

Agenda Item No: 7 **Report No:** 127/14

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

Report To: Audit and Standards Committee **Date:** 22 September 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 five 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 five months of 2014/15 (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 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 five 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 five 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 298 audit days have been undertaken compared to 268 planned. The variance of 30 days is largely due to the investigation being carried out by the Head of Audit and Performance (see paragraph 4.10). It is estimated that the audit days will be closer to plan by the year end.

Table 1: Plan audit days compared to actual audit days for April to August 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	176	
Central Systems	31	65	21	
Departmental Systems	178	100	14	
Performance and Management Scrutiny	64	40	18	
Computer Audit	11	65	8	
Environmental Audit	65	-	-	
Management Responsibilities/Unplanned Audits	132	98	61	
Total	741	653	298	268

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 2013/14. The audit did not identify any significant control issues that would have an impact on the Council's main accounts. A summary report has been finally issued.

- 4.4** The priority work on behalf of BDO to test the Council's subsidy claims for Benefits for 2013/14 is completed, and is awaiting final review by BDO. This work has again involved significant additional testing at the request of BDO. It has not been necessary to carry out the anticipated work to verify the Council's subsidy claim for NDR. This follows a decision by DCLG and the Audit Commission that there need not be verification of the NDR claim return for 2013/14.
- 4.5** *Central Systems:* An initial outline study for the audit of Business Continuity Planning resulted in a summary report being issued to the Director of Corporate Services; a decision on the timing of the remaining work for this audit is awaited. The audit of Communications that was begun in 2013/14 has been halted in agreement with the Director of Business Strategy and Development in recognition of the major restructuring that is taking place in the department. A final report has been issued for the audit of Safeguarding.
- 4.6** *Departmental Systems:* Final reports have been issued for the audits of Cemeteries and Planning and Development Control. An audit of Estates Management is underway.
- 4.7** *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.
- 4.8** *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.
- 4.9** *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 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 and the investigation of any matches will begin in February 2015. At the request of the Chief Executive, Internal Audit is investigating the relationship between the Council and Seaford and District Constitutional Club in respect of possible development opportunities.

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 were reported to the June 2014 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 were reported to the June 2014 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 2013/14 is presented separately to this meeting of the Committee. The report advises 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 will be 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' for 2012/13 compared performance by differences types of local authority across a range of fraud types. The Head of Audit and Performance has been examining the report to determine the scope for possible additional controls or preventative measures where these would be justified. The major outcomes of this study are outlined below.

Local developments

- 7.3** As part of the Council's response to the Audit Commission report 'Protecting the Public Purse' for 2012/13, Internal Audit and Housing Services are now represented on the Sussex Tenancy Fraud Forum (TFF). TFF is a body that enables information sharing and joint initiatives with neighbouring authorities in both East and West Sussex to combat the various aspects of tenancy fraud.
- 7.4** There has been some uncertainty over the future of the Benefit Fraud Investigation Team. CMT has agreed a business case for the Investigation Team to work as part of the Audit and Performance Division (APD) from 1 November 2014. The team will provide resources for the prevention and detection of fraud across additional areas of Council services including tenancy fraud, and business rates fraud.

7.5 Risk Management

- 7.6** 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.
- 7.7** 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.

- 7.8** 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.
- 7.9** 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. The corresponding report for 2014 will go to the Cabinet in November 2014.

8 System of management assurance

- 8.1** 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 five months of the financial year to change these assessments.

9 Corporate governance

- 9.1** 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.
- 9.2** 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 reported separately to this meeting of the Committee.

10 External assurance

- 10.1** 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.
- 10.2** 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.

10.3 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.

11 Financial Appraisal

11.1 There are no additional financial implications 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 Risk Management Implications

13.1 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.

14 Legal Implications

14.1 There are no legal implications arising from this report.

15 Equality Screening

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

16 Background Papers

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

17 Appendices

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

17.2 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 and Development Control – South Downs National Park Agreement

Date of final issue: 26 June 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 the South Downs National Park Agreement. On the whole, compliance with controls is satisfactory, although there are a small number of issues that indicate there is scope to strengthen the way some controls are operated. The report contains two recommendations.

Main points:

- The agreement is not viewed as a binding document. Whilst an agreement is required in order to enable LDC to undertake planning functions within the National Park's boundaries and is vital to LDC's interests in this respect, the other provisions of the agreement are considered by both parties to be flexible in order to maintain an effective planning function.
- Payment to LDC for the planning service operated on behalf of SDNPA is based on an average cost determined by reference to ten district authorities within the National Park. LDC operates at below the average cost and therefore the service represents an income stream to the Council. The income is adjusted on a quarterly basis to reflect any variance from the anticipated number of applications processed - this provides scope for increasing the revenue stream as a result of the greater number of applications being handled by LDC.

Audit report: Key Financial Systems 2013/14

Date of final issue: 22 August 2014

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.

Main points:

During 2013, there were plans for new arrangements for the lists of authorised signatories as part of the introduction of purchase ordering via Agresso. It was not possible to make progress on purchase ordering because of other higher priority work and the corporate restructuring. As a result, work on the new signatory list arrangements was deferred and the managed audit has noted issues in the ordering

and the receiving of goods and services. For example:

- Sample testing of 50 orders (revenue and capital expenditure) noted five orders authorised by an officer without the formal authority to place orders, and two orders that exceeded the officer's authorisation limit. In each case, the orders were valid transactions and it was confirmed that the ordered goods had been received.
- The same sample testing noted four items for which the same person signed the order and the confirmation that goods had been received, and thus the separation between the ordering and receiving functions did not operate as a control as intended. The values of the items involved were not material and it was confirmed that the ordered goods and services had been received. The sample also contained three payments which were certified by senior officers whose powers of authorisation had not been upgraded following a promotion.

Audit report: Safeguarding

Date of final issue: 5 September 2014

Overall opinion:

The Council's policy on Safeguarding sets out the roles and responsibilities for anyone working for or on behalf of the Council, and was first introduced in response to the passing of the Children Act 2004. Following a review by ESCC into the effectiveness of the local arrangements in East Sussex, the Council updated the policy and supporting arrangements in December 2013.

The revised policy has been the subject of a coordinated campaign of publicity and training. This approach has sought to ensure that Councillors, staff, volunteers, and contractors are aware of their responsibilities, and how they should report safeguarding concerns that may arise if abuse is suspected or disclosed.

From the audit work carried out during this review Internal Audit has obtained substantial assurance that there is a sound system of internal control for the current Safeguarding policy. On the whole, compliance with procedures and controls is satisfactory, although there are a small number of issues that indicate there is scope to strengthen the way some controls are operated. The report contains two recommendations.

The Safeguarding Policy, together with additional guidance and instruction, and lists of contacts, is provided on Infolink. Officers with specific responsibilities set out in the Safeguarding policy are aware of those responsibilities, are able to carry out the roles, and receive appropriate training and support. In addition, the Council has put in place the necessary arrangements to maintain contact with ESCC Children's and Adult Services. There have been no suspected or disclosed cases of abuse reported via the procedures operated by the Council.

Main points:

- The revised policy was issued in December 2013, and has been maintained to ensure that it is up to date. There have been no need for significant changes in the policy content but there has been an exercise in July 2014 to update the list of Safeguarding Contacts, Deputy Named Senior Officer and Lead Councillor to reflect recent changes at the Council. It is important that there are regular light touch exercises of this kind to ensure that the network of named contacts, which is key to the Council's supporting role in the local Safeguarding arrangements,

remains up to date.

- The main focus of the Safeguarding training for LDC staff has been on ensuring that any safeguarding concern is properly recorded and reported to the other partner organisations. There has been no monitoring of policy implementation, particularly of those other aspects of the policy that do not involve the reporting of concerns. The audit has found no adverse issues, but it is recommended that the light touch reviews include at least annual monitoring of compliance with all aspects of the policy, and the reporting of the monitoring results to CMT and the Lead Councillor.
- The roll out of the revised policy in December 2013 was supported by advice to managers, an article in LDC News, and a coordinated training programme that began in January 2014. The training was mandatory for all staff and, currently, 67% (294/440) of LDC employees have completed it. HR have contacted Training Coordinators to arrange for any staff not having completed the training to do so in the near future. This follow up is supported by re-issues of the explanatory guidance and further advice to managers. HR are also putting in place specific refresher training for the Safeguarding Contacts.
- There has been only one serious case review since 2004 and that was conducted some years ago under the previous policy; this case has limited relevance to the current arrangements. Accordingly, Internal Audit has not examined the case records, which remain securely held by the Named Senior Officer.