

Agenda Item No: 7

Report No: 160/15

Report Title: Interim Report on the Council's Systems of Internal Control 2015/16

Report To: Audit and Standards Committee **Date:** 30 November 2015

Ward(s) Affected: All

Report By: Head of Audit, Fraud and Procurement

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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 seven months of 2015/16, 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 seven months of 2015/16 (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, Fraud and Procurement (HAFP) 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 HAFP. 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 HAFP 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 2014/15 included the opinion of HAFP 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 seven 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 2015/16

- 4.1** This section of the report summarises the work undertaken by Internal Audit during the first seven months of the year, compared to the annual plan that was presented to the Audit and Standards Committee in March 2015. 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 392 audit days have been undertaken compared to 393 planned. The variance of one day is not significant at this stage.

Table 1: Plan audit days compared to actual audit days for April to October 2015

Audit Area	Actual audit days for the year 2014/15	Plan audit days for the year 2015/16	Actual audit days to date	Pro rata plan audit days to date
Main Systems	336	285	234	
Central Systems	25	50	32	
Departmental Systems	79	105	56	
Performance and Management Scrutiny	39	45	16	
Computer Audit	28	55	2	
Management Responsibilities/Unplanned Audits	176	127	52	
Total	683	667	392	393

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** From 1 January 2016, the Principal Audit Manager (PAM) will be taking flexible retirement. This will mean that his working days per week will reduce from five to three, resulting in a reduction of 20 planned audit days in the period up to the end of March 2016. The full year effect will be a reduction of 81 planned audit days in 2016/17. Discussions have been held with the Internal Audit Manager at Eastbourne BC who has agreed to work for the Council for the equivalent of one day per week, with the time spent on specific audit projects. HAFP and PAM will put in place revised oversight arrangements to ensure that there will be minimal impact from the reductions in Audit Manager days. This joint working will deliver

progress on shared services between the two councils, and will generate a saving of approximately £8,400 per annum.

- 4.4** One of the Senior Auditors at LDC has taken retirement and left the Council on 19 November 2015. The vacancy will be filled in due course but there will be a small reduction in the days available for audit work in 2015/16.
- 4.5 *Main Systems:*** The testing of the major financial systems has been completed. The results provide 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 2014/15. A final report was issued.
- 4.6** The summary report on the work to test the Council's subsidy claim for Benefits for 2013/14 was finally issued. The priority work to test the Council's subsidy claim for Benefits for 2014/15 has been underway since late June 2015. Initial results were passed to BDO for evaluation, and BDO confirmed that significant extra testing would be required to determine the impact of the errors noted in processing some HB applications. The timetabled date for BDO to have signed off and submitted the audited claim is at the end of November 2015, but that date is unlikely to be met because of the extra work that has been required.
- 4.7 *Central Systems:*** Final reports have been issued for the audits of Ethics and Building Control. The audit of Health and Safety from the 2014/15 programme and the audit of Insurance are at the draft report stage.
- 4.8 *Departmental Systems:*** The initial work on the audit of Housing Management from the 2014/15 programme was completed, and feedback given to service managers; the second part of the audit has taken place and a final report has been issued. The final report from the audit of Trade Waste was issued.
- 4.9 *Performance and Management Scrutiny:*** As part of planned work on Programme Nexus, PAM was part of the officer group that was evaluating the tenders for the systems comprising the New Service Delivery Model (NSDM). HAFP was regularly involved as a member of the project team for the procurement. The procurement of the NSDM systems for LDC was halted because it was not consistent with the strategy for shared services with Eastbourne BC.
- 4.10 *Computer Audit:*** Internal Audit completed the IT aspects of the testing of the main financial systems.
- 4.11 *Management Responsibilities/Unplanned Audits:*** This category provides resources for activities such as support for the Audit and Standards Committee, managing the Fraud Investigation Team, liaison with BDO, managing the Follow Up procedures, as well as for special projects or investigations.
- 4.12** Internal Audit has been coordinating the Council's response to the 2014/15 NFI data matching exercise. The base data was forwarded to the Audit Commission in October 2014 and the first reported matches for LDC were received on 29 January 2015. Further matches have been received, and there are now 1,567 matches detailed across 56 reports. Each report sets out different types of potential frauds among HB claimants, housing tenants, and anyone receiving payments or discounts from the Council. Council departments have nominated officers to investigate matches in their service area. The initial work has been to analyse and assess the matches to weed out those that are the result of error, coincidence or entirely proper

activity, and 777 matches have been actioned so far. There have been no instances of fraud found, although the exercise has identified 42 benefit overpayments resulting from error, with a total value of approximately £15,700. Any suspected cases of fraud would be passed to the Fraud Investigation Team for assessment, with any suspected cases of HB fraud forwarded to DWP (see 7.8 below) under the standard procedures.

- 4.13** Internal Audit and the Fraud Investigation Team have been working with departments to examine the controls over the Right to Buy (RTB) procedures, with the aim of improving the safeguards that help prevent possible RTB fraud.

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 2015/16 was 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 2015 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 2014/15 were reported to the June 2015 meeting of the Audit and Standards Committee. The results enabled the HAFP 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 form the framework for the reporting on Internal Audit Benchmarking, and the results for 2014/15 were reported to the September 2015 meeting of the Committee.

7 Combatting Fraud and Corruption

Annual Report on the Council's work to combat Fraud and Corruption 2014/15

- 7.1** The Annual Report on the Council's work to combat Fraud and Corruption 2014/15 was presented to the September 2015 meeting of the Committee. Some of the issues outlined below were also covered in the Annual Report.
- 7.2** It should be noted that the reported statistics on fraud cases for 2014/15 and 2015/16 overlap in some areas because cases that began in the first year have been completed or closed in the second year.

Local developments

- 7.3** There had been some uncertainty over the future of the Benefit Fraud Investigation Team. CMT agreed a business case for the Investigation Team to work as part of Internal Audit from 1 November 2014 and from that date the team has been working on the prevention and detection of fraud across additional areas of Council services including tenancy fraud and business rates (NDR) fraud. Each interim report to the Committee contains a summary of the team's work (see 7.7 -7.10).

- 7.4** The Investigation Team will maintain its memberships of the East Sussex Fraud Officers Group (ESFOG) and the Sussex Tenancy Fraud Forum (TFF), bodies that enable information sharing and joint initiatives with neighbouring authorities on a wide range of counter fraud work.
- 7.5** A sub group of six authorities within ESFOG, including LDC, is developing a 'Hub' approach to coordinating new anti-fraud initiatives across East Sussex and Brighton. The Hub is managed by officers at Eastbourne BC with input from ESFOG partners, and the initial stages have seen a programme of standardised training and planning, trials of case management systems, and the exchange of best practice (see below).
- 7.6** Work on cases in the separate Hub authorities will continue to take priority, but increasingly activities are being coordinated to help in the development of joint approaches to common issues. For example, LDC has been leading on aspects of tenancy fraud; Eastbourne BC is leading on Right to Buy (RTB) fraud; LDC is developing the approach to business rate fraud on industrial estates, and Eastbourne BC is leading on business rates in the charity sector. Successful developments are shared with Hub partners via ESFOG.

LDC Investigation Team

- 7.7** During 2015/16, the team's work on countering tenancy fraud has focused on developing the case referral arrangements with officers in Housing Services, advising on controls over housing applications, and investigating reported cases of suspected fraud. Three abandoned properties have been returned to the housing stock as a result of successful investigations. One further case of abandonment was proven but the tenant declared an intention to return and was allowed to keep the property. Nine cases have been closed with the team able to prove that there had been no subletting or abandonment. Eight further cases are currently being investigated; two of these are complex cases that are likely to require court proceedings and may not be resolved for some months. Dealing fully with cases of property abandonment is a key part of the work to return unused properties to the housing stock, although abandonment is not regarded as fraud under the Prevention of Social Housing Fraud Act 2013.
- 7.8** Internal Audit has in place an agreement with DWP for the management of cases of HB fraud. The team works with local DWP officers to help ensure efficient operation of the processes covered by the agreement. The major work on each HB case will be the responsibility of the national Single Fraud Investigation Service (SFIS), but LDC retains a role in referring cases of suspected HB fraud to SFIS and handling requests for information. A total of 92 HB cases have been passed to SFIS since April 2015, and 64 information requests have been actioned. This liaison work with DWP/SFIS currently takes up, on average, 20 – 25% of the team's time, and therefore HB cases have continued to represent a significant activity for the team.
- 7.9** LDC retains responsibility for dealing with the cases of suspected Council Tax Reduction Scheme (CTRS) fraud that are often linked to HB cases, and administering the penalties for CTRS cases that are not subject to prosecution. There are currently 36 cases of suspected CTRS fraud under review, with eight cases having been proven and penalties administered.
- 7.10** NDR fraud is the current priority area for the team and, in early June 2015, the team attended training on counter fraud work for NDR in an exercise organised by the

Hub. The team has been working with LDC officers in the Revenues team to set up a method to target areas of possible non-payment of business rates. Visits to an industrial estate in Lewes District have identified nine business premises not recorded on NDR and therefore not paying business rates – the results have been passed to the local team of the Valuation Office Agency (VOA) for assessment. Further visits to other industrial estates are scheduled.

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 £596,000 in 2014/15. The savings target for 2015/16 is £561,000, and will mainly derive from the structural changes in the Organisational Development programme and from the introduction of a 2% vacancy savings target. In delivering these savings, a budget will be retained to cover future changes in the back office service arrangements and to enhance the joint working initiative with Eastbourne Borough Council which will then deliver further savings in future years.
- 8.4** The system of management assurance (see Section 9) has confirmed the operation of controls and the absence of significant control issues during the period of the savings programme so far. HAFP will monitor the impact on the control environment of the Council’s restructuring, and will liaise with managers who are working to ensure that the control environment keeps pace with these changes. This comment was reflected in the Annual Governance Statement (AGS) 2015 that was presented to the September 2015 meeting of the Committee (see Section 10).
- 8.5** The Annual Report on Risk Management was presented to Cabinet at its March 2015 meeting. This report confirmed the strategic risks identified by CMT and the action plan for risk management for the year ahead. The report was copied to the June 2015 meeting of this Committee.

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 2014/15. 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

2014/15 and there has been nothing in the first seven months of the financial year to change these assessments.

10 Corporate governance

- 10.1** In January 2015, HAFP 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 January 2015 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 2014/15 was reported to the September 2015 meeting of the 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 2014/15 (October 2015) – This report summarises the key issues from the work carried out by BDO during the year, and is presented separately to this meeting of the Committee. The key issues are:

- BDO issued an unqualified true and fair opinion on the financial statements for the period ended 31 March 2015.
- BDO identified a number of misstatements in relation to fixed asset accounting for Property, Plant and Equipment which were corrected.
- BDO did not identify any significant deficiencies in the Council's framework of internal controls, but signed annual related party declarations had not been received from Members who were not re-elected in the May 2015 elections.
- BDO concluded that, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015, and issued an unqualified value for money conclusion. .
- BDO found that the Council is continuing to monitor the overall financial position, has established effective arrangements to ensure its financial resilience and is taking measures to address the budget gap identified over the period of the medium term financial plan.
- BDO noted that good progress is being made towards the transformation programme and significant savings are being secured from planned procurements.
- 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 standard guidance.
- BDO noted that the Council's Whole of Government Accounts (WGA) submission is below the threshold for full assurance review and no audit work was necessary.
- BDO reported on the results of the most recent grant claims and returns certification report that covered two claims and returns for 2013/14, with a total

value of £37.5 million. Only the housing benefit subsidy claim for 2014/15 remains within the scope of the Audit Commission's grant certification regime, and the audit of the claim is currently in progress (see 4.6).

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

[Strategic Audit Plan 2015 to 2018](#)

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: Housing Management - Sheltered Housing

Date of final issue: 16 November 2015

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 Sheltered Housing service. 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 audit was planned in two parts:

- A detailed desk exercise to assess the Quality Assessment Framework (QAF) that had been compiled to both monitor service standards in Sheltered Housing and to prepare the service for an external monitoring review by the Supporting People team at East Sussex County Council.
- A series of scheduled visits to sheltered housing schemes to determine the extent of compliance with the QAF, and to highlight any significant variations in services standards.

The review of the QAF showed that procedures are in place to ensure that all clients receive an assessment of their support needs and associated risks, and that clients are informed and consulted about the services provided at the sheltered housing schemes. There is clearly a commitment to safeguarding the welfare of people, particularly vulnerable groups, and to ensuring that the security, health and safety of clients, staff and the wider community are properly protected. In addition, the QAF includes procedures to ensure fair access, fair exit, diversity and inclusion for all clients. The review noted a number of points in the plan that required clarification and correction. A revised version of the QAF was prepared - Internal Audit concluded that the revised QAF provided a reasonable summary of the procedures and controls within the service, with planned actions as a means of dealing with remaining issues.

The visits to selected sheltered housing schemes confirmed that accommodation provided for clients at the Council's sheltered housing schemes is managed to a consistent standard. Also, the procedures and controls within the QAF operate to ensure that residents receive the appropriate assistance to support independent living. There are some issues for which further action needs to be considered, as outlined below. The report contains four recommendations.

Main points:

The QAF includes measures to try to ensure the safety and security of residents at sheltered housing schemes, and the visits by Internal Audit obtained reasonable assurance that these measures are in operation. When discussing these findings with housing managers it was evident that there is some doubt as to whether the current fire safety arrangements meet best practice standards, particularly in respect of the fire evacuation procedures and whether they are suitable for buildings housing elderly

residents. An external consultant is to provide guidance on what improvements may be necessary.

Scheme Managers have a good understanding of the importance of water hygiene and there are measures in place to limit the risk of Legionella infections, including taps and showers in communal rooms being flushed regularly. There is a reliance on residents using their own taps and showers sufficiently regularly to prevent Legionella, and it is not clear what would be done if residents are away from their accommodation for an extended period.

The overall standard of the Needs Assessments and Support Plans was noted as good, with some examples of excellent practice. However, there appeared to be variations in the way that plans were compiled and monitored at individual schemes. The inconsistencies had been identified by the Supported Housing Team Leader before the audit, and a range of measures is being put in place to address these issues.