

Agenda Item No: 11 **Report No:** 76/15

Report Title: Annual Report on the Council's Systems of Internal Control 2014/15

Report To: Audit and Standards Committee **Date:** 22 June 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 for 2014/15.

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 2014/15 (as shown in Section 3).
 - 3** To note that the satisfactory opinion on internal control is taken forward into the Council's Annual Governance Statement 2014/15 that is to be published with the Statement of Accounts 2014/15 and presented to the September 2015 meeting of the Committee.
 - 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 new 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 2015

- 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 2014/15

- 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 2014/15 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.

- 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 programme commenced in 2011/12 and has achieved each of its annual savings targets including that for the year 2013/14. The savings target for the next two years is £1.146m, with £596,000 in 2014/15 and £550,000 in the year after. The source of savings from this point forward will continue to come from structural change rather than incremental change. The savings target for 2014/15 will mainly derive from efficiencies in procurement and the new Agile Working environment.
- 5.4** The system of management assurance (see Section 6) has confirmed the proper 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 planned savings, and this exercise will be ongoing while the programme of savings continues. It will be necessary to consider any potential risks arising from the savings programme in the Annual Governance Statement (AGS) that will be presented to the September 2015 meeting of the Committee (see Section 7).
- 5.5** 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. This report is presented separately to this meeting of the Audit and Standards Committee for information.
- 5.6** 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 2014/15.
- 6.2** A joint statement by the Chief Finance Officer (Section 151) and Monitoring Officer has confirmed that there were no significant governance issues for the Council in 2014/15.

7 Corporate Governance

- 7.1** In January 2015, the 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.
- 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 2014/15 will be reported to the

September 2015 meeting of the Audit and Standards Committee with the statement of accounts for 2014/15.

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 2013/14 (October 2014) – This report summarises the key issues from the work carried out by BDO during the year, and was presented to the December 2014 meeting of the Committee. The key issues were:

- BDO issued an unqualified true and fair opinion on the financial statements for 2013/14.
- BDO identified three misstatements in relation to revaluations of land and buildings and the accounting for the value of additions to HRA Council dwellings. Appropriate amendments were made to the financial statements. As these corrections relate to capital transactions and valuations there was no impact on the General Fund or HRA balance.
- BDO did not identify any significant deficiencies in internal controls but, working with Internal Audit, BDO observed instances where purchase orders were either in excess of the officer's formal authorisation limits or were placed by officers not on the authorised signatory list. Management has agreed to review and strengthen this control.
- BDO were satisfied that the Council has robust systems and processes to manage financial risks and opportunities effectively and to secure a stable financial position that enables it to continue to operate for the foreseeable future, and BDO therefore issued an unqualified value for money conclusion.
- BDO noted that the Council maintains healthy levels of earmarked reserves and balances, and Members have agreed a policy to use reserves to fund investments and non-recurring expenditure.
- 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 noted that the Council's Whole of Government Accounts (WGA) submission is below the threshold for audit and they were required only to review the total amounts in the Data Collection Tool for property, plant and equipment and for the net pension liability. BDO reported that the values in the Data Collection Tool were consistent with the audited financial statements.
- The Medium Term Financial Strategy was updated during the year and Members continue to consider options for achieving additional savings, with these likely to arise from the continued organisational development process and Programme Nexus.

- BDO have completed their review of the Housing Pooled Capital Receipts 2013/14 and have no matters to report.
- BDO reported on the results of the most recent grant claims and returns certification report that covered three returns for 2012/13 amounting to £67 million. The Housing Pooled Capital Receipts return and National Non Domestic Rates returns were certified without amendment or qualification. The BDO audit of the Housing and Council Tax Benefits subsidy claim for 2012/13 found a number of errors in processing. Following further discussion and the provision of additional supporting information by the Council, DWP amended its assessment of the impact on the claim and made a deduction of approximately £4,000 from the final settlement.

8.3 Grant Claims and Returns Certification for year ended 31 March 2014 (March 2015). The report was presented to the March 2015 meeting of the Committee. The key points were:

- The audit found errors in the administration of benefits involving non-HRA rent rebates, HRA rent rebates and rent allowances. The Council had already recognised the issues in the administration of benefits, and a review of the management and control structures was carried out in the summer of 2014. The Council believes that the results for the second half of 2014/15 will show material improvements from those that were the subject of the BDO report.
- The audit identified deficiencies in the Council's systems and controls around the identification of uncashed payments, and the writing back of these within the subsidy form. The Council will work with BDO to identify and put in place systems and processes that alleviate the weaknesses identified.
- As a result of the errors found in administering benefits, BDO qualified the claim across all benefit expenditure types. The additional work required to be completed by the Council and BDO meant that the audited claim was submitted to DWP two months after the deadline date.
- BDO and the Council will agree a timetable for completing the work on the next subsidy claim to assist both parties in planning and completing the audit on a timely basis.
- The certification of the returns for the Pooling of Housing Capital Receipts was completed satisfactorily, and the claim was submitted as unqualified and without amendment.

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.