

Agenda Item No: 7

**Report 83/14
No:**

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

Report To: Audit and Standards Committee Date: 23 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 2013/14.

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 2013/14 (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 2013/14 that is to be published with the Statement of Accounts 2013/14 and presented to the September 2014 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 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 have applied 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 requirements of the PSIAS overlap with those of the Accounts and Audit Regulations, which require that there be an annual report on the effectiveness of Internal Audit. This requirement has been met by an internal study carried out by the Head of Audit and Performance, with the results independently reviewed by the Director of Finance and now reported to the Audit and Standards Committee.

3 Opinion of the Head of Audit and Performance on the Internal Control Environment at Lewes District Council for the year ended 31 March 2014

- 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 2013/14

- 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 2013/14 that is presented separately to this meeting of the 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) put in place a phased programme to make savings in the Council's budgets. The programme commenced in 2011/12 and has achieved each of its annual savings targets including that for the year 2013/14. The savings target for the next two years is £1.146m, with £596,000 in 2014/15 and £550,000 in the year after. The source of savings from this point forward will continue to come from structural change rather than incremental change. The savings target for 2014/15 will mainly derive from efficiencies in procurement and the new Agile Working environment. 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.
- 5.5** The corresponding report for 2014 is to be presented to the September 2014 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 2013/14.
- 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 2013/14.

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. The code is currently under review in advance of the September 2014 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 2013/14 will be reported to the September 2014 meeting of the Audit and Standards Committee with the statement of accounts for 2013/14.

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. The results of these external reviews 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.

8.3 Grant Claims and Returns Certification for 2012/13 (February 2014) – The key points are:

- The certification of the national Non Domestic Rates (NNDR) was completed satisfactorily and the claim was submitted without qualification and without amendment. The claim was valued at £22.93m.
- The certification of the Pooling of Housing Capital Receipts return was completed satisfactorily and the claim was submitted as unqualified and without amendment. The claim was valued at £1.03m.
- The initial and additional testing carried out by Internal Audit identified a range of errors in the claim for Housing and Council Tax Benefit Subsidy. The claim was valued at £43.15m. In line with the requirements of the Department for Work and Pensions (DWP) and the Audit Commission a letter of claim qualification was issued, which included assessments of the possible impact of the findings.
- Following further discussion and the provision of additional supporting information by the Council, the DWP amended its assessment of the impact on the claim. There will now be a deduction of approximately £4,000 from the next settlement.

8.4 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.