

**Agenda Item No:** 6 **Report No:** 13/17

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

**Report To:** Audit and Standards Committee **Date:** 16 January 2017

**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 eight 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 eight 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 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 was reported to the September 2016 meeting of the Committee.

- 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.
- 2.4** 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 eight 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 also 4.8).

### **4 Internal Audit work 2016/17**

- 4.1** This section of the report summarises the work undertaken by Internal Audit during the first eight 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 462 audit days have been undertaken compared to 427 planned.

Table 1: Plan audit days compared to actual audit days for April to November 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	222	
Central Systems	57	70	79	
Departmental Systems	68	70	83	
Performance and Management Scrutiny	27	45	8	
Computer Audit	2	45	-	
Management Responsibilities/Unplanned Audits	88	116	70	
<b>Total</b>	<b>602</b>	<b>636</b>	<b>462</b>	<b>427</b>

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** The variance of 35 days has largely been due to the Head of Audit, Fraud and Procurement being involved in more direct audit work at this stage of the year than was originally envisaged. It is estimated that the audit days will be close to plan by the year end, partly because of the staff change outlined at 4.4 below.
- 4.4** One of the Senior Auditors at LDC has confirmed his planned retirement in January 2017. The intention is for the vacancy to be filled at Auditor level, although the recruitment process is in its early stages and, depending on the outcome, there could be a reduction in the days available for audit work in the latter months of 2016/17.
- 4.5 *Main Systems:*** The initial work was 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 final report has been issued.
- 4.6** The 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 had set out the standard testing requirements and identified the likely need for significant additional testing to address the issues noted in the previous year's claim. The standard testing was completed, and the test samples for the additional testing were confirmed in late October. The additional testing has been underway since then but the claim was not submitted to the Department of Work and Pensions (DWP) by the normal submission date at the end of November 2016. The Benefits subsidy claim is the priority task for Internal Audit.
- 4.7 *Central Systems:*** Some outstanding issues from the audit of Electoral Registration and Elections are being examined prior to confirmation of the draft report. Final reports have been issued for the audit of Ethics, Newhaven Business Centre, Insurance, and for the priority audit of Business Continuity Planning (BCP). The results of the joint review of the EBC/LDC Leisure Trusts have been discussed with CMT, and the final version of the report will be issued shortly.
- 4.8 *Departmental Systems:*** The final reports from the audits of Right to Buy (RTB), Private Sector Housing and Cemeteries have been issued. The audit of Estates Management, incorporating work on the corresponding function at EBC, has been planned and will commence in January 2017.
- 4.9** The final report from the audit of RTB included an estimate of the impact of the discounting errors in completed and ongoing RTB sales in the period 2012/13 – 2015/16. The estimated loss to LDC was approximately £100,000. Immediate action was taken to correct the prices of ongoing sales, as was reported to the September 2016 meeting of the Committee. The effect is that the loss to LDC has been reduced to £88,000.
- 4.10 *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).
- 4.11 *Computer Audit:*** Internal Audit has examined the IT aspects of the main financial systems (see 4.5 above).

**4.12 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, and managing the Follow Up procedures. There has been just one unplanned audit - a small scale exercise to review cash handling procedures at the Lewes Tourist Information Centre, and there were no significant outcomes.

## **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 was 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 Review of 2016/17 Audit Plan**

**7.1** As part of the report to the March 2016 meeting of the Committee that detailed the Annual Audit Plan, HAFP advised that there would be a nine month review of the Audit Plan for 2016/17 to assess whether any significant changes are necessary.

**7.2** That review will take place at the nine month stage and the results of the review will be presented to the Committee. As an interim measure HAFP advises that, with the current rate of progress, all significant aspects of the annual audit plan will be covered. The only exception is the planned audit of IT Security and Networks that will not be possible because of the retirement of the Senior Auditor who is the specialist computer auditor.

## **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.

- 8.3** The Hub has funded training, the implementation of a shared case management system, a housing support system that enables the analysis of tenancy data to help improve tenancy management and highlight fraud risks, and a programme of counter fraud publicity work by the private sector company PRG.

### **LDC Investigations Team**

- 8.4** 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, 87 HB cases have been passed to SFIS, and 56 information requests have been actioned.
- 8.5** The LDC Investigations Team retains 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 under review and one case is being investigated.
- 8.6** The main focus of the team's work in 2016/17 has been in continuing to address tenancy issues. 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, and another property return will take place during January 2017. A further 18 suspected cases of abandonment or subletting are being investigated or are undergoing pre-investigation review.
- 8.7** 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. To date, 18 RTB applications have been withdrawn after intervention by the Investigations Team. The team has been examining the withdrawn applications and one of the ongoing applications because some of the cases indicate potential fraud; three investigations are underway.

### **National Fraud Initiative (NFI)**

- 8.8** Internal Audit continues to coordinate the Council's work on NFI data matching exercises. Council services submitted the various data ranges in mid-October 2016 and have dealt with a number of queries since then.
- 8.9** Internal Audit, the Investigations Team and service managers are preparing for the receipt of the reported matches in February 2017. New types of matches, and forecasts of more matches in categories such as Identity Theft, mean that the Investigations Team will have a greater role than previously in dealing with output from the exercise. Future reports to the Committee will contain progress reports on the NFI.

## **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. There has been nothing in the first eight 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 were reported to the March 2016 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, and the final version of the AGS was presented to the September 2016 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 2015/16 (October 2016) – This report summarises the key issues from the work carried out by BDO during the year, and was presented to the November 2016 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 2016.
- BDO identified a number of misstatements on the Cash Flow Statement and in the classification of short term investments. These were corrected before completion of the financial statements.
- BDO were satisfied that the Narrative Report, which local authorities include in the Statement of Accounts to offer interested parties guidance on the most significant matters, was consistent with the financial statements.
- BDO did not identify any significant deficiencies in the Council's framework of internal controls, but did report on areas where improvements in controls could be made including declarations of related party transactions, the documentation of Council Tax discounts, and access to some IT systems.
- BDO were satisfied that the Annual Governance Statement (AGS) was not misleading or inconsistent with other information they were aware of from their audit work.
- BDO issued an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- BDO found that the Council has adequate arrangements for budget setting and budget monitoring, and the Council has identified sufficient savings over the next four years to balance its budget.
- BDO noted that many of the savings will arise from the Joint Transformation Programme with EBC, and BDO were satisfied that there are effective governance arrangements in place to oversee delivery of the project.
- BDO noted that the Council's Whole of Government Accounts (WGA) submission is below the threshold for further work other than to submit the WGS Assurance Statement. This was submitted on 7 October 2016 ahead of national deadline.
- BDO reported that the review of grant claims and returns for 2015/16 is in progress, and the results will be reported on completion.
- BDO reviewed the governance arrangements for Council's New Homes Project, and made a number of recommendations for improvement that should be applied to future projects.

**15.3** Grant Claims and Returns Certification for year ended 31 March 2015 (April 2016). The report was presented to the June 2016 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: Newhaven Enterprise Centre (NEC)**

**Date of final issue: 7 December 2016**

##### **Overall opinion:**

From the audit work carried out Internal Audit has obtained substantial assurance that there is a sound system of internal control covering the NEC. On the whole, compliance with controls is satisfactory, although there are a small number of issues that indicate there is scope to strengthen the way some controls are operated. The report contains two recommendations.

##### **Main points:**

Council carries out regular monitoring of the operation of the NEC, with regular site meetings with Basepoint representatives and examination of the quarterly Occupancy and Health and Safety reports provided by Basepoint. These monitoring arrangements mean that it is unlikely that any significant operational, safety or security issues would be overlooked but not all aspects of the contract are formally reviewed.

The NEC appears secure with CCTV monitoring of entrances and exits. Equipment and furniture assets are recorded and monitored by Basepoint, and are properly safeguarded. However, updates to the asset records are not forwarded to the LDC Insurance Officer, and no inventory audit has taken place since 2012. These points were both rectified during the audit.

Reasonable financial procedures are in place, which enable Council officers to account for income and expenditure, and to monitor the financial arrangements operated by Basepoint on the Council's behalf. The annual sampling of supporting documents for transactions completed at the NEC provides assurance as to the effectiveness of the financial procedures. These sampling checks were not completed in 2015/16 following changes in officer responsibilities, but the checks will take place in future.

#### **Audit Report: Cemeteries**

**Date of final issue: 16 December 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 Cemeteries. Controls are in place and to an extent there is reasonable compliance. However, there are gaps in the control processes which weaken the system, and there is a need to introduce additional controls, or improve compliance with existing controls, to reduce the risk to the Council.

##### **Main points:**

Risks in cemeteries are being monitored but it appears some issues are not being identified and addressed. The weekly inspection sheets used by the contractor are not being completed properly in that it is not easy to determine the areas checked, no actions are noted and risk levels are not shown or are given as low risk. Site visits during the audit

noted collapsed/settled graves and cracked pathways. An external inspection of memorials was made and reported in 2015 but no action plan has been put in place to deal with the risks identified.

Burial capacity is a national long term issue, and there is an impending issue with burial capacity at Lewes. There are burial plots at Seaford to last for 10-15 years but there are only enough plots left in Lewes to provide two years' capacity. A report on this issue that was planned to go to Cabinet in November 2015 was not presented, and there has not been any further report prepared. A range of options for increasing capacity at Lewes are currently being considered.

The staff guidance notes covering the cemeteries service are not sufficiently detailed to enable any other officer to carry out the work adequately in the absence of those who have a full understanding of the procedures.

### **Audit Report: Insurance**

**Date of final issue: 20 December 2016**

#### **Overall opinion:**

From the audit work carried out Internal Audit has obtained full assurance that there is a sound system of internal control covering insurance, and compliance with controls is good. In particular, insurable risks have been identified and assessed as the basis for arranging appropriate insurance cover. Procedures are in place to review and submit claims in reasonable time, and claims are monitored to ensure settlement within reasonable time. Levels and types of claims are monitored to identify possible areas for action to reduce risk and limit increases in insurance costs.

#### **Main points:**

Normally, audit reporting is by exception in that the findings and conclusions cover those areas that require attention, and recommendations outline the necessary changes in procedures and controls. The satisfactory situation means that there are no improvements that need to be made within the scope and objectives of the audit. The report contains no recommendations.

## **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  
DCLG – Department for Communities and Local Government  
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