

Agenda Item No: 7 **Report No:** 127/16

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

Report To: Audit and Standards Committee **Date:** 26 September 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 five 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 five months of 2016/17 (as shown in Section 3).
 - 2 To note the impact of the revised Public Sector Internal Audit Standards (PSIAS) that were published in April 2016 (as shown in Section 7).
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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 were applied 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 have been updated, with new standards published in April 2016. The impact of the new standards is outlined at Section 7.
- 2.3** The PSIAS 2016 continue to 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 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 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 five 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. Prompt corrective action was taken to address issues noted during an internal audit of the Council's Right to Buy (RTB) processes (see Appendix A1).

4 Internal Audit work 2016/17

- 4.1** This section of the report summarises the work undertaken by Internal Audit during the first five 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 287 audit days have been undertaken compared to 264 planned. The variance of 23 days is not significant at this stage, and it is estimated that the audit days will be closer to plan by the year end.

Table 1: Plan audit days compared to actual audit days for April to August 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	142	
Central Systems	57	60	33	
Departmental Systems	68	70	74	
Performance and Management Scrutiny	27	45	5	
Computer Audit	2	45	-	
Management Responsibilities/Unplanned Audits	88	116	33	
Total	602	626	287	264

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 major 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 has been prepared.
- 4.4** The priority work on behalf of BDO to test the Council's subsidy claims for Benefits for 2015/16 is underway. BDO's initial planning for this work has identified from the outset the need for significant additional testing to address the issues noted in the previous year's claim.
- 4.5 Central Systems:** Audits of Insurance and Electoral Registration and Elections are at the draft report stage. Final reports have been issued for the audit of Ethics and for the priority audit of Business Continuity Planning (BCP) from the 2016/17 programme. The joint review with EBC of the respective Leisure Trusts is underway.
- 4.6 Departmental Systems:** The final reports from the audits of Right to Buy (RTB) and Private Sector Housing have been issued. The audit of Cemeteries is underway. The audit of Estates Management, incorporating work on the corresponding function at EBC, has been planned and will commence in January 2017.
- 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 has examined 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 were reported separately to the June 2016 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 2015/16, and the targets for 2016/17, were reported to the June 2016 meeting of the 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 Committee.

7 Public Sector Internal Audit Standards (PSIAS)

- 7.1** The updated PSIAS 2016 are materially the same as those that have been in place since 2013. Two changes have been made, the first is to introduce a mission statement for Internal Audit and the second is to adopt ten core principles for the professional practice of internal auditing. The mission statement and core principles are as follows.

Mission Statement for Internal Audit

To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Core Principles for the Professional Practice of internal Auditing

- 1** Demonstrates integrity.
 - 2** Demonstrates competence and due professional care.
 - 3** Is objective and free from undue influence (independent).
 - 4** Aligns with the strategies, objectives and risks of the organisation.
 - 5** Is appropriately positioned and adequately resourced.
 - 6** Demonstrates quality and continuous improvement.
 - 7** Communicates effectively.
 - 8** Provides risk-based assurance.
 - 9** Is insightful, proactive, and future focussed.
 - 10** Promotes organisational improvement.
- 7.2** The Charter for Internal Audit has been updated to reflect the above additions. In other respects, the PSIAS 2016 remain unchanged. The results of the Quality Assurance and Improvement Programme (QAIP) that were reported to the June 2016 meeting of the Committee still hold good, in that HAFP confirms that the standards of Internal Audit work comply with the audit manual and the PSIAS 2016.

8 Combatting Fraud and Corruption

- 8.1** The Annual Report on the Council's work to combat Fraud and Corruption 2015/16 was presented to the June 2016 meeting of the Committee. That report was a detailed statement of the strategies and structures that in place to counter fraud and corruption, and the information within the report is still accurate and relevant. Below are updates that outline the main developments since the start of 2016/17.

Local developments

- 8.2** The Investigation Team maintains its membership of the East Sussex Fraud Officers Group (ESFOG), a body that enables information sharing and joint initiatives with neighbouring authorities on a wide range of counter fraud work. 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 has funded an ongoing programme of training, and the implementation of a shared case management system that became fully operational in June 2016.

LDC Investigations Team

- 8.3** The Council has in place an agreement with DWP for the management of cases of HB fraud, and officers work with local DWP teams to help ensure efficient operation of the processes covered by the agreement. The major work on each case is the responsibility of the national Single Fraud Investigation Service (SFIS) within DWP. The Council retains a role in referring cases of suspected HB fraud to SFIS and handling requests for information. In an agreement with the Investigation Team at EBC a member of that team has, since mid-August 2016, taken over the Council's SFIS liaison work. Since 1 April 2016, 55 HB cases have been passed to SFIS, and 35 information requests have been actioned.
- 8.4** The LDC Investigations Team retain 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 cases that are not subject to prosecution. Nine cases are currently awaiting investigation.
- 8.5** The main focus of the team's work in 2016/17 has been in continuing to address tenancy fraud. The team's approach has included obtaining best practice guidance from other authorities, and maintaining effective referral arrangements with officers in LDC Housing Services. Two properties have been returned to the Council's housing stock (during July and August 2016), and 10 suspected cases of abandonment or subletting are currently being investigated. Since July 2016, the Investigation Team has been operating a new regime of checks on Right to Buy (RTB) applications to prevent and detect fraud, and protect the Council against money laundering; two potential cases of RTB fraud are being investigated and seven other RTB applications have been withdrawn by the tenants.

9 Risk Management

- 9.1** Cabinet approved the Risk Management Strategy in September 2003. Since then risk management at the Council has been the subject of ongoing development, 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.
- 10** 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.
- 11** 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 JTP with EBC. A budget has been allocated to finance the investment needed to implement the changes required through the JTP

12 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.

12.1 The Annual Report on Risk Management was presented to the June 2016 meeting of the Committee. The report forms part of the annual reporting cycle on risk as set out in the Risk Management Strategy. The report was presented to Cabinet at its July 2016 meeting.

13 System of management assurance

13.1 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 five months of the financial year to change these assessments.

14 Corporate governance

14.1 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.

14.2 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 draft AGS for 2016 was presented to the June 2016 meeting of the Committee. The final version of the AGS is presented separately to this meeting of the Committee with the Statement of Accounts for 2015/16.

15 External assurance

15.1 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.

15.2 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.

15.3 Grant Claims and Returns Certification for year ended 31 March 2015 (April 2016). The report was presented to the June 2015 meeting of the Committee. The key points were:

- The audit identified a high level of errors within the cases tested, which required a significant amount of extra testing by BDO and the Council. No amendments were made to the final claim submitted to DWP.
- The main errors were in the administration of benefits involving non-HRA rent rebates and rent allowances. There were a small number of cases of incorrect classification of expenditure as non-HRA, when the expenditure should have been classified as HRA rent rebates.
- The audit identified deficiencies in the Council's systems and controls around the identification of prior year uncashed payments, resulting in an under claim of £556.
- 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 in March 2016, four months after the deadline date.
- The certification of the returns for the Pooling of Housing Capital Receipts was completed satisfactorily without amendment of certification. The main reported issue was the need for the Council to have in place appropriate plans to use retained receipts by certain milestone dates, otherwise the receipts must be paid to DCLG.

15.4 As was reported to the June 2016 meeting of the Committee, DWP made a marginal adjustment to the submitted claim which was agreed at a total value of approximately £35.8m.

16 Financial Appraisal

16.1 There are no additional financial implications from this report.

17 Sustainability Implications

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

18 Risk Management Implications

18.1 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.

19 Legal Implications

19.1 There are no legal implications arising from this report.

20 Equality Screening

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

21 Background Papers

21.1 [Annual Audit Plan 2016/17](#)

22 Appendices

22.1 Appendix A1: Statement of Internal Audit work and key issues.

22.2 Appendix A2: Table of abbreviations.

22.3 There is no Log of Significant Outstanding Recommendations (normally Appendix B) for this report.

APPENDIX A1

Statement of Internal Audit work and key issues

Audit Report: Right to Buy (RTB)

Date of final issue: 17 June 2016

Overall opinion:

From the audit work carried out during this review Internal Audit has obtained minimal assurance that there is an adequate system of internal control covering the administration of RTB applications. The initial receipt and processing of applications within Customer Services have been carried out to reasonable standards. However, the controls in place have been insufficient to safeguard the system against a range of risks, the most significant of which is that sale prices have not always reflected a correct assessment of the allowed discount. Appropriate corrective action was taken during the audit to address immediate issues, but further changes to the checks and controls covering the processing of RTB cases have been required. The report contains seven recommendations.

Main points:

In the majority of RTB sales, the maximum price discount is allowed because of the length of time the purchasers have been tenants. All cases are assessed via an Internal Record Sheet held on the Comino system. The audit has shown that the sheet had consistently calculated discounts at a rate that was higher than appropriate for the length of the tenancies. As a result, the Council had underpriced a significant proportion of the RTB sales in the period since April 2012. The Internal Record Sheet was corrected during the audit, but the Council was at risk of losing approximately £100,000 in sale receipts from completed and ongoing sales. Sale prices are being reviewed, and re-negotiated where possible, in all RTB cases that are not yet completed.

The initial part of the RTB process is carried out within the Customer Services department, and the standard RTB procedures and supporting Comino forms are those that were provided to the Customer Services team following the reorganisation of the service. The RTB process is reliant on Comino to provide prompts, though the prompts are not exhaustive and it appears possible to continue with the process without completing all the necessary stages and ensuring key documents are retained. The process has not been subject to sufficient supervisory monitoring to ensure that the necessary quality standards are maintained and time scales are met.

There is no formal RTB policy statement and no written guidance to support the processes within Comino.

During the financial year 2015/16 a total of 49 RTB applications were received, of which six applications were withdrawn. One application has resulted in a property sale and, at the time of the audit, the remaining 42 cases were at different stages in the RTB administrative and completion processes. The situation means that cases are not being completed in accordance with the normal timescales for each stage of the process that are set out in the RTB government guidelines.

Internal Audit is recommending fundamental changes to the process for administering RTB applications to address the issues noted by the audit. These include additional checks on applicants to confirm their validity and the source of their purchase funds. This is a

departure from previous LDC policy, but one that reflects best practice controls operated at some other authorities in order to address the risk of fraud.

Audit Report: Business Continuity Planning (BCP)

Date of final issue: 24 June 2016

Overall opinion:

From the audit work carried out during this review Internal Audit has obtained partial assurance that there is a sound system of internal control covering the current BCP arrangements. The report contains seven recommendations.

Main points:

There is no chief officer with responsibility for BCP, and BCP has not been actively managed since 2014.

BCP arrangements will need to reflect the joining of services and associated IT systems for Lewes District and Eastbourne Borough Councils.

The current Business Continuity Plan is a comprehensive document but some of the information is out of date because of the changes that have taken place at the Council since 2014. The current version of the plan on Infolink dates from 2012. ISO22301 provides the gold standard for BCP, setting out the key components that should be in place to ensure effective BCP arrangements - this standard can be used as a guide when the Council's plan is reviewed and updated.

The current arrangements for testing the plan are not adequate and may reduce the ability of officers to respond effectively if a real event occurs.

Some key components of the LDC IT Disaster Recovery Plan are in place, and it is envisaged that the merger of the IT services at Eastbourne and Lewes will enable the respective data centres to be used as mutual IT disaster recovery locations. Until that happens LDC does not have a full IT Disaster Recovery Plan to deal with the impacts of major incidents.

Audit Report: Ethics

Date of final issue: 16 August 2016

Overall opinion:

From the work carried out as part of this review, Internal Audit had obtained substantial assurance that the Council has an adequate framework of policies and procedures governing ethical standards at the Council. The framework is set out in the Council's Local Code of Corporate Governance, which includes the responsibilities for monitoring and review. In all significant respects, the framework is operating as intended and provides reasonable control over the ethics related objectives, programmes and activities of the Council. The report contains one recommendation.

Main points:

The one issue that may require further action concerns the maintenance of a register of Member's interests. There are reasonable procedures in place to maintain records of

Members' interests but not all Members' declarations are complete or up to date.

Audit Report: Private Sector Housing - including Disabled Adaptations

Date of final issue: 30 August 2016

Overall opinion:

From the audit work carried out during this review Internal Audit has obtained partial assurance that there is a sound system of internal control covering Private Sector Housing. Controls are in place and to an extent there is reasonable compliance, and the staff involved are committed to achieving the right outcomes for residents. However, there are gaps in the control arrangements, particularly in the basic administrative processes and record keeping, which weaken the system and increase the risk of error, delay and incorrect payments. The report contains six recommendations.

Main points:

Disabled Adaptations

The Council has met its statutory duty to assess each valid application for a Disabled Facilities Grant (DFG) within six months of receipt. However, there are inconsistencies in the ways in which supporting information is collected, recorded and acted upon, and these inconsistencies can create significant delays in the preparation of applications. Internal Audit believes that changes, and ongoing variations, in the staffing, organisation and oversight of the administration of grant applications since 2014 have contributed to this situation.

The variations in the administrative process can extend to the despatch of the letters that formally approve grant applications. In some instances there are lengthy delays between the approval of the grant and sending written confirmation of the decision to the applicant.

The procedures for formally recording the completion of adaptation works is not operating as intended. In some cases, completion notices have been signed and final inspections have taken place before all work is complete. The Council could do more to ensure that the applicant gets the optimum use and value from the completed works.

There are insufficient controls in place to ensure that payments to third parties are correct and justified. Inconsistent record keeping and the absence of any reconciliation between the grant funding recorded on Northgate and the amounts recorded as paid on the Agresso finance system have contributed to a situation in which duplicate payments have been processed.

The procedures for dealing with DFG applications are well documented but not all elements of the procedures are applied, and the guidance would benefit from further detail on basic administrative routines and the timescales that should be applied.

Houses in Multiple Occupation (HMOs)

During 2015/16 there were insufficient controls in place to ensure that the Council met its statutory duty in respect of the licensing of HMOs under the Housing Act 2004. During the audit, officers took action to address the immediate concerns and begin the process to bring the procedures up to the necessary standards.

Private Sector Housing Condition

Private tenants making enquiries about the condition of their rented properties are dealt with promptly, and any issues raised are followed up and resolved quickly. However, in the cases examined there were limited notes on the action taken including the visits to properties and meetings with landlords. This situation creates a risk that, if a case requires any further action, there will not be an adequate case history to guide whatever follow up is needed.

Appendix A2

Table of abbreviations

AGS – Annual Governance Statement
BCP – Business Continuity Planning
BDO – BDO, the Council's external auditors. Formerly BDO Stoy Hayward
CIPFA – Chartered institute of Public Finance and Accounting
CMT – Corporate Management Team
CTRS – Council Tax Reduction Scheme
DFGs – Disabled Facilities Grants
DWP – Department of Work and Pensions
EBC – Eastbourne Borough Council
ESFOG – East Sussex Fraud Officers Group
HAFP – Head of Audit, Fraud and Procurement
HB – Housing Benefit
HRA – Housing Revenue Account. Refers to Council owned housing
ISO – International Organisation for Standardisation
IT – Information Technology
JTP – Joint Transformation Project
LDC – Lewes District Council
NFI – National Fraud Initiative
PIs – Performance Indicators
PSIAS – Public Sector Internal Audit Standards
QAIP – Quality Assurance and Improvement Programme
RTB – Right to Buy
SFIS – Single Fraud Investigation Service
WGA – Whole of Government Accounts