

Agenda Item No: 11

**Report 108/13
No:**

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

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

Ward(s) Affected: All

Report By: Head of Audit and Performance

Contact Officer

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Purpose of Report:

To inform Councillors on the adequacy and effectiveness of the Council's systems of internal control for 2012/13.

Officers Recommendation(s):

- 1** To receive the annual report by the Head of Audit and Performance.
 - 2** To note that the overall standards of internal control were satisfactory during 2012/13 (as shown in Section 3).
 - 3** To note that the satisfactory opinion on internal control is taken forward into the Council's Annual Governance Statement 2012/13 that is to be published with the Statement of Accounts 2012/13 and presented to the September 2013 meeting of the Committee.
 - 4** To report to the Cabinet on the Council's systems of internal control.
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Reasons for Recommendations

- 1** The remit of the Audit and Standards Committee includes a duty to keep under review the probity and effectiveness of internal controls, both financial and operational, including the Council's arrangements for identifying and managing risk. There is a further duty to consider the annual report by the Head of Audit and Performance and to report annually to the Cabinet on the adequacy and effectiveness of internal controls within the Council.

2 Background

- 2.1** The Internal Audit function at Lewes operates in accordance with the auditing guidelines published as a Code of Practice for Internal Audit by the Chartered Institute of Public Finance and Accountancy (CIPFA).

- 2.2** The latest version of the CIPFA Code (2006) specifies the requirements for the reporting to the Audit Committee by the Head of Audit and Performance. The Code requires that the annual report should include an opinion on the Council's internal control environment together with a range of specific supporting information.

3 Opinion of the Head of Audit and Performance on the Internal Control Environment at Lewes District Council for the year ended 31 March 2013

- 3.1** The overall standards of internal control are satisfactory. This opinion is based on the work of Internal Audit, other internal reviews and external assurance bodies, and the Council's work on risk management. The risk management process has identified that most risks are mitigated by the effective operation of controls or other measures. Whilst recommendations have been made to improve procedures and controls in some areas, there were no instances in which internal control problems created significant risks for Council activities or services. In most cases managers have addressed the control issues since the respective audits, and within those recommendations not yet implemented there are no issues that create significant risks for the Council.
- 3.2** This report outlines the work on which the above opinion is based, including high level summaries of the external review processes and their results.

4 Internal Audit Work 2012/13

- 4.1** The work carried out by Internal Audit has been sufficient to enable the Head of Audit and Performance to issue an unqualified opinion on the overall adequacy and effectiveness of the Council's control environment. The work carried out by Internal Audit is summarised in the Annual Report on Internal Audit Performance and Effectiveness 2012/13 that is presented separately to this meeting of the Committee.

5 Risk Management

- 5.1** Since Cabinet approved the Risk Management Strategy in September 2003, the development of risk management at the Council has been managed via a series of action plans. The outcome is that the Council has in place all the elements of the risk management framework outlined in the strategy and the arrangements are maintained at best practice standards.
- 5.2** The risk management process has identified that most risks are mitigated by the effective operation of controls or other measures. However, there are some risks that are outside the Council's control, including a major incident, a 'flu' pandemic, a downturn in the national economy or a major change in government policy or legislation. The Council has put in place improved planning and response measures to mitigate the effects of such occurrences, and continues to monitor risks and the effectiveness of controls.
- 5.3** The Council's transformation programme – "Programme Nexus" – seeks to modernise the Council and improve the services provided to residents. The changes are being progressed by a series of major projects which are subject to formal project management disciplines, including risk management.

- 5.4** 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. A summary of the savings planned and achieved is reported regularly to Cabinet and the Audit and Standards Committee. 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.
- 5.5** Risk related issues, including the action plans for further developments, are summarised in the annual report to Cabinet. A copy of the July 2012 Cabinet report was presented to the September 2012 meeting of the Audit and Standards Committee. The corresponding report for 2013 is to be presented to the July 2013 Cabinet meeting and subsequently to the Audit and Standards Committee.
- 5.6** The overall satisfactory situation has helped to inform the opinion on the internal control environment.

6 System of Management Assurance

- 6.1** The Council operates a management assurance framework. The framework has enabled senior officers to confirm the proper operation of internal controls, including compliance with the Constitution, in those services for which they were responsible in 2012/13.
- 6.2** A joint statement by the Chief Finance Officer (Section 151) and Monitoring Officer has confirmed that there were no significant governance issues for the Council in 2012/13.

7 Corporate Governance

- 7.1** In June 2013, the Head of Audit and Performance reviewed the Council's Local Code of Corporate Governance, and concluded that the arrangements remain satisfactory and fit for purpose. These results are reported separately to this meeting of the Audit and Standards Committee.
- 7.2** From 2008, the Council has been required to produce an Annual Governance Statement (AGS) which is underpinned by its Local Code of Corporate Governance. The AGS for 2012/13 will be reported to the September 2013 meeting of the Audit and Standards Committee with the statement of accounts for 2012/13.

8 External assurance

- 8.1** The Government relies on external auditors and inspectors to periodically review the work of the Council to make sure it is meeting its statutory obligations and performing well in its services. 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 Council is subject to a rolling programme of external inspections and audits, and 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 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.

8.7 The results of these external reviews have helped inform the opinion on the internal control environment.

9 Financial Appraisal

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

10 Sustainability Implications

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

11 Risk Management Implications

11.1 The risk assessment shows that if the Audit 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 a key aspect of the Council's control arrangements will not comply fully with best practice.

12 Equality Screening

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

13 Background Papers

None.

14 Appendices

None.