

Agenda Item No: 7 **Report No:** 22/14

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

Report To: Audit and Standards Committee **Date:** 27 January 2014

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 nine 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 nine 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 contains 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.

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 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 2013/14

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 and Standards Committee in March 2013.

4.2 Table 1 shows that a total of 561 audit days have been undertaken compared to 582 planned. The variance of 21 days is largely because of time spent by a team member in supporting the team's move to the Council's new IT systems. It is unlikely that audit days will be close to plan by the year end. This is because a part time member of the Internal Audit team has taken voluntary severance as part of the ongoing Council scheme and will be leaving on 6 February 2014. The team member will not be replaced, and the preparations for the Strategic Audit Plan exercise in March 2014 are based on future staffing of the Internal Audit team being 3.2 FTE for 2014/15 (compared to 3.8 FTE currently).

Table 1: Plan audit days compared to actual audit days for April to December 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 | 188 | |
| Central Systems | 54 | 90 | 17 | |
| Departmental Systems | 128 | 155 | 152 | |
| Performance and Management Scrutiny | 68 | 74 | 25 | |
| Computer Audit | 20 | 60 | 6 | |
| Environmental Audit | 42 | 33 | 58 | |
| Management Responsibilities/Unplanned Audits | 128 | 117 | 115 | |
| Total | 729 | 774 | 561 | 582 |

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 BDO's work on the Council's

accounts for 2012/13. The audit did not identify any significant control issues that would have an impact on the Council's main accounts, although it was necessary to highlight a recurring issue in the authorisation of purchase orders and invoices. A summary report was finally issued. The corresponding audit on the major financial systems for 2013/14 is underway. In a recent development agreed with BDO, this work now includes testing of the fixed assets accounting system, work that was previously done by BDO.

- 4.4** The priority work with BDO to test the Council's subsidy claims for Benefits and NDR for 2012/13 is completed. The NDR claim was signed off and submitted by BDO without qualification. The Internal Audit work on the Benefits subsidy claim identified errors in the processing of claims and, at the request of BDO, has again required significant additional testing to determine the extent and impact of the issues noted. The claim has been signed off and submitted, but BDO have issued a letter of qualification. The need for additional work on the subsidy claim has had an effect on the progress that has been possible on the audits within Central Systems and Computer Audit. A summary report on the Benefits subsidy claim work is at the draft report stage.
- 4.5** *Central Systems:* A final report was issued for the audit of Insurance, and an audit of Electoral Registration is at the draft report stage. An audit of Communications is underway.
- 4.6** *Departmental Systems:* Final reports have been issued for the audits of Waste and Recycling, the Planning User Group and Housing Management. Audits of Planning and Development Control and Cemeteries are at the draft report stage.
- 4.7** *Performance and Management Scrutiny:* Internal Audit has been represented on the Management Boards for the Agile Working and Food Waste projects to advise on internal control and quality assurance. The Food Waste project has been completed and Internal Audit contributed to the end of project review; the new service is now at the 'business as usual' stage. From May 2013, Internal Audit has been performing a quality assurance role on the joint Regeneration and Enterprise Project Board that is managing four regeneration projects. Information obtained from the audit of Economic Development (Departmental Systems) has been used to help with quality improvements in the four projects, and no separate audit report has been issued. From January 2014 Internal Audit has been performing a quality assurance role on the project to develop the North Street Quarter of Lewes.
- 4.8** *Computer Audit:* Internal Audit completed the IT aspects of the testing of the main financial systems on behalf of BDO, and a report on the audit of IT Change Control has been finally issued. Two unplanned audits on IT issues are summarised at 4.12.
- 4.9** *Environmental Audit:* During June 2013, Internal Audit examined the Council's annual EMAS statement prior to its submission to Lloyd's Register Quality Assurance (LRQA) verifier as part of the assessment process. The verifier concluded that, with no significant issues to report, the Council continues to meet the requirements of the published standards and it was recommended that the Council's EMAS registration be confirmed. A final report was issued for the 2012/13 audit of EMAS: Waste and Recycling. The 2013/14 programme of EMAS audits is progressing, with final reports issued for the audits of EMAS: Management and Control and EMAS: Pollution Prevention and Control and the audit of EMAS: Legal Compliance at the draft report stage.

- 4.10** *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.
- 4.11** 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 ongoing.
- 4.12** Internal Audit has reviewed the Health and Safety function at the Council at the request of the Chief Executive, and a final report has been issued. 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.
- 4.13** Internal Audit has completed the cyclical Equality Analysis report on the service. Some aspects of the planning and conduct of audits were reviewed for possible improvements, and this work is scheduled to be completed by the end of January 2014.

Follow up of Audit Recommendations

- 4.14** 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 were agreed in the previous year. The results of this work were reported to the June 2013 meeting of the Committee. There are no significant recommendations that are currently outstanding.

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

- 4.15** The results of the Internal Audit quality reviews, customer satisfaction surveys and PIs for 2012/13 were reported to the June 2013 meeting of the 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 Committee.
- 4.16** Proposals for a revised set of PIs for Internal Audit were agreed at the September 2013 meeting of the Committee, and the new PIs formed the framework for the report on Internal Audit Benchmarking that was presented to the December 2013 meeting of the Committee.

Combatting Fraud and Corruption

National reporting

- 4.17** The Annual Report on the Council's work to combat Fraud and Corruption 2012/13 was presented to the September 2013 meeting of the Committee. The report advised that the numbers and values of the fraud cases at LDC had been submitted to the Audit Commission as part of the fraud and corruption survey that all Local

Authorities are required to complete. The results of the national survey have been published in an Audit Commission annual report on fraud and corruption in local government called 'Protecting the Public Purse.'

- 4.18** The Audit Commission report 'Protecting the Public Purse' compares performance by differences types of local authority across a range of fraud types. The Head of Audit and Performance is examining the report to determine the scope for possible additional controls or preventative measures where these would be justified by the results of risk assessments.

Recent events

- 4.19** In December 2011, the Chair of the Audit and Standards Committee asked Internal Audit to confirm the correct operation of the controls over additions and amendments to suppliers' details in Agresso. From the audit work carried out Internal Audit obtained substantial assurance that the Council operated sufficient controls to prevent unauthorised amendments to suppliers' details being used to create improper payments. Nevertheless, additional controls were introduced including telephone calls to suppliers to confirm the validity of all requested changes.
- 4.20** In late November 2013, the Council's Payments Team received a written request to change the bank account details for one of the Council's key suppliers. The standard telephone call to the supplier confirmed that the requested change was invalid and represented an attempted fraud. No payments were made to the bogus bank account, and details of the attempted fraud were passed to the bank's Fraud Notification Team for investigation.

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) put in place a phased programme to make savings in the Council's budgets. The savings target for 2013/14, (£0.8m) has been achieved, predominantly as a result of the Council's modernisation programme and the Voluntary Severance Scheme for employees. The cumulative savings target for the four year period 2014/15 to 2017/18 is £2.4m, assuming that the Council Tax increases in line with inflation from 2016/17 (the Government is making Council Tax freeze grants available until that time). The Council's financial position is healthy and in good shape to address the necessary deficit reduction plan in a measured way. 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.

- 5.4** The Annual Report on Risk Management was presented to Cabinet at its July 2013 meeting. This report confirmed the strategic risks identified by CMT and the action plan for risk management for the year ahead.

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 nine 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 were reported to the June 2013 meeting of the 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 was reported to the September 2013 meeting of the 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. The results of the reviews by BDO have helped inform the opinion on the internal control environment. The recent results are summarised below.
- 8.2** Annual Audit Letter for 2012/13 (October 2013) – This report outlined the key findings from BDO's audit of 2012/13. The letter confirmed that:
- BDO issued an unqualified true and fair opinion on the financial statements for 2012/13.
 - BDO identified one material misstatement in relation to the accounting for the value of additions to HRA Council dwellings. Appropriate amendments were made to the financial statements.
 - Working with Internal Audit, BDO found one deficiency in internal controls involving the authorisation of purchase order requisitions and invoices. Management has agreed to strengthen relevant internal controls and processes within the creditor payments system.
 - BDO were satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and therefore issued an unqualified value for money conclusion.

- BDO were satisfied that the Annual Governance Statement (AGS) was not inconsistent or misleading with other information they were aware of from the audit of the financial statements and complies with '*Delivering Good Governance in Local Government*' (CIPFA/Solace).
- BDO reported on the outcome of the audit of one grant claim and three government returns for the period ended 31 March 2012. The Housing and Council Tax Benefit subsidy claim (total value £41 million) was amended to correct errors, the overall effect being a reduction in subsidy of £902. BDO were unable to fully quantify other errors identified and included the facts in a qualification letter to the Government department (DWP).
- BDO completed a short form assurance review of the Council's Whole of Government Accounts (WGA) because the Council's WGA is below the threshold for a full assurance review. The review confirmed that the 'net funded pension balance' was consistent with the audited financial statements and the 'property, plant and equipment carrying amount at 31 March 2013' was not consistent with the audited financial statements because of the material audit adjustment.
- The Council's financial governance arrangements have continued to enable strong leadership on financial matters from the top of the organisation through the work of the Cabinet and Corporate Management Team.
- The process of financial planning is embedded across the Council through the annual budget setting process, and is supported by the medium term financial strategy which covers a three year period and is updated annually. The Council's revenue budget for 2013/14 requires additional savings of £757,000 and a contribution from the General Fund balance of £484,000 due to further reductions in the Council's grant settlement and spending pressures.

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 Legal Implications

11.1 There are no legal implications arising from this report.

12 Sustainability Implications

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

13 Equality Screening

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

14 Background Papers

14.1 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>

15 Appendices

15.1 Appendix A - Statement of Internal Audit work and key issues

15.2 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: EMAS: Management and Coordination

Date of final issue: 8 January 2014

Overall opinion:

From the work carried out for this review, Internal Audit has obtained partial assurance that there is effective operation of the management procedures and controls that govern EMAS at the Council. Procedures are in place and, to an extent there is reasonable compliance. For example, there has been effective management of the relationship with LRQA, with no adverse findings in the June 2013 LRQA assessment, and there are sound arrangements to introduce new staff to EMAS during induction training.

The Council remains focused on environmental issues, with ongoing support for the protection of the environment and the principles of sustainability, and good environmental practices evident in many areas of the Council's services. For example, work will continue to assess air quality and encourage renewable energy generation, and the Council has recently introduced a new food waste service and has set out plans to improve its recycling rates.

The commitment to EMAS has enabled the Council to be at the leading edge of environmental management in Local Authorities with high standards having been established and maintained. However, there have been gaps in the control processes which have impacted on the management and coordination of EMAS. The findings that give rise to this opinion are outlined below. .

Main points:

- In keeping with other aspects of the Council that are undergoing a period of rapid change, there has been a reorganisation of the roles of the various officers and groups involved in environmental management. This has included the dispersal of the activities of the previous Environment and Energy Officer (EEO) across different departments. It is not clear that this dispersal of roles and responsibilities has been entirely effective.
- The audit noted a range of issues which, although not all individually significant, indicated a degree of confusion over the management and coordination of EMAS. In particular, a programme of changes planned for the period leading up to the LRQA audit and beyond has largely not been implemented with the result that the Council would not be able to demonstrate adequate compliance with its EMAS objectives, and there would not be a sound transition to whatever management system is operated after March 2014.

A decision has now been taken on the future of EMAS at the Council. The Council will not be submitting a request to LRQA for accreditation to ISO14001 or a request for verification to EMAS in 2014. There will be some form of corporate environmental management system and an environmental group, but the Council will no longer be badged, verified or accredited as before. Decisions on the makeup of the new management system and how it will be operated will be made as part of the current exercise to restructure the Council to establish a customer focused organisation. There are no recommendations.

Audit report: EMAS: Pollution Prevention and Control (PPC)

Date of final issue: 9 January 2014

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 PPC. On the whole, compliance with controls is reasonable and satisfactory progress has been maintained in a number of areas. There are proposals in place to deal with the one issue that needs to be addressed. There is one recommendation.

Main points:

- The Council's work on Contaminated Land and Air Quality continues successfully. A new Contaminated Land Strategy which proposes work on three major sites in the District will go to CMT in January 2014, and Cabinet in February 2014. Monitoring of the air quality in Fisher Street, Lewes shows improvements without the detriment to other areas in the town. Air Quality Management Areas will be declared in anticipation of air pollution that may result from the regeneration developments in Newhaven.
- The Print Unit and Waste and Recycling Services hold copies of appropriate waste licences, waste transfer notes, consents to discharge and appropriate evidence of interceptor tanks inspections, drainage and consignment of their hazardous waste. Parks and Cemeteries have taken action to minimise the environmental impact of machinery used by contractors, and contracts managed by Housing Services specify the use of environmentally preferable products.
- The Council may not be able to readily demonstrate its full compliance with the COSHH regulations because it is not clear that COSHH assessments are regularly reviewed and the date of the reviews recorded. Internal Audit supports proposals for the standardisation of the COSHH assessment and review processes, including the provision of guidance to staff undertaking reviews, and the central storage of assessments to make them more available.

Audit report: Housing Management

Date of final issue: 22 January 2014

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 Housing Management. Controls are in place and, on the whole, compliance with controls is satisfactory.

There is a clear commitment in the Estate Management Team to ensuring that a high standard of service is provided to Council tenants across the District, and team members work to develop effective relationships with the tenants in their areas of responsibility. These relationships, and the exchange of information that they encourage, support a range of other control measures that help to ensure that premises are maintained to a good standard and are only occupied by authorised tenants.

Visits by Internal Audit to selected housing estates and interviews with AHOs and

tenants indicate that, for the most part, good order is maintained and anti – social behaviour is effectively controlled. When anti-social behaviour does occur there are adequate means to deal with the cases in liaison with the Police and other Council departments.

There are a small number of issues that indicate that there is scope to strengthen the way some procedures and controls are operated. And these are outlined below. The report contains four recommendations.

Main points:

Repairs to common parts and outside areas

- Council estates are mostly well maintained, and there are adequate procedures to monitor the physical condition and assess any necessary repairs. Most repairs to common parts of the buildings and outside areas are completed within the target time but it is possible for some repairs to remain unresolved for some time. The underlying issues can be complex and there are often competing priorities for Council resources.
- The progress of repairs is subject to regular monitoring and, following an internal Housing Services review of the monitoring arrangements, additional measures have been put in place to further improve the controls over repairs. Internal Audit supports these new developments as a way of avoiding possible delays in completing some repairs as this situation can have a detrimental impact on the quality of the housing experience for tenants. Recommendations are included to enable a check on the effectiveness of the recent developments, to improve communications with tenants affected by delayed repairs and to consider ways to improve liaison with East Sussex County Council.

Guidance and information for Housing Officers

- Overall, the guidance and information available to officers is reasonable but there are examples of useful information not being readily available, and examples of policy information not being up to date or applied consistently. These issues are not individually significant but they could create the risk of disputes with or between tenants, and/or the Council applying its policies differently to tenants in different locations.