance as to their ongoing relevance to the Council. These arrangements represent a significant improvement from the situation noted by the previous audit, but are relatively resource intensive to operate. There is scope to improve the annual review process to provide a greater focus on governance issues and make the process more streamlined.
- The planned updating of the Council's Guidance for Partnership Working offers the opportunity to include simple and straightforward information on the governance arrangements that are appropriate for the new types of partnerships that are being entered into by the Council, and on the ways in which external partners are to use the Council's collaborative software, pam.