

Agenda Item No: 9 **Report No:** 85/14

Report Title: Interim Report on the Council's Systems of Internal Control 2014/15

Report To: Audit and Standards Committee **Date:** 23 June 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 two months of 2014/15, 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 2014/15 (as shown in Section 3).

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 Chartered Institute of Public Finance and Accountancy (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, including 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.

3 Internal Control Environment at Lewes District Council

- 3.1** The Annual Report on the Council's Systems of Internal Control for 2013/14 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 2014/15

- 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 2014. 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 106 audit days have been undertaken compared to 102 planned. The variance of 4 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 2014

Audit Area	Actual audit days for the year 2013/14	Plan audit days for the year 2014/15	Actual audit days to date	Pro rata plan audit days to date
Main Systems	260	285	54	
Central Systems	31	65	6	
Departmental Systems	178	100	14	
Performance and Management Scrutiny	64	40	9	
Computer Audit	11	65	8	
Environmental Audit	65			
Management Responsibilities/Unplanned Audits	132	98	15	
Total	741	653	106	102

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 2013/14. The priority work on behalf of BDO to test the Council's subsidy claims for Benefits and NDR for 2013/14 is underway.
- 4.4** *Central Systems:* Audits of Communications and Business Continuity Planning are underway.

- 4.5** *Departmental Systems:* A final report was issued for the audit of Cemeteries and a draft report was issued for the audit of Planning and Development Control. An audit of Estates Management is underway.
- 4.6** *Performance and Management Scrutiny:* A final report was issued for the audit of Ethics. Internal Audit has been performing a quality assurance role for the Regeneration and Enterprise Project Board that is managing four regeneration projects, and for the project to develop the North Street Quarter of Lewes.
- 4.7** *Computer Audit:* Internal Audit completed the IT aspects of the testing of the main financial systems, and an audit of IT Security and Networks is underway.
- 4.8** *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.
- 4.9** Internal Audit has been coordinating the Council's preparations for the 2014/15 NFI data matching exercise which is run by the Audit Commission. The base data will be forwarded to the Audit Commission in October 2014.

5 Follow up of Audit Recommendations

- 5.1** 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 2014/15 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.

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

- 6.1** The results of the Internal Audit quality reviews, customer satisfaction surveys and PIs for 2013/14 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.
- 6.2** Proposals for a revised set of PIs for Internal Audit were agreed at the September 2013 meeting of the Committee. The new PIs formed the framework for the report on Internal Audit Benchmarking that was presented to the December 2013 meeting of the Committee, and the results for 2013/14 are reported separately to this meeting of the Committee.

7 Combatting Fraud and Corruption

National reporting

- 7.1** 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.'

- 7.2** 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.

8 Risk Management

- 8.1** 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.
- 8.2** 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.
- 8.3** 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 current 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.
- 8.4** 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.

9 System of management assurance

- 9.1** 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 2013/14. 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 2013/14. Nothing has arisen in the first two months of the financial year to change these assessments.

10 Corporate governance

- 10.1** 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.

- 10.2** 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 is to be reported to the September 2014 meeting of the Audit and Standards Committee.

11 External assurance

- 11.1** 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.

- 11.2** 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.

11.3 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.

12 Financial Appraisal

12.1 There are no additional financial implications from this report.

13 Sustainability Implications

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

14 Risk Management Implications

14.1 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.

15 Legal Implications

15.1 There are no legal implications arising from this report.

16 Equality Screening

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

17 Background Papers

17.1 [Annual Audit Plan 2014/15 that was presented to the Audit and Standards Committee on 17 March 2014.](#)

18 Appendices

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

18.2 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: Cemeteries

Date of final issue: 11 March 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 Cemeteries. Controls are in place and, on the whole, compliance with controls is satisfactory. For example, the cemeteries are maintained to a good standard, internments are managed in accordance with legislation and Council procedures, and proper burial records are kept. Applications for internments are correctly processed, and all income received is banked and accounted for correctly.

There is one issue that indicates there is scope to strengthen the way some controls are operated. In addition, there is the important matter of the future provision of burial services in Lewes because of the limited space in Lewes cemetery. The report contains two recommendations.

Main points:

- The provision of cemeteries by District Councils is a statutory power, not a duty. Accordingly, the Council does not have to provide cemeteries within its area but currently chooses to provide a cemetery service. Lewes cemetery has burial space available for a further 18 months approximately. The Council has been working with the YMCA on the potential acquisition of the St Anne's school site in Lewes to provide additional burial capacity in the town. The acquisition bid was not successful, and the cemetery extension project has ended and been removed from the list of Nexus projects.
- No formal decision has been made regarding the future provision of burial services, and the Head of District Services is to prepare an options briefing on this issue for CMT. Whatever is the preferred approach to burials in the District it would be beneficial for there to be early confirmation of the decision so that the necessary arrangements can be made in good time, and the outcome communicated to residents of the District.
- Parks Superintendents undertake site inspections of cemeteries but do not currently record the outcomes of the visits as log sheets are not being maintained. As a result, there is incomplete evidence of effective client monitoring of this aspect of the contract. This issue will become more important from 1 March 2014 when the new contractor takes over the work of maintaining cemeteries and carrying out internments.

Audit report: Ethics

Date of final issue: 29 April 2014

Overall opinion:

From the work carried out as part of this review, Internal Audit had obtained substantial assurance that the Council has an adequate framework of policies and procedures governing ethical standards at the Council. The framework is set out in the Council's Local Code of Corporate Governance, which includes the responsibilities for monitoring and review. In all significant respects, the framework is

operating as intended and provides reasonable control over the ethics related objectives, programmes and activities of the Council. The report contains one recommendation.

Main points:

- The Council's Constitution includes appropriate Codes of Conduct for Members and officers that are aligned with national standards. The Council provides appropriate and readily available guidance to Members and staff on their responsibilities and duties, and undertakes suitable training and follow up to determine whether Members and staff understand what is required of them.
- There are reasonable procedures in place to maintain records of Members' interests and the declarations of gifts/hospitality by Members and officers. The current arrangements meet the requirements of the Council's Constitution and, in respect of Members' interests, meet the requirements of the Localism Act 2011. There are two minor issues that indicate there is scope to strengthen the procedures for recording Members' interests and officers' declarations of gifts and hospitality.
- The Council has in place appropriate complaints procedures to enable residents and customers to report service issues and concerns, with corresponding grievance, anti-fraud and corruption, and whistleblowing procedures to enable staff to report problems. There is regular reporting of the number and type of the issues, complaints and concerns highlighted by these procedures.
- The Council includes ethical risks within its standard risk management methodology. As a result, there is evidence of the consideration and mitigation of ethical risks, with high visibility given to governance and reputational risks in the Strategic Risk Register.
- The Council arranges for regular feedback from staff via a Staff Survey that includes questions to measure staff perceptions of the values and ethics culture at the Council, and takes appropriate action to address any issues raised.