

Agenda Item No: 7

**Report
No: 16/16**

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

Report To: Audit and Standards Committee Date: 25 January 2016

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 nine 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 nine 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 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 2015/16

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 presented to the Audit and Standards Committee in March 2015. 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 479 audit days have been undertaken compared to the 504 planned. The variance of 25 days is mainly caused by the vacancy in the Senior Auditor post and HAFP's recent focus on procurement and governance issues (see 4.9 and 4.10). The variance is likely to become larger as the staff changes outlined at paragraphs 4.3 and 4.4 take effect. The impact of the staff changes and the other issues that reduce the time available for audit work are covered in Section 7 – Review of 2015/16 Audit Plan.

Table 1: Plan audit days compared to actual audit days for April to December 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	282	
Central Systems	25	50	48	
Departmental Systems	79	105	56	
Performance and Management Scrutiny	39	45	26	
Computer Audit	28	55	2	
Management Responsibilities/Unplanned Audits	176	127	65	
Total	683	667	479	504

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. The Internal Audit Manager at Eastbourne BC has agreed to work for the Council for the equivalent of one day per week, with the time spent on specific audit projects – in the remainder of 2015/16 this arrangement will provide 10 days of audit work. 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 could be a reduction of up to 55 days available for audit work in 2015/16.
- 4.5 *Main Systems:*** The testing of the major financial systems was completed, and a final report issued. The results provided assurance on the adequacy of internal controls for the Annual Governance Statement (AGS), and helped to inform BDO's work on the Council's accounts, for 2014/15. The corresponding work for 2015/16 has recently begun.
- 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 was at the end of November 2015, but that date was not met because of the extra work that has been required. The claim is expected to be submitted by mid-February 2016.
- 4.7 *Central Systems:*** Final reports have been issued for the audits of Ethics 2014/15 and Health and Safety. The audits of Insurance, and Electoral Registration and Elections are at the draft report stage. The audit of Ethics 2015/16 is at the planning stage.
- 4.8 *Departmental Systems:*** The final reports from the audit of Building Control, Trade Waste and Housing Management were 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** During October 2015, it was confirmed that the Council will integrate staff and services with Eastbourne Borough Council (EBC) under the Joint Transformation Program (JTP). At the moment, a full JTP business case is being developed to look in detail how joint services might work in future. HAFP is a member of the Core Group that is overseeing these developments for the Council, and PAM has been taking part in the workshops and activity analysis that are being used to gather information for the business case.
- 4.11 *Computer Audit:*** Internal Audit completed the IT aspects of the testing of the main financial systems.

- 4.12 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.
- 4.13** 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 1,640 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 work has included analysis of the matches to weed out those that are the result of error or coincidence, and then the examination of the remaining matches to assess the likelihood of fraud. So far, 804 matches have been actioned. 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 under the standard procedures (see 8.7 below).

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 Review of 2015/16 Audit Plan

- 7.1** As part of the report to the March 2015 meeting of the Committee that detailed the Strategic Audit Plan, HAFP advised that there would be a nine month review of the Audit Plan for 2015/16 to assess whether any significant changes are necessary.
- 7.2** That review has taken place and the results of the review are now presented to the Committee. The review takes account of a range of issues, in particular the Joint Transformation Programme, the impact of the significantly extra work on the Benefits subsidy claim with BDO, the Senior Auditor vacancy and the flexible

retirement of the PAM. The overall effect of these factors is to reduce the number of days that are available to complete the planned audit programme for 2015/16.

7.3 The HAFP plans the following adaptations to the programme of work in the Audit Plan for 2015/16.

- The audits of Change Control and Disaster Recovery from the programme for Computer Audit will be scheduled for future dates in the audit cycle.
- The audits of Homelessness and Housing Strategy, and Planning and Development Control, from the programme for Departmental Systems will be scheduled for a future dates in the audit cycle.
- The audit of Right to Buy (RTB) from the programme for Departmental Systems will be carried out by the Internal Audit Manager at Eastbourne BC.

Other audits in the programme for 2015/16 that are planned or underway will continue to a normal conclusion.

8 Combatting Fraud and Corruption

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

- 8.1** 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. 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

- 8.2** Since 1 November 2014 the Fraud Investigation 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 8.5 -8.8).
- 8.3** The Investigation Team has maintained 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. 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.
- 8.4** The Hub is coordinated by officers at Eastbourne BC with input from ESFOG partners. Work on cases in the separate Hub authorities will continue, but increasingly activities are being coordinated to help in the development of joint approaches to common issues that are shared with Hub partners via ESFOG. For example, LDC has been leading on aspects of tenancy fraud, and Eastbourne BC is leading on Right to Buy (RTB) fraud.

LDC Investigation Team

- 8.5** During 2015/16, the team's main operational priority has been on countering tenancy fraud, with the development of case referral arrangements with officers in Housing Services, advising on controls over housing applications, and investigating

reported cases of suspected fraud. Four 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. Ten cases have been closed with there being no evidence of subletting or abandonment, and a further nine cases are currently being investigated. Dealing 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.

- 8.6** NDR fraud is a development priority for the team. In 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 will be scheduled.
- 8.7** 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 123 HB cases have been passed to SFIS since April 2015, and 75 information requests have been actioned. This liaison work with DWP/SFIS currently takes up, on average, 20 – 25% of the team's time. Negotiations are underway with Eastbourne BC to have the officer that manages their liaison with DWP take over the corresponding work at LDC, and thus enable the LDC Investigation Team to focus on case work in Housing and NDR.
- 8.8** 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 ten cases having been proven and penalties administered.

9 Risk Management

- 9.1** 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.
- 9.2** 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.
- 9.3** 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. In December 2015, the Government released provisional details of the funding that it will make available to local authorities for the period 2016/17 to 2019/20. This Council's funding is to be withdrawn at a faster rate than anticipated. When setting the budget for 2016/17, the Council will agree changes to its annual savings targets necessary to achieve this funding withdrawal.

- 9.4** The system of management assurance (see Section 10) 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 11).
- 9.5** 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.

10 System of management assurance

- 10.1** 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 nine months of the financial year to change these assessments.

11 Corporate governance

- 11.1** 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.
- 11.2** 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.

12 External assurance

- 12.1** 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.

12.2 Annual Audit Letter for 2014/15 (October 2015) – This report summarised the key issues from the work carried out by BDO during the year, and was presented to the November 2015 meeting of the Committee. The key issues were:

- 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).

13 Financial Appraisal

13.1 There are no additional financial implications from this report.

14 Sustainability Implications

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

15 Risk Management Implications

15.1 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.

16 Legal Implications

16.1 There are no legal implications arising from this report.

17 Equality Screening

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

18 Background Papers

[Strategic Audit Plan 2015 to 2018](#)

19 Appendices

19.1 Appendix A: Statement of Internal Audit work and key issues.

19.2 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: Health and safety (H&S)

Date of final issue: 23 December 2015

Overall opinion

From the audit work carried out during this review Internal Audit has obtained substantial assurance that there are effective procedures and controls covering the H&S function at the Council. On the whole, the positive developments that followed the 2013 review have been sustained. There is a framework of H&S policies and procedures in place, with adequate means to keep the procedures up to date and a reasonable framework of controls that enable risks to be actioned when they are identified.

Main points:

Below is an outline of the issues that support this opinion. The report contains two recommendations.

The General Statement of Health and Safety Policy is issued in accordance with the requirements of Health and Safety at Work Act 1974. The statement contains the Council's overall policy on H&S, and is supported by outlines of the duties, roles and responsibilities that ensure that the Council operates in accordance with the Act. The Director of Service Delivery is identified as having delegated responsibility as the nominated H&S leader at the top of the organisation to co-ordinate and monitor policy implementation. The statement is dated 28 July 2015 and is signed by the Chief Executive.

Overall, the Council is compliant with the requirements of the Health and Safety at Work Act 1974 and associated regulations.

The recommendations from the 2013 review that dealt with the organisation and structure of the H&S function were actioned in accordance with the agreed timetable. The Council appointed a new H&S Officer in early July 2013 on a one year temporary contract. The post was full time and, from August 2013, was primarily concerned with H&S work. Since July 2014, the role of H&S Officer has been a permanent, part time post of 28 hours per week solely concerned with H&S work.

Important work has been done to update supporting H&S policies and procedures across a wide range of Council activities, and to address policy gaps where these are identified. A key project has been the development of a policy for monitoring property related risks within the Property and Facilities function. In response to potential exposures to asbestos in some Council properties, the Joint H&S Forum set up a priority project to prepare an Asbestos Management Plan. In addition, the completion of the Southover House refurbishment works in October 2013 removed the source of many of the H&S issues that were the basis for the staff concerns at that time.

The Joint H&S Forum has developed a great deal following its restart in August 2013 and has become the main vehicle for consultation between the Council and employees on H&S issues. The Forum is chaired by the Director of Service Delivery,

meets regularly, and considers a wide range of H&S related issues. The business of the Forum includes the H&S Officer reporting on progress of the H&S Audit Programme, and attendance by managers to report progress against agreed H&S action plans - there are clear priorities for ensuring proper H&S standards in the Council services assessed as high risk. The Forum also provides a mechanism for the reporting and follow up of specific H&S issues (eg safe use of windows for ventilation in hot weather), and for reviewing H&S related policies and procedures for potential improvement (eg reporting of accidents and near misses). The role of the Forum in managing H&S at the Council is indicative of the positive change in H&S culture since 2013.

The Council has largely met its commitment to improve the communications to staff on H&S with more frequent safety briefings and a range of initiatives for involving staff in H&S developments and advising them of key H&S messages. This is particularly true of the services rated as high risk. Recent evidence suggests that the Joint H&S Forum provides adequate oversight of internal communications, and helps to ensure that significant H&S topics receive appropriate coverage.

There are two areas where action is required to help ensure progress is maintained and previous gains are protected. One of these areas is the programme of H&S audits that are carried out by the H&S Officer with service managers and, where appropriate, Unison H&S Representatives. It may be necessary to adapt the future approach to the H&S audits and other aspects of the H&S Officer role to better focus resources.

One area of particular change since the 2013 review has been the emphasis on the role of service managers in ensuring H&S standards are maintained and the Council achieves compliance with the Health and Safety at Work Act 1974. This focus on the role of managers has come at a time when the Council has been undergoing a major restructuring. Given the extent and pace of change in the past year there would be benefit in re-emphasising the role of service managers in maintaining H&S standards, and particularly the role of team meetings in reinforcing the H&S messages of the Council.