

**Agenda Item No:** 6 **Report No:** 196/13

**Report Title:** Interim Report on the Council's Systems of Internal Control 2013/14

**Report To:** Audit and Standards Committee **Date:** 2 December 2013

**Ward(s) Affected:** All

**Report By:** Head of Audit and Performance

**Contact Officer**

**Name:** David Heath

**Post Title:** Head of Audit and Performance

**E-mail:** [David.Heath@lewes.gov.uk](mailto:David.Heath@lewes.gov.uk)

**Tel no:** 01273 484157

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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 2013/14, 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 2013/14 (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 Internal Audit function at Lewes previously operated in accordance with the Code of Practice for Internal Audit published by the Chartered Institute of Public Finance and Accountancy (CIPFA). 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, which include 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 contains 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 2012/13 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 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 2013/14

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 agreed by the Audit and Standards Committee in March 2013.

4.2 Table 1 shows that a total of 450 audit days have been undertaken compared to 456 planned. The variance of six days is not significant at this stage, and it is estimated that the audit days will be close to plan by the year end.

Table 1: Plan audit days compared to actual audit days for April to October 2013

Audit Area	Actual audit days for the year 2012/13	Plan audit days for the year 2013/14	Actual audit days to date	Pro rata plan audit days to date
Main Systems	289	245	171	
Central Systems	54	90	14	
Departmental Systems	128	155	122	
Performance and Management Scrutiny	68	74	19	
Computer Audit	20	60	6	
Environmental Audit	42	33	37	
Management Responsibilities/Unplanned Audits	128	117	81	
Total	729	774	450	456

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 2012/13. The audit did not identify any significant control issues that would have an impact on the Council's main accounts, although it was necessary to highlight a recurring issue in the authorisation of purchase orders and invoices. A summary report has been finally issued.

- 4.4** The priority work with BDO to test the Council's subsidy claims for Benefits and NDR for 2012/13 is completed. The NDR claim was signed off and submitted by BDO without qualification. The Internal Audit work on the Benefits subsidy claim identified errors in the processing of claims and, at the request of BDO, has again required significant additional testing to determine the extent and impact of the issues noted. The claim has been signed off and submitted, but BDO have issued a letter of qualification. The need for additional work on the subsidy claim has had an effect on the progress that has been possible on the audits within Central and Departmental Systems. A summary report on the Benefits subsidy claim work is at the draft stage.
- 4.5** *Central Systems:* A final report was issued for the audit of Insurance, and an audit of Communications is at the planning stage.
- 4.6** *Departmental Systems:* Final reports were issued for the audits of Waste and Recycling and the Planning User Group. Audits of Planning and Development Control, and Cemeteries are underway, and the audit of Housing Management is at the draft report stage.
- 4.7** *Performance and Management Scrutiny:* Internal Audit has been represented on the Management Boards for the Agile Working and Food Waste projects to advise on internal control and quality assurance. The Food Waste project has been completed and Internal Audit contributed to the end of project review; the new service is now at the 'business as usual' stage. From May 2013, Internal Audit has been performing a quality assurance role on the joint Regeneration and Enterprise Project Board that is managing four regeneration projects. Information obtained from the audit of Economic Development (Departmental Systems) has been used to help with quality improvements in the four projects, and no separate audit report has been issued.
- 4.8** *Computer Audit:* Internal Audit completed the IT aspects of the testing of the main financial systems on behalf of BDO, and a report on the audit of IT Change Control has been finally issued. Two unplanned audits on IT issues are summarised at 4.12.
- 4.9** *Environmental Audit:* During June 2013, Internal Audit examined the Council's annual EMAS statement prior to its submission to Lloyd's Register Quality Assurance (LRQA) verifier as part of the assessment process. The verifier concluded that, with no significant issues to report, the Council continues to meet the requirements of the published standards and it was recommended that the Council's EMAS registration be confirmed. A final report was issued for the 2012/13 audit of EMAS: Waste and Recycling. The 2013/14 programme of EMAS audits is progressing, with the audits of EMAS: Management and Control and EMAS: Pollution Control at the draft report stage.
- 4.10** *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.
- 4.11** Internal Audit has been coordinating the Council's work for the 2012/13 NFI data matching exercise which is run by the Audit Commission. The base data was forwarded to the Audit Commission in October 2012, and the results were returned to the Council in February 2013 for the investigation of reported matches. This investigation work is underway.

- 4.12** Internal Audit has reviewed the Health and Safety function at the Council at the request of the Chief Executive, and a final report has been issued. A review of proposals to make the interfaces between key systems more efficient and an examination of the links between the Council and the Bank Automated Clearing System (BACS) are both at the draft report stage. Although IT managers are focused on supporting the Nexus programme the Director of Finance has requested them and the Head of Revenues to improve arrangements. So far as can be determined there is no immediate risk to the Council from this situation.
- 4.13** Internal Audit has completed the cyclical Equality Analysis report on the service. Some aspects of the planning and conduct of audits are to be reviewed for possible improvements, with this work scheduled to be completed by January 2014.

#### **Follow up of Audit Recommendations**

- 4.14** 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 2013/14 has been on confirming the implementation of the recommendations that were agreed in the previous year. The results of this work were reported to the June 2013 meeting of the Committee. There no significant recommendations that are currently outstanding.

#### **Quality Reviews/Customer Satisfaction Surveys/Performance Indicators (PIs)**

- 4.15** The results of the Internal Audit quality reviews, customer satisfaction surveys and PIs for 2012/13 were reported to the June 2013 meeting of the 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 Committee.
- 4.16** Proposals for a revised set of PIs for Internal Audit were agreed at the September 2013 meeting of the Committee. The revised PIs form the framework for the report on Internal Audit Benchmarking 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 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.
- 5.3** 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 savings target for 2013/14, (£0.8m) has been achieved,

predominantly as a result of the Council's modernisation programme and the Voluntary Severance Scheme for employees. The cumulative savings target for the four year period 2014/15 to 2017/18 is £2.4m, assuming that the Council Tax increases in line with inflation from 2016/17 (the Government is making Council Tax freeze grants available until that time). The Council's financial position is healthy and in good shape to address the necessary deficit reduction plan in a measured way. 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.

- 5.4** 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.

## **6 System of management assurance**

- 6.1** 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 2012/13. 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 2012/13. Nothing has arisen in the first seven months of the financial year to change these assessments.

## **7 Corporate governance**

- 7.1** 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.
- 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 2012/13 was reported to the September 2013 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. In February 2013, the Council external auditors PKF announced their merger with BDO and the operation of the new merged entity under the BDO brand. The results of the reviews by BDO have helped inform the opinion on the internal control environment. The recent results are summarised below.

- 8.2** 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.

## **9 Financial Appraisal**

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

## **10 Risk Management Implications**

**10.1** 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.

## **11 Legal Implications**

**11.1** There are no legal implications arising 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 Equality Screening**

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

### **14 Background Papers**

**14.1** Annual Audit Plan 2013/14 that was presented to the Audit and Standards Committee on 18 March 2013. This can be found at :  
<http://cmis.lewes.gov.uk/CmisWebPublic/Binary.ashx?Document=6156>

### **15 Appendices**

**15.1** Appendix A - Statement of Internal Audit work and key issues

**15.2** 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**

**Date of final issue: 6 November 2013**

Internal Audit has reviewed the current arrangements for Health and Safety (H&S) at work at the request of the Chief Executive. The review was in response to a safety inspection carried out by Unison branch officers that dealt mainly with issues arising from the refurbishment works at Southover House, which have been taking place whilst other parts of the building remain in use.

#### **Overall opinion:**

From the work carried out for this review, Internal Audit has obtained substantial assurance that there is an effective health and safety management system at the Council. The Council is a relatively safe place to work, and this situation is reflected in generally low levels of accidents and incidents being reported. Recent changes in the organisation of Health and Safety point to a positive situation in which the function will be more effective in future. However, the changing nature of service provision, in particular the developments arising from Agile working, has highlighted areas where existing policies and procedures require updating and these are currently being reviewed. The report includes six recommendations, all of which are being actioned.

#### **Main points:**

##### **Health and Safety (H&S) policy**

- The General Statement of Safety Policy is reasonable, and much of the content is reflected in the good practice that is in place within the Council. Overall, the Council is achieving reasonable compliance with the requirements of the Health and Safety at Work Act 1974 and associated regulations. However, there would be benefit in updating policies and procedures to reflect the changes brought about by Agile working.

##### **Organisation and staffing of Health and Safety (H&S)**

- The Safety function at the Council has been adequately resourced, but additional work and recent vacancies have placed pressure on the service. The recent appointment of a full time H&S Officer will alleviate the difficulties experienced over the last year. It is important to prioritise high risk activities.

##### **Consultation with employees on Health and Safety (H&S)**

- The Council's consultation with employees it to demonstrate compliance with the consultation requirements of the Health and Safety at Work Act 1974. The consultation process can be evidenced through team meetings, project team working and staff briefings, and also more formally through the Employment Committee. There is scope to improve the effectiveness of the Employment Committee.
- Unison's request for the re-introduction of the separate Safety Forum has recently been acted upon, and Unison participates in the Agile Working project.

##### **Safety of the Southover House site**

- The refurbishment work has been designed, planned and executed in accordance with the CDM regulations that govern the management of

construction sites, and place the onus on the contractor to manage the site and carry out the work without risk to health and safety. These arrangements could be enhanced by giving the H&S Officer specific responsibility for monitoring overall safety arrangements during any future works at Southover House site and other corporate buildings.

- The complexity of the Southover House site, particularly with the building occupied by both contractor and Council staff throughout the project, meant that there were some safety issues. Staff raised a number of their concerns with Unison, and this was the basis for the Unison inspection.
- The Council has responded to the Unison inspection report, with a number of issues having already been resolved and outstanding matters being dealt with as the building comes into full operation. The Council will continue its dialogue with Unison on any ongoing issues, on what can be done to mitigate risks, and on how best to communicate the information to all employees.

### **Reinforcing the Health and Safety (H&S) message**

- H&S is a top priority for the Council. There has been some very effective communications on H&S issues, but there is scope to improve communication on this topic across the Council as a whole.