

**Agenda Item No:** 9 **Report No:** 106/13

**Report Title:** Interim Report on the Council's Systems of Internal Control 2013/14

**Report To:** Audit and Standards Committee **Date:** 24 June 2013

**Ward(s) Affected:** All

**Report By:** Head of Audit and Performance

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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 two months of 2013/14, 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 two months of 2013/14 (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 previously operated in accordance with the Code of Practice for Internal Audit published by the Chartered Institute of Public Finance and Accountancy (CIPFA). 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 apply from 1 April 2013. The Head of Audit and Performance (HAP) advised the Audit and Standards Committee of the effect of the new standards at its March 2013 meeting.
- 2.2 The PSIAS 2013 specify the requirements for the reporting to the Audit and Standards Committee and senior management by HAP. These requirements are met via a series of reports, which include interim reports to each meeting of the

Committee. Each interim report includes a review of the work undertaken by Internal Audit compared to the annual programme, an opinion of HAP 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 will contain 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. .

- 2.3** This report to the June 2013 meeting of the Audit and Standards Committee is the first of the interim reports prepared under the new standards.

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

- 3.1** The Annual Report on the Council's Systems of Internal Control for 2012/13 included the opinion of HAP 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, BDO, and the Council's work on risk management. In the two 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 2013/14**

- 4.1** This section of the report summarises the work undertaken by Internal Audit during the first two months of the year, compared to the annual plan that was agreed by the Audit and Standards Committee in March 2013. 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 132 audit days have been undertaken compared to 125 planned. The variance of 7 days is not significant at this stage, and it is estimated that the audit days will be at or close to plan by the year end.

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

Audit Area	Actual audit days for the year 2012/13	Plan audit days for the year 2013/14	Actual audit days to date	Pro rata plan audit days to date
Main Systems	289	245	24	
Central Systems	54	90	13	
Departmental Systems	128	155	53	
Performance and Management Scrutiny	68	74	8	
Computer Audit	20	60	6	
Environmental Audit	42	33	5	
Management Responsibilities/Unplanned Audits	128	117	23	
Total	729	774	132	125

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 has been 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 BDO's work on the Council's accounts for 2012/13. A summary report has been finally issued. The

priority work on behalf of BDO to test the Council's subsidy claims for Benefits and NDR for 2012/13 is underway.

- 4.4 *Central Systems:* A final report has been issued for the audit of Insurance.
- 4.5 *Departmental Systems:* Final reports were issued for the audits of Waste and Recycling and the Planning User Group. Audits of Planning and Development Control, Cemeteries, Housing Management and Economic Development are underway.
- 4.6 *Performance and Management Scrutiny:* Internal Audit has for some time been represented on the Management Boards for the Agile Working and Food Waste projects to advise on internal control and quality assurance. From May 2013, Internal Audit has been performing a similar role on the joint Regeneration and Enterprise Project Board that is managing four regeneration projects.
- 4.7 *Computer Audit:* Internal Audit completed the IT aspects of the testing of the main financial systems on behalf of PKF, and a report on the audit of IT Change Control has been finally issued. Two unplanned audits on IT issues are summarised at 4.11.
- 4.8 *Environmental Audit:* During early June 2013, 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 is awaited. Earlier, a final report was issued for the audit of EMAS: Waste and Recycling.
- 4.9 *Management Responsibilities/Unplanned Audits:* This category provides resources for the support for the Audit and Standards Committee, liaison with BDO, managing the Follow Up procedures, as well as for special projects or investigations.
- 4.10 Internal Audit has been coordinating the Council's work 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 were returned to the Council in February 2013 for the investigation of reported matches. This investigation work is underway.
- 4.11 A review of proposals to make the interfaces between key systems more efficient and an examination of the links between the Council and the Bank Automated Clearing System (BACS) are both at the draft report stage. Although IT managers are focused on supporting the Nexus programme the Director of Finance has requested them and the Head of Revenues to improve arrangements. So far as can be determined there is no immediate risk to the Council from this situation.

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

- 4.12 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 2013/14 has been on confirming the implementation of the recommendations that had been agreed in the previous year. The results of this work are reported separately to this meeting of the Committee.

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

- 4.13 The results of the Internal Audit quality reviews, customer satisfaction surveys and PIs for 2012/13 are reported separately to this meeting of the Audit and Standards

Committee. The results enabled the HAP to report that the Internal Audit service at Lewes is fully effective, is subject to satisfactory management oversight, achieves its aims, and objectives, and operates in accordance with the Internal Audit Strategy as approved by the Audit and Standards Committee.

## **5 Risk Management**

- 5.1** 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.
- 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 beyond its 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.
- 5.3** 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 HAP 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.

## **6 System of management assurance**

- 6.1** 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 2012/13. 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 2012/13. Nothing has arisen in the first two months of the financial year to change these assessments.

## **7 Corporate governance**

- 7.1** In June 2013, the HAP 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 and Standards Committee.
- 7.2** 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 2012/13 is to be reported to the September 2013 meeting of the Audit and Standards Committee.

## **8 External assurance**

**8.1** 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. In February 2013, the Council external auditors PKF announced their merger with BDO and the operation of the new merged entity under the BDO brand. All references to the Council's external auditors now use the term BDO.

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

**8.3** Annual Audit Letter for 2011/12 (October 2012) – This report outlined the key findings from BDO's audit of 2011/12. BDO 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.

**8.4** 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, BDO 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.

**8.5** 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 was presented to the January 2013 meeting of the Committee. The detailed plan of audit work, including the risk assessment on which the plan is based, was published in February 2013 and was presented to the March 2013 meeting of the Committee.

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

- BDO 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.

## **9 Financial Appraisal**

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

## **10 Risk Management Implications**

**10.1** 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 a risk that key aspects of the Council's control arrangements may not comply with best practice.

## **11 Sustainability Implications**

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

## **12 Equality Screening**

**12.1** This report is for information only and involves no key decisions. Therefore, screening for equality impacts is not required.

## **13 Background Papers**

**13.1** Annual Audit Plan 2013/14 that was presented to the Audit and Standards Committee on 18 March 2013. This can be found at :  
<http://cmis.lewes.gov.uk/CmisWebPublic/Binary.ashx?Document=6156>

## **14 Appendices**

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

**14.2** 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: Planning User Group**

**Date of final issue: 13 May 2013**

Internal Audit is currently reviewing the work of the Council's Planning Department. At the request of the Director of Planning and Environmental Services (DPES) the review has included a study of the structure and organisation of the Planning User Group. The results of the study are to be shared with members of the Group, and are being published ahead of the results of the main audit.

#### **Overall opinion:**

The Planning User Group appears to meet its aims of providing an effective forum for the discussion of current and future planning issues and for customer feedback on the standards of service provision. Council officers and Group members provided Internal Audit with a number of examples of issues where the forum had achieved positive results from the exchange of information and opinion, in particular those instances where the input of Group members had influenced the operation of the service.

Members of the User Group compared LDC's planning service favourably with that of neighbouring authorities and emphasised the Council's willingness to incorporate users' views into its service provision. Group members were very appreciative of the time and resources that the Council puts into the operation of the Group.

Internal Audit believes that there may be scope for the organisation and operation of the Group to be adapted to provide additional benefits to users and the Council. The issues that support this view are outlined below. The report contains two recommendations.

#### **Main points:**

- The selection process for members of the Group has achieved a membership that is engaged with the planning service, and the Group and Council benefit greatly from the range of members who are currently involved. Internal Audit believes that there is scope to widen the membership to include organisations and service users from other parts of the property sector that are not currently represented on the Group.
- User Group members have expressed a view that, based on their experience of paper-light environments for the Planning service at other authorities, the Council's move to Agile Working, could conflict with the Council's aims of improving customer service. In response, DPES and the Agile Working Project Manager have examined ways in which the Council can achieve its objective of more flexible and sustainable working practices that make use of digital technology whilst continuing to meet the specific requirements of the property sector. These arrangements appear reasonable in outline, but their effectiveness will depend on how they are implemented.

## **Audit report: BDO Interim Audit 2012/13**

**Date of final issue: 15 May 2013**

### **Overall opinion:**

The audit has confirmed that procedures and controls within the key systems are operating to a reasonable standard in most respects. The audit has not identified any significant control issues that will have an impact on the Council's main accounts.

In a small number of cases the controls over ordering and the receiving of goods and services have not operated as intended, or are not operated consistently across the Council. It is important that these issues are addressed either by the correct operation of the planned control or by the operation of other compensatory controls that are put in place. These issues are not considered likely to have a material effect on the integrity of the main accounts. The report contained no recommendations, although a log of issues noted by the audit has been circulated to appropriate managers.

## **Audit report: IT Change Control**

**Date of final issue: 16 May 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 Change Control. Controls are in place and to an extent there is reasonable compliance. All changes examined during the audit were actioned by members of IT Services without any problems, and adequate records of the amendments were maintained. However, there are gaps in the control processes which weaken the system, and there is a need to improve compliance with existing controls to reduce the risk to the Council.

Despite changes to key personnel in the past year, and increased workloads associated with the Agile Working project, staff in IT Services have continued to provide high levels of service. They have recorded and dealt with over 2,700 separate incidents, requests for assistance or requests for change in the six months to March 2013. It is possible that the increased service demands may have impacted on the operation of controls, in that there is limited assurance that all change requests have been processed via the standard control arrangements. This situation increases the risk of unauthorised changes taking place, and of changes not being fully documented and monitored. The report contained three recommendations.

### **Main points:**

- The inability to differentiate between change requests and other work orders on the TrackIT system limits the extent to which reporting and monitoring of changes can be carried out.
- The absence of a record of an IT manager's approval on all change request work orders limits the assurance that only valid and authorised changes are made.



## **Audit report: Insurance**

**Date of final issue: 31 May 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 insurance, and compliance with controls is good. In particular, insurable risks have been identified and appropriately covered, valid claims are identified and submitted in reasonable time, and there are proper competitive processes for arranging the contract renewal that commences in April 2014. The satisfactory situation means that there are no improvements that need to be made within the scope and objectives of the audit.

### **Main points:**

- From May 2011 the post of Insurance Officer has been established at 0.5 FTE. To facilitate the smooth administration of the contract renewal, and the timely processing of claims, Cabinet has approved the restoration of the post of Insurance Officer to 1.0 FTE on a permanent basis.

## **Audit report: EMAS: Waste and Recycling**

**Date of final issue: 31 May 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 EMAS: Waste and Recycling. Controls are in place and there is reasonable compliance. However, there are gaps in some of the control processes that cover how the Council as a whole deals with waste disposal. The findings that give rise to this opinion are outlined below, and are given in more detail in the main body of the report

EMAS objectives are being actioned across the Council. For example, the amount of waste produced by Council offices is reducing, the Leisure Management (Outdoor) contractor is encouraged to recycle green waste through a financial incentive, and contractors have waste management plans. Also, sites are properly registered as producers of hazardous waste, and interceptor tanks are emptied every six months in accordance with the Hazardous Waste Regulations 2005. There is satisfactory documenting of the procedures at Waste Services, Robinson Road, with accessible viewing of the relevant waste licences, carriers' certificates, permits and transfer notes. Recommendations from the last audit report (April 2011) regarding management of spillages and control of diesel stocks have been implemented.

There is one new issue that needs to be addressed, and this is summarised as follows. The Council cannot readily demonstrate that it is achieving full compliance with the Waste (England and Wales) Regulations 2011 (WR2011) in that not all departments were able to provide documentary evidence of their following correct waste disposal procedures. There is no evidence that the Council's waste disposal arrangements are improper or illegal, and it is unlikely that the Environment Agency would enforce penalties on the Council for not having the correct documents available for inspection. However, this issue creates a risk to the Council's EMAS registration and its ambition to be recognised as a centre of excellence in environmental management and sustainability. The report contains two recommendations.

**Main points:**

- The Council's EMAS Corporate Overview System Handbook has an objective to ensure the effective distribution of EMAS documentation. In terms of the documentation of waste disposal, the Waste Services at Robinson Road are meeting the objective in that waste licences, carriers' certificates, permits and transfer notes are accessible through hyperlinks on Infolink. Most other departments examined during the audit did not meet that objective. The Recycling and Sustainability Manager (RSM) has begun the process of developing the new waste matrices on Infolink and setting up the links that will aide access.

**Audit report: Waste and Recycling**

**Date of final issue: 5 June 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 selected aspects of the Waste and Recycling service. On the whole, compliance with controls is satisfactory, although there is one minor issue that indicates there is scope to strengthen the way some procedures are operated. The findings that give rise to this opinion are outlined below.

Income from recyclables properly reflects their value and weight, is accounted for correctly and is subject to regular reforecast. Bring recycling sites are managed and operated to best practice standards. The majority of customer comments and complaints are recorded and actioned satisfactorily via the Council's Northgate system. There is a single recommendation to deal with the one issue to be addressed.

In the planning for the audit, the Director of Planning and Environmental Services (DPES) requested that the scope and timetable for the audit take account of the material changes in W&R services that will be brought about by the Food Waste project. DPES recommended that the audit focus on the handling of customer comments and complaints, the controls over income for recyclates and the management of bring sites; these areas will not change as a result of the Food Waste project.

**Main points:**

- The procedures for handling complaints about missed bin collections normally include the escalation to the Waste Quality Manager of those cases that are difficult to resolve or involve recurring issues. This escalation is not working as normal because of a break in the reporting chain. The Waste Quality Manager can deal with this difficulty by agreeing a temporary procedure with the Customer Service Team or by issuing a procedure note if the problem is seen more long term.