

**Agenda Item No:** 10 **Report No:** 80/16

**Report Title:** Interim Report on the Council's Systems of Internal Control 2016/17

**Report To:** Audit and Standards Committee **Date:** 20 June 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 two months of 2016/17, 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 2016/17 (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 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 2015/16 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 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 2016/17

- 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 presented to the Audit and Standards Committee in March 2016. 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 four 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 2016

Audit Area	Actual audit days for the year 2015/16	Plan audit days for the year 2016/17	Actual audit days to date	Pro rata plan audit days to date
Main Systems	360	290	53	
Central Systems	57	60	8	
Departmental Systems	68	70	29	
Performance and Management Scrutiny	27	45	4	
Computer Audit	2	45	-	
Management Responsibilities/Unplanned Audits	88	116	12	
Total	602	626	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 main work has been on 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 2015/16. A draft report is being prepared.
- 4.4** The priority work on behalf of BDO to test the Council's subsidy claims for Benefits for 2015/16 is at the initial planning stage.
- 4.5 Central Systems:** Audits of Insurance, Electoral Registration and Elections, and Ethics from the 2015/16 programme are nearing completion. The audit of Electoral

Registration and Elections has been held in abeyance since the preparations began for the elections in May 2016, and that situation will continue until the EU Referendum is completed on 23 June 2016. The priority audit of Business Continuity Planning (BCP) from the 2016/17 programme is at the draft report stage.

- 4.6 *Departmental Systems:*** The audit of Right to Buy (RTB) from the 2015/16 programme is at the draft report stage, and the audit of Cemeteries is underway. The audit of Private Sector Housing from the 2016/17 programme is underway.
- 4.7 *Performance and Management Scrutiny:*** The main work in this category has been in reviewing the data that supports the Annual Governance Statement (AGS), and specific tasks related to the Internal Audit aspects of the Council's Joint Transformation Programme (JTP).
- 4.8 *Computer Audit:*** Internal Audit is examining the IT aspects of the main financial systems (see 4.3 above).
- 4.9 *Management Responsibilities/Unplanned Audits:*** This category provides resources for activities such as support for the Audit and Standards Committee, managing the Fraud Investigations Team, liaison with BDO, managing the Follow Up procedures, as well as for special projects or investigations.
- 4.10** Internal Audit continues to coordinate the Council's work on NFI data matching exercises. The preparations for the 2016/17 exercise are underway, with data submission planned for October 2016.

## **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 2016/17 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 2016/17 are reported separately to this 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 2015/16 will be reported to the September 2016 meeting of the Committee.

## **7 Combatting Fraud and Corruption**

### **Local developments**

- 7.1** The Investigation Team maintains 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.

- 7.2** A sub group of six authorities within ESFOG are working together in a 'Hub' approach to coordinate new anti-fraud initiatives across East Sussex and Brighton. The Hub is managed by officers at Eastbourne BC with input from ESFOG partners. Hub has funded an ongoing programme of training and the implementation of a shared case management system.

### **LDC Investigations Team**

- 7.3** The work on developing the team's approach to counter tenancy fraud has included attendance at the national Tenancy Fraud Conference, obtaining best practice guidance from other authorities, and maintaining effective referral arrangements with LDC officers in Housing. Eight suspected cases of tenancy fraud are currently being investigated.
- 7.4** 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). LDC retains a role in referring cases of suspected HB fraud to SFIS and handling requests for information, dealing with the cases of suspected CT Reduction Scheme (CTRS) fraud that are often linked to HB cases, and administering the penalties for cases that are not subject to prosecution. Since 1 April 2016, 32 HB cases have been passed to SFIS, and 22 information requests have been actioned. The 32 HB referrals are being assessed for the possible implications in respect of CTRS fraud.
- 7.5** NDR fraud is the next priority area for the team, based upon some initial research and a small pilot study. In early June 2015, the team attended training on counter fraud work for NDR in an exercise organised by the Hub, and is working with LDC officers in the Revenues team to set up a referrals process.

## **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.
- 9** The Government introduced a national deficit reduction plan for the public sector in 2011/12. In response, the Council has committed to a phased annual programme to make budget savings. The total value of savings made in the General Fund budget (which covers all services except the management and maintenance of Council-owned homes) since 2011/12 has been £3.5m with each annual savings target being successfully achieved in-year.
- 10** When setting the General Fund budget for 2016/17, the Council identified a requirement to make further savings, which will reduce spending by £2.8m over the four years to 2019/20. The target for 2016/17 is £685,000 of which £400,000 is to

be generated from the Joint Transformation Programme (JTP) with Eastbourne BC. A budget has been allocated to finance the investment needed to implement the changes required through the JTP

- 11** There are also pressures to reduce spending on the management and maintenance of Council owned (HRA) housing. The Government has introduced a number of measures, starting in 2016/17, which will reduce the amount of income that it receives from tenants. The first of these measures, a 1% annual reduction in tenants' rents for each of the next four years, will incrementally reduce HRA income by £2.8m by 2019/20, the total shortfall in that period being £6.9m.

- 11.1** The Annual Report on Risk Management is presented separately to this meeting of the Committee. The report forms part of the annual reporting cycle on risk as set out in the Risk Management Strategy.

## **12 System of management assurance**

- 12.1** 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 are responsible. As part of this process all members of the Corporate Management Team (CMT) are required to consider whether there were any significant governance issues during 2015/16. At its meeting on 3 May 2016 CMT confirmed that there were no significant governance issues to report, and there has been nothing in the first two months of the financial year to change these assessments.

## **13 Corporate governance**

- 13.1** In March 2016, HAFP reviewed the Council's Local Code of Corporate Governance, and concluded that the arrangements remain satisfactory and fit for purpose. These results are reported separately to this meeting of the Committee.
- 13.2** 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 2016 is presented separately to this meeting of the Committee.

## **14 External assurance**

- 14.1** 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.
- 14.2** 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 grant claims and returns certification report that covered two claims and returns for 2013/14, with a total value of £37.5 million.

**14.3** Only the Housing Benefit subsidy claim for 2014/15 has remained within the scope of the Audit Commission's grant certification regime. The audit of the claim was completed in March 2016 and the results of the audit are reported in the Annual Report on Internal Audit Performance and Effectiveness 2015/16 that is presented separately to this meeting of the Committee.

#### **14.4 Financial Appraisal**

**14.5** There are no additional financial implications from this report.

#### **15 Sustainability Implications**

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

#### **16 Risk Management Implications**

**16.1** 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.

#### **17 Legal Implications**

**17.1** There are no legal implications arising from this report.

#### **18 Equality Screening**

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

#### **19 Background Papers**

**19.1** [Annual Audit Plan 2016/17](#)

## **20 Appendices**

There is no Statement of Internal Audit work and key issues (normally Appendix A) or Log of Significant Outstanding Recommendations (normally Appendix B) for this report.

