

**Agenda Item No:** 8 **Report No:** 78/16

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

**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 for 2015/16.**

**Officers Recommendation(s):**

- 1** To receive the annual report by the Head of Audit, Fraud and Procurement (HAFP).
  - 2** To note that the overall standards of internal control were satisfactory during 2015/16 (as shown in Section 3).
  - 3** To note that the satisfactory opinion on internal control is taken forward into the draft Annual Governance Statement (AGS) 2016 that is presented separately to this meeting of the Committee. The approved AGS is to be included with the Statement of Accounts 2015/16 that will be published in September 2016 (see Section 7).
  - 4** To report to the Cabinet on the Council's systems of internal control.
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**Reasons for Recommendations**

- 1** The remit of the Audit and Standards Committee includes a duty 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. There is a further duty to consider the annual report by the HAFP, and to report annually to the Cabinet on the adequacy and effectiveness of internal controls within the Council.

## **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 have applied since 1 April 2013. HAFP advised the Audit and Standards Committee of the effect of the standards at its March 2013 meeting.
- 2.2** The requirements of the PSIAS overlap with those of the Accounts and Audit Regulations, which require that there be an annual report on the internal control environment. This requirement has been met by an internal study carried out by HAFP, with the results independently reviewed by the Director of Corporate Services and now reported to the Audit and Standards Committee.

## **3 Opinion of the Head of Audit, Fraud and Procurement on the Internal Control Environment at Lewes District Council for the year ended 31 March 2016**

- 3.1** The overall standards of internal control are satisfactory. This opinion is based on the work of Internal Audit, other internal reviews and external assurance bodies, and the Council's work on risk management. The risk management process has identified that most risks are mitigated by the effective operation of controls or other measures. Whilst recommendations have been made to improve procedures and controls in some areas, there were no instances in which internal control problems created significant risks for Council activities or services. In most cases managers have addressed the control issues since the respective audits, and within those recommendations not yet implemented there are no issues that create significant risks for the Council.
- 3.2** This report outlines the work on which the above opinion is based, including high level summaries of the external review processes and their results.

## **4 Internal Audit Work 2015/16**

- 4.1** The work carried out by Internal Audit has been sufficient to enable HAFP to issue an unqualified opinion on the overall adequacy and effectiveness of the Council's control environment. The work carried out by Internal Audit is summarised in the Annual Report on Internal Audit Performance and Effectiveness 2015/16 that is presented separately to this meeting of the Committee.

## **5 Risk Management**

- 5.1** 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.
- 5.2** The Annual Report on Risk Management is presented separately to this meeting of the Committee. The Committee receives updates on risk management at every meeting. The reports during 2015/16 have noted 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.

- 5.3** 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.
- 5.4** 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
- 5.5** 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.
- 5.6** The system of management assurance (see Section 6) 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 is reflected in the Annual Governance Statement (AGS) 2016 (see Section 7).
- 5.7** The overall satisfactory situation in respect of risk management has helped to inform the opinion on the internal control environment.

## **6 System of Management Assurance**

- 6.1** The Council operates a management assurance framework. The framework has 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 2015/16. 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.

## **7 Corporate Governance**

- 7.1** In March 2016 the HAFP, in consultation with key officers, 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 March 2016 meeting of the Committee.
- 7.2** 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 reported separately to this meeting of the Committee.

## **8 External assurance**

- 8.1** 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.
- 8.2** 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.

**8.3** 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.

**8.4** The results of these external reviews have helped inform the opinion on the internal control environment.

## **9 Financial Appraisal**

**9.1** There are no additional financial implications arising from this report.

## **10 Sustainability Implications**

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

## **11 Risk Management Implications**

**11.1** The risk assessment shows that 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 a key aspect of the Council's control arrangements will not comply fully with best practice.

## **12 Equality Screening**

**12.1** I have given due regard to equalities issues and, as this is an internal monitoring report with no key decisions, screening for equalities is not required.

## **13 Background Papers**

None.

## **14 Appendices**

None.