

Audit and Standards Committee

17 July 2018



Time and venue:

10.00 am in the Ditchling Room - Southover House, Lewes

Membership:

Councillor Mike Chartier (Chair); Councillors Stephen Catlin, Johnny Denis, Nigel Enever, Stephen Gauntlett, Andy Loraine and Julian Peterson

Quorum: 4

Published: Monday, 9 July 2018

Agenda

1 Minutes (Pages 1 - 6)

To confirm and sign the minutes of the previous (inquorate) meeting held on 19 March 2018 (attached herewith).

2 Apologies for absence/declaration of substitute members

3 Declarations of interest

Disclosure by councillors of personal interests in matters on the agenda, the nature of any interest and whether the councillor regards the interest as prejudicial under the terms of the Code of Conduct.

4 Urgent items

Items not on the agenda which the Chair of the meeting is of the opinion should be considered as a matter of urgency by reason of special circumstances as defined in Section 100B(4)(b) of the Local Government Act 1972.

5 Written questions from councillors

To deal with written questions from councillors pursuant to Council Procedure Rule 12.3 (page D8 of the Constitution).

6 Annual Report on the Council's work to combat Fraud and Corruption 2017/18 (Pages 7 - 14)

Report of Head of Audit and Counter Fraud.

7 Annual Report on the work of the Audit and Standards Committee 2017/18 (Pages 15 - 20)

Report of Chair of the Audit and Standards Committee.

8 Annual Governance Statement 2018 (Pages 21 - 36)

Report of Head of Audit and Counter Fraud.

9 Annual Report on Internal Audit Performance and Effectiveness 2017/18
(Pages 37 - 48)

Report of Head of Audit and Counter Fraud.

10 Annual Report on the Council's Systems of Internal Control 2017/18 (Pages
49 - 56)

Report of Head of Audit and Counter Fraud.

11 Interim Report on the Council's Systems of Internal Control 2018/19 (Pages
57 - 66)

Report of Head of Audit and Counter Fraud.

12 BDO update

Verbal update by BDO.

13 Statement of Accounts 2017/18 (Pages 67 - 70)

Report of Deputy Chief Executive.

14 Date of next meeting

To note that the next meeting of the Audit and Standards Committee is scheduled to be held on Monday, 24 September 2018 in the Ditchling Room, Southover House, Southover Road, Lewes, BN7 1AB, commencing at 10:00am.

Information for the public

Accessibility: Please note that the venue for this meeting is wheelchair accessible and has an induction loop to help people who are hearing impaired. This agenda and accompanying reports are published on the Council's website in PDF format which means you can use the "read out loud" facility of Adobe Acrobat Reader.

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Public participation: Please contact Democratic Services (see end of agenda) for the relevant deadlines for registering to speak on a matter which is listed on the agenda if applicable.

Information for councillors

Disclosure of interests: Members should declare their interest in a matter at the beginning of the meeting.

In the case of a disclosable pecuniary interest (DPI), if the interest is not registered (nor the subject of a pending notification) details of the nature of the interest must be reported to the meeting by the member and subsequently notified in writing to the Monitoring Officer within 28 days.

If a member has a DPI or other prejudicial interest he/she must leave the room when the matter is being considered (unless he/she has obtained a dispensation).

Councillor right of address: A member of the Council may ask the Leader, a Cabinet Member or the Chair of a committee or sub-committee any question without notice upon an item of the report of the Cabinet or a committee or subcommittee when that item is being received or under consideration by the Council.

A member of the Council may ask the Chair of a committee or sub-committee a question on any matter in relation to which the Council has powers or duties or which affect the District and which falls within the terms of reference of that committee or subcommittee.

A member must give notice of the question to the Head of Democratic Services in writing or by electronic mail no later than close of business on the fourth working day before the meeting at which the question is to be asked.

Democratic Services

For any further queries regarding this agenda or notification of apologies please contact Democratic Services.

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Telephone: 01273 471600

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Audit and Standards Committee

Minutes of a meeting of the **Audit and Standards Committee** held in the **Ditchling Room, Southover House, Southover Road, Lewes** on **Monday, 19 March 2018** at 10.00am

Present:

Councillor M Chartier (Chair)
Councillors S Catlin and J Denis

Officers Present:

D Heath, Head of Audit and Counter Fraud
S Jump, Deputy Head of Finance
J Norman, Committee Officer

Also Present:

J Combrinck, Engagement Lead, BDO

| | | Minutes | Action |
|----|------------------------------|---|--------|
| 42 | Quorum | The meeting was inquorate and the resolutions made were therefore those of the councillors who were present. | |
| 43 | Minutes | The Minutes of the meeting held on 22 January 2018 were approved as a correct record and signed by the Chair. | |
| 44 | Apologies for Absence | | |

Apologies for absence had been received from Councillors N Enever, S Gauntlett and A Loraine.

45 Interim Report on the Council's Systems of Internal Control 2017/18

The Committee received the report which informed councillors on the adequacy and effectiveness of the Council's systems of internal control during the first eleven months of 2017/18, and which summarised the work on which that opinion was based.

Members' discussion included:

- If it would be possible for the Council to make available its room hire information and availability to town and parish councils within the District.
- Health and safety practices of the Council's cemeteries within the District.
- That congratulations and thanks be given to officers for their dedication and hard work despite issues with staffing.

Officers responded that:

- This would need to be raised with the appropriate manager.
- They were responsible for the internal audit work, but health and safety practices had not been looked at, as they were not part of the internal audit.
- They were thankful for the Committee's acknowledgement of their efforts.

Recommended:

1. That it be noted that the overall standards of internal control were satisfactory during the first eleven months of 2017/18, as shown in section 3 of the report.

Reason:

The remit of the Audit and Standards Committee included 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.

46 Annual Audit Plan 2018/19

The Committee considered the report which set out the Annual Audit Plan for 2018/19.

Recommended:

1. That the Annual Audit Plan for 2018/19, as set out in Appendix 1 of the report, be agreed; and
2. That it be noted that the Annual Audit Plan recognised the specific circumstances which arose from the Joint Transformation Programme (JTP), as part of which the shared Audit and Counter Fraud service became formally integrated on 1 July 2017, as shown under Section 2 of the report.

Reasons:

The remit of the Audit and Standards Committee included a duty to agree an Annual Audit Plan and a three year Strategic Audit Plan, and keep both under review.

47 Risk Management and the Strategic Risk Register

The Committee considered the report which detailed the Council's Risk Management Strategy, and proposed a change in approach to reporting of strategic risks and highlight those risks that were faced by the Council.

Members' discussion included:

- The Committee's approval and thanks to officers for their work in refining the evaluation of risk scores, as detailed on page 39 of the report.

Officers responded that:

- The Head of Audit and Counter Fraud put the process in place to help align the approach going forward, which have resulted in improvements across both Lewes District Council (LDC) and Eastbourne Borough Council (EBC).

Recommended:

1. That the Council's Risk Management Strategy as set out in Appendix 1 of the report be agreed;
2. That the change in approach to the reporting of strategic risks be approved; and
3. That strategic risks identified by the Corporate Management Team (CMT), and the associated mitigating controls set out in Appendix 2 of the report, be noted.

Reason:

- 1) The Council is committed to the proper management of risk. This report formed part of reporting cycle on risk as set out in the Risk Management Strategy. This report also provided key elements in the Council's submissions to the external auditor, BDO, and will provide data for the Annual Governance Statement (AGS); and

- 2) To align risk management processes with those of Eastbourne Borough Council.

48 Treasury Management

The Committee considered the report which presented details of recent Treasury Management activity between 1 January to 28 February 2018, and which confirmed that those activities had been in accordance with the approved Treasury Strategy for that period.

Recommended:

1. That it be confirmed to Cabinet that Treasury Management activity between 1 January and 28 February 2018 had been in accordance with the approved Treasury Strategy for that period, as set out in the report.

Reasons:

The Council's approved Treasury Strategy Statement required the Audit and Standards Committee to review details of investment and borrowing transactions against the criteria set out in the Strategy and make observations to Cabinet as appropriate.

49 Audit Plan – Audit for the Year Ended 31 March 2018

The Committee considered the report from BDO, the Council's external auditor, which detailed the key issues relevant to the audit of the financial statements and use of resources of the Council for the year ending 31 March 2018.

Recommended:

1. That the report be noted.

Reasons:

To highlight and explain the key components of BDO's audit strategy relevant to the audit of financial statements and use of resources of the Council for the year ending 31 March 2018.

50 Date of Next Meeting

Before the date of the next meeting was acknowledged, and prior to his leaving the Council in June 2018, the Committee wished to recognise and thank the Deputy Head of Finance for his professionalism, dedication and all of his hard work during his time with the Council.

Resolved:

1. That the next scheduled meeting of the Audit and Standards Committee to be held on Tuesday, 17 July 2018 at 10.00am in the Ditchling Room, Southover House, Southover Road, Lewes be noted.

All to note.

The meeting ended at 11.07am.

M Chartier
Chair

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Report Title: Annual Report on the Council's work to combat Fraud and Corruption 2017/18

Report To: Audit and Standards Committee **Date:** 17 July 2018

Ward(s) Affected: All

Report By: Head of Audit and Counter Fraud

Contact Officer

Name: David Heath

Post Title: Head of Audit and Counter Fraud

E-mail: David.Heath@lewes-eastbourne.gov.uk

Tel no: 01273 084157

Purpose of Report:

To inform Councillors on the adequacy and effectiveness of the Council's systems to combat fraud and corruption during 2017/18.

Officers Recommendation(s):

- 1 To receive the report, and note the control measures that are in place to maintain a strong anti-fraud and corruption culture (see Section 3).
- 2 To note the structures within the Council that counter fraud and corruption, particularly the arrangements for preventing, detecting and investigating fraud across a range of Council services and activities (see Section 4).
- 3 To note the Council's involvement in national, regional and local counter fraud networks (Section 5).
- 4 To note the results of the Council's counter fraud activity during 2017/18 (Section 6).
- 5 To note the Council's compliance with CIPFA's Code of Practice on managing the risk of fraud and corruption (Section 8).
- 6 To reaffirm the Council's zero tolerance to fraud and corruption.

Reasons for Recommendations

- 1 The remit of the Audit and Standards Committee includes the duties to keep under review the probity and effectiveness of internal controls, and to monitor Council policies on Anti-Fraud and Corruption and Whistleblowing.

Information

2 Background

- 2.1** In simple terms, fraud is obtaining a financial or other gain by means of deception, dishonesty or theft. Similarly, corruption is the dishonest exercise of official duties or position on order to achieve financial or other gain, for example the receiving of gifts, rewards or favours from the misuse of information or influence.

- 2.2** In recent years, central and local government has sought to develop new initiatives to counter fraud and corruption, and the Chartered Institute of Public Finance and Accounting (CIPFA) published a Code of Practice on managing the risk of fraud and corruption. The Code emphasises that leaders of public services have a responsibility to embed effective standards for countering fraud and corruption in their organisations. This supports good governance and demonstrates effective financial stewardship and strong public financial management.
- 2.3** The Head of Audit and Counter Fraud (HACF) has reviewed the Council's arrangements for countering fraud and corruption, and compared them to the standards and principles within the Code. This report outlines the Council's work to counter fraud and corruption in 2017/18, and how this work meets the Council's responsibilities for ensuring an effective response to these risks.
- 2.4** In September 2015, Cabinet approved a strategy for the development of shared services between Lewes District Council (LDC) and Eastbourne Borough Council (EBC) based on the integration of the majority of council services via a Joint Transformation Programme (JTP). The full integration of the respective Internal Audit and Counter Fraud Teams in both councils took place on 1 July 2017.

3 Strategies and policies to counter fraud and corruption

- 3.1** The Council has a long established zero tolerance of fraud and corruption. The Council expects that Councillors and staff will act with honesty and integrity in all aspects of their official duties, and that individuals and organisations with which it comes into contact will act in the same way when dealing the Council.
- 3.2** The Council has a framework of formal strategies and policies in order to maintain a strong anti fraud and corruption culture. These include an Anti- Fraud and Corruption Strategy, an Anti – Money Laundering Policy, an Anti - Bribery Policy, a Whistleblowing Policy, Councillor and Officer Codes of Conduct, and an IT Security Policy. These strategies and policies are regularly reviewed and updated where appropriate.
- 3.3** The Council remains alert to the risk of fraud and corruption, and has in place systems and procedures to protect its assets and services against these risks. The Council is committed to ensuring that the systems and procedures work properly and include effective internal control arrangements. Many of the controls are there specifically to prevent loss or fraud - they have been designed to help deter fraud and to give warning of possible fraudulent activity.
- 3.4** The effectiveness of the controls is independently monitored by Internal Audit. HACF is reporting separately to the July 2018 meeting of the Committee on the overall standards of internal control.

4 Structures within the Council to counter fraud and corruption

Internal Audit

- 4.1** Internal Audit assesses the risk of fraud and corruption every year as part of its annual planning processes covering the Council's key systems. Up until November 2014, Internal Audit provided the main resource for the investigation of alleged cases of corporate fraud and corruption. This role is now covered by the Counter Fraud Team, (see below), but the placement of the team within the Audit and Counter

Fraud Division has specific benefits. This arrangement facilitates the sharing of information and resources with Internal Audit, enables a greater understanding of the importance of internal controls in helping to prevent fraud across all Council services, and has created more opportunities to focus efforts on the areas of potential risk.

Counter Fraud Team

4.2 The Counter Fraud Team had previously focused solely on benefits fraud, and had been earmarked to become part of the national Single Fraud Investigation Service (SFIS) within the Department for Work and Pensions (DWP). In order to retain a strong counter fraud service at the Council CMT approved the team becoming part of the Audit and Counter Fraud service from 1 November 2014.

4.3 The Counter Fraud Team has the following service objective:

To provide an efficient and effective Counter Fraud Team that supports the Council's Anti-Fraud and Corruption Strategy by carrying out a planned programme of work to help prevent and detect fraud, and provide resources to investigate suspected fraud cases.

The team has unhindered access to staff, information and other resources as may be required for investigation purposes.

4.4 The Counter Fraud Team is staffed to its approved level (1.5 FTE), and comprises two officers who are experienced, trained and fully accredited. The team provides resources for the prevention and detection of fraud across all areas of Council services. The Council believes that this level of staffing is commensurate with the levels of risk, but has been making effective use of resources available in the shared service (see 4.6 to 4.8, 5.7, and 6.3).

4.5 The work to develop the role of the Counter Fraud Team has been particularly successful in the relationship with Housing Services where officers from both departments work together on joint initiatives (see 6.6 to 6.10 below). Future planned activities with Housing Services include a joint Internal Audit/Counter Fraud review of the housing register procedures in 2018.

4.6 In July 2016, the Counter Fraud Team implemented a new regime of checks on Right to Buy (RTB) applications. The checks are designed to prevent and detect fraud, and protect the Council against money laundering. Prior to July 2016, the Council operated no specific procedures to address potential RTB fraud. The Counter Fraud personnel at Eastbourne and Lewes apply the same methods of checking RTBs. The teams liaise regularly to ensure the shared approach continues to reflect developing best practice.

4.7 At present, countering housing tenancy fraud and abandonment, and preventing RTB fraud, are the main operational priorities for the Counter Fraud Team at Lewes because of the evidence of this being a high risk area for the Council. A development priority is the creation of a similar approach for the relationship with the NDR team in Customer Services, to enable targeted checks and joint site visits to help identify business premises that are not paying the correct business rates. This approach is being developed with colleagues in Eastbourne.

4.8 The Counter Fraud Team has continued to work with colleagues in Customer Services to counter benefit fraud, but this is in the context of a formal Service Level

Agreement (SLA) with DWP for the joint management of HB fraud cases. The major work on each HB case is the responsibility of SFIS. LDC retains a liaison role in referring cases of suspected HB fraud to SFIS and handling requests for information, dealing with the cases of suspected CT Reduction Scheme (CTRS) fraud that are often linked to HB cases. The Counter Fraud Team at Eastbourne has carried out the majority of the DWP liaison work for Lewes in 2017/18 to allow the Lewes team to focus on case work in other areas.

- 4.9** Under Financial Procedure Rules, the Chair of the Audit and Standards Committee is informed of the outcome of investigations into significant cases of fraud and corruption. Each meeting of the Committee receives a summary report on the work of the Counter Fraud Team.

5 Council involvement in national, regional and local counter fraud networks

National Fraud Initiative (NFI) data matching

- 5.1** The Council takes an active role in the National Fraud Initiative (NFI) data matching exercises that, until 1 April 2015, were managed by the Audit Commission. Since then, responsibility for NFI exercises rests with the Cabinet Office.
- 5.2** Internal Audit has coordinated the Council's response to the 2016/17 NFI data matching exercise. Preparations for the 2016/17 exercise began in April 2016, and the first matches were returned to LDC in January 2017. Further reports have been received since then and there are now over 2,000 matches detailed across 93 reports. The reports set out the potential frauds among HB claimants, housing tenants, and anyone receiving payments or discounts from the Council.
- 5.3** Initially, Council services nominated officers to investigate the matches in their areas, targeting the 'Recommended' matches that appeared to indicate the greatest likelihood of fraud. The work requires the weeding out of those matches that were the result of error or coincidence, and then the examination of the remaining matches to assess the likelihood of fraud. Any suspected cases of fraud would be passed to the Counter Fraud Team for action, with any suspected cases of HB fraud referred to DWP.
- 5.4** The exercise to investigate reported matches has found no cases of fraud or error so far. Because the work is resource intensive and services have experienced staffing issues during the JTP process, the investigation of matches is now being done in Internal Audit but not as a priority task.
- 5.5** The conduct and progress of the NFI exercise has been regularly reported to the Audit and Standards Committee.

National Anti-Fraud Network (NAFN)

- 5.6** The Council is signed up to the National Anti-Fraud Network (NAFN). NAFN provides regular bulletins on current issues and initiatives, as well as the ability to obtain confidential information for use in fraud investigations. There are strict controls over access to this information.

Sussex counter fraud networks

- 5.7** The Investigation Team is a member 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. Since 2014/15, a sub group of authorities within ESFOG, including LDC and EBC, have been working as a 'Hub' to coordinate new counter fraud initiatives across East Sussex.
- 5.8** The Hub is administered by officers at Eastbourne, with input from ESFOG partners as appropriate. Lewes and Eastbourne Counter Fraud activities DC have benefitted from Hub funding in the ongoing provision of training, the introduction of a shared case management system, a shared approach to publicity for Hub activities, and the set-up of an on-line system to allow the public to report suspected frauds – the Counter Fraud Teams at Eastbourne and Lewes use a shared web link to receive these reports.
- 5.9** LDC is a member of the Sussex Tenancy Fraud Forum (TFF) to enable information sharing and joint initiatives with neighbouring authorities in both East and West Sussex. Through TFF, Internal Audit and the Counter Fraud Team are part of a national information sharing network for tenancy fraud.
- 5.10** The Head of Audit and Counter Fraud is currently the Chair of the Sussex Audit Group (SAG). The group comprises all Heads of Audit across Sussex, and circulates intelligence on current fraud issues and shares good practice in counter fraud activities. A sub committee of SAG provides the governance oversight for Hub activities.

6 Reported cases of fraud and corruption in 2017/18

- 6.1** The results of the Council's counter fraud and corruption work during 2017/18 is summarised as follows.

Corruption

- 6.2** There were no reported cases of corruption during 2017/18.

Payroll fraud

- 6.3** Early in 2018, the Counter Fraud Team assisted Human Resources and service managers in the investigation of a case of payroll fraud, which resulted in a disciplinary hearing and dismissal of the individual involved.

Housing Benefit fraud

- 6.4** During 2017/18, Counter Fraud personnel continued to work closely with DWP colleagues to maintain the effectiveness of the SLA. A total of 36 new HB cases were passed to SFIS via the SLA procedures, and 94 information requests were actioned.

Council Tax Reduction Scheme (CTRS) fraud

- 6.5** LDC retains responsibility for dealing with the cases of suspected CT Reduction Scheme (CTRS) fraud, and administering the penalties for CTRS cases that are not subject to prosecution. The focus on housing and RTB cases (see below), have

meant that CTRS cases have not been a priority for investigation. The amounts of the CTR invalidly claimed are being recovered by the Revenues Team.

Housing Tenancy fraud

- 6.6** During 2017/18, the work to counter tenancy fraud included managing the investigations case load, monitoring best practice at other authorities, maintaining effective referral arrangements with officers in Homes First and other services, and responding to cases reported by residents.
- 6.7** In the twelve months to the end of March 2018, six properties were returned to the Council's housing stock after the team had proved abandonment by the tenant. Dealing fully with these cases of property abandonment ensures unused properties are returned to the housing stock, although abandonment is not strictly fraud under the Prevention of Social Housing Fraud Act 2013. There is an assessed value of the benefit arising from each returned property – across the UK the amount most often used is that provided by the NFI at £93k per property – and the value of the LDC returns is assessed at nearly £560k.
- 6.8** Sixteen cases were under investigation at the end of March 2018 – since then four cases have resulted in court actions in which the judge awarded possession of the property to the Council.

Right to Buy (RTB) Scheme

- 6.9** Since April 2017, 45 RTB applications have been subject to check by the Counter Fraud Team. Of these, 18 applications have been approved and passed for processing, and seven applications were under review at the end of March 2018. Twenty of the applications were either withdrawn after intervention by the team, or the application had been closed after the applicant failed to respond to the request for information. During the same period, two other RTB applications that had been made prior to April 2017 were withdrawn. Applications are withdrawn for a variety of reasons and it is not possible to say that the withdrawals indicate fraud. Three RTB cases were under investigation at the end of March 2018 for potential fraud.
- 6.10** At present, the 22 RTB withdrawals at LDC are valued at £75k per application, representing an average of the purchase discounts that would have been allowed for each of the withdrawn applications. The total saving is assessed at £1.65m in discounts that were not given. The 22 withdrawals have also saved the Council approximately £6,600 from the property valuations that have not been required.

7 Council tax - Single Person Discounts (SPDs)

- 7.1** The Council has for some years joined with other local authorities in East Sussex to employ a private sector company to check on the status of Single Person Discounts (SPDs) claimed by residents against their Council Tax liability. During 2017/18, the period of a short term contract with Capita, this process identified 359 cases of SPDs to which the liable person was not entitled - the SPDs were removed without the need to prove fraud. These results compare favourably with those from previous similar contracts (242 SPDs removed in 2014/15, 28 in 2015/16, and 239 in 2016/17).

7.2 The Council and the other authorities have been engaged in a procurement exercise to determine the company that will operate the equivalent service in future – the company is Datatank.

8 Compliance with the CIPFA Code of Practice

8.1 In April 2016, the HACF compared the Council's arrangements to counter fraud and corruption with the principles, and specific guidance, contained in the CIPFA Code of Practice on managing the risk of fraud and corruption. The results confirmed that the Council has adopted a response that is appropriate for its fraud and corruption risks and there are adequate means to maintain its vigilance to tackle fraud. Since this review there has been nothing that would require this opinion to change. This opinion is taken to the Annual Governance Statement (AGS) that is reported separately to this meeting of the Committee.

9 Financial Appraisal

9.1 There are no additional financial implications from this report.

10 Risk Management Implications

10.1 If the Council does not operate an effective internal control environment, including an appropriate framework of strategies, policies, systems and procedures to counter fraud and corruption, there will be reduced assurance that there are adequate means to prevent, detect and investigate irregularities and protect public funds. Without adequate measures in these areas the Council is at risk of damage to its reputation for honesty, integrity and effective management.

11 Sustainability Implications

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

12 Equality Screening

12.1 This report is for information only and involves no key decisions. Therefore, screening for equality impacts is not required. However, if Internal Audit note equalities issues during their work these will be raised with the Equality Officer to ensure that appropriate equality impact screening is carried out.

13 Background Papers

13.1 None.

14 Appendices

14.1 None.

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Report Title: Annual Report on the work of the Audit and Standards Committee 2017/18

Report To: Audit and Standards Committee **Date:** 17 July 2018

Ward(s) Affected: All

Report By: Chair of the Audit and Standards Committee

Contact Name: Cllr Mike Chartier
Title: Chair of the Audit and Standards Committee
Email: michael.chartier@lewes.gov.uk
Tel no: 01273 472019

Purpose of Report:

To present to Councillors the annual report on the work of the Audit and Standards Committee, which summarises activity in this key area of corporate governance and provides assurance that the oversight of governance, risk and internal control is operating effectively.

Chair's Recommendation(s):

- 1 To receive and consider the report.
 - 2 To endorse the conclusions on the effectiveness of Internal Audit (see paragraph 16).
 - 3 To endorse the opinion on the Council's Internal Control Environment and Risk Management Framework (see paragraphs 17 to 19).
 - 4 To note that the Committee has discharged all of the duties outlined and complied with the Terms of Reference in all respects (see paragraph 20).
-

Reasons for Recommendations

- 1 At its meeting on 19 March 2009, the Committee resolved that the Chair should produce an annual report. The Council's external auditors PKF (now BDO) had recommended this approach as one of a series of best practice developments arising from the Use of Resources assessment for 2007/08.

Information

Background

- 2 The Audit Committee was established in 2001 to provide independent assurance as to the adequacy of the Council's arrangements for internal control, risk management and corporate governance. A key role for the

Committee has been the monitoring of the plans, work and effectiveness of the Council's Internal Audit and Counter Fraud service.

- 3 In 2012, the Audit Committee was merged with the Standards Committee to form the Audit and Standards Committee. This report covers the work of the Audit and Standards Committee during the financial year 2017/18.
- 4 The Committee conforms to best practice set out in CIPFA's Audit Committees – Practical Guidance for Local Authorities, and operates in accordance with the Remit of the Audit and Standards Committee which is shown in Part 11, Section 4 of the Council's Constitution.
- 5 The Council adopted the CIPFA Code of Practice on Treasury Management. In December 2009, CIPFA updated the Code of Practice with one of the key changes being an emphasis on the need for every local authority to nominate a body to be responsible for ensuring effective scrutiny of the treasury management strategy and policies. Cabinet decided that this scrutiny role should be performed by the then Audit Committee, and the Audit and Standards Committee now receives regular reports on treasury management.

Membership of the Committee

- 6 The Audit and Standards Committee comprises seven Councillors, with the quorum set at four. Up to three additional co-opted non voting Town/Parish members may participate in Standards, but not Audit, matters. The Chair of the Audit and Standards Committee is elected from the Council's minority group.
- 7 In May 2015, Councillor Mike Chartier was elected as Chair of the Committee and has served in that role since then.
- 8 In addition to Councillor Chartier, the following Councillors served on the Committee during 2017/18 – Catlin, Denis, Enever, Gauntlett, Loraine, O'Keeffe and Rowell.
- 9 The Committee maintains a pool of Councillors who have expressed willingness to serve as substitutes - any member of the Council who is not a member of Cabinet may serve in this way.
- 10 To be effective it is important that members of the Audit and Standards Committee have a broad understanding of the financial risk, control and governance issues facing the Council. During 2017/18, the Committee comprised a mix of relatively new and experienced Councillors.
- 11 The Council provides Committee members with general induction training and additional guidance on specific topics based on a Training Needs Self-Assessment. There was no training provided during 2017/18.

Meetings of the Committee

- 12 The Committee normally meets five times per year. During 2017/18, Committee meetings were held on 19 June 2017, 25 September 2017, 27 November 2017, 22 January 2018 and 19 March 2018. The meeting on 19 March 2018 was not quorate.

- 13 Each Committee meeting is attended by the Head of Audit and Counter Fraud (HACF) and the Head of Finance (HF), with other Council officers attending as appropriate to report on financial or control issues. An Audit Partner and/or an Audit Manager from the Council's external auditors BDO attend most meetings. Each meeting of the Committee is also attended by a Committee Officer to record the discussions and outcomes.
- 14 At each meeting the Committee receives an Interim Report on the Council's Systems of Internal Control and a Treasury Management Report. Other reports are presented to cover regular items in the financial and control cycle, including a range of annual reports, or to deal with specific current issues. Reports to the Committee for the five meetings in 2017/18 are detailed at Appendix A1.
- 15 During 2017/18, the Committee received 30 reports, the same number of reports as in 2016/17.

Statement of the Audit and Standards Committee's opinion on the effectiveness of Internal Audit

- 16 The Audit and Standards Committee has noted the separate report on Internal Audit Performance and Effectiveness. The Committee endorses the conclusions of the report that the Internal Audit service achieves its aims, objectives and expected outcomes, operates in accordance with the Internal Audit strategy that was approved by the Committee, and meets best practice standards including compliance with the Public Sector Internal Audit Standards (PSIAS).

Statement of the Audit and Standards Committee's opinion on the Council's Internal Control Environment and Risk Management arrangements

- 17 As noted above, the Committee receives regular interim and annual reports that include detailed assessments of the Council's internal control environment and the arrangements for risk management and corporate governance. These reports, supported by regular briefings from the HACF, enabled the Committee to maintain proper oversight of the arrangements for internal control.
- 18 The Committee endorses the opinion of the HACF that the overall standards of internal control have been generally satisfactory. In the main, procedures and controls remained effective during most of 2017/18. However, in some areas controls did not operate fully, partly as a result of changes in the organisation and staffing of services arising from the JTP. It is not anticipated that the control issues would have a material effect on the financial results for 2017/18, and the issues are being addressed as the JTP process continues.
- 19 This opinion is based on the work of Internal Audit, the management assurance framework, external reviews, 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. This opinion is based on the work of Internal Audit, External audit 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.

Terms of Reference

- 20** I have examined the Committee's Terms of Reference. I believe that the Committee has discharged all of the duties outlined and complied with the Terms of Reference in all respects. In addition, the Committee has used its powers to raise questions with officers and representatives of BDO to seek assurance and clarification on matters of control and governance.

Audit and Standards Committee Activities for 2018/19

- 21** It is anticipated that the scope and content of the Committee's activities will remain broadly similar to those in 2017/18.

Financial Appraisal

- 22** There are no additional financial implications from this report.

Sustainability Implications

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

Risk Management Implications

- 24** 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.

Equalities Screening

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

Background Papers

- 26** None

Appendices

- 27** Appendix A1: Reports presented to the Audit and Standards Committee
Appendix A2: Table of abbreviations

**Appendix A1: Reports presented to the Audit and Standards Committee
2017/18**

| Report | June 2017 | Sept 2017 | Nov 2017 | Jan 2018 | March 2018 | Source |
|--|--------------|--------------|-------------|-------------|---------------|--------|
| Annual Report on the work of the Audit and Standards Committee 2016/17 | xx | | | | | Chair |
| Annual Report on Internal Audit Performance and Effectiveness 2016/17 | xx | | | | | HACF |
| Annual Report on the Council's Systems of Internal Control 2016/17 | xx | | | | | HACF |
| Risk Management and the Strategic Risk Register | | | | | xx | HACF |
| Annual Report on the Council's work to combat Fraud and Corruption 2016/17 | xx | | | | | HACF |
| Interim Report on the Council's Systems of Internal Control 2017/18 | xx | xx | xx | xx | xx | HACF |
| Annual Audit Plan 2018/19 | | | | | xx | HACF |
| Draft Code of Corporate Governance | | x | | | | HACF |
| Charter for Internal Audit and Counter Fraud | | | | x | | |
| Statement of Accounts 2016/17 | xx | xx | | | | DCE |
| Treasury Management Report | xx | xx | xx | xx | xx | HF |
| Annual Treasury Management Strategy Statement and Investment Strategy 2018/19 to 2020/21 | | | | xx | | DCE |
| Annual Treasury Management Report 2016/17 | xx | | | | | DCE |
| Annual Governance Statement 2017 | xx | | | | | HACF |
| Annual report on the establishment and maintenance of a Register of Interests 2017/18 | | xx | | | | ADLDS |

| Report | June 2017 | Sept 2017 | Nov 2017 | Jan 2018 | March 2018 | Source |
|--|-----------|-----------|----------|----------|------------|--------|
| Preparations for Changes to Data Processing Legislation | | x | | | | DCE |
| Annual Report on the Use of Covert Surveillance | | | | x | | ADCS |
| LDC – Fee Letter 2017/18 | x | | | | | BDO |
| LDC – Grant Claims and Returns Certification – year ended 31 March 2016 | | xx | | | | BDO |
| LDC – Report to the Audit and Standards Committee: Audit for the year ended 31 March 2017 | | xx | | | | BDO |
| LDC – Planning Report to the Audit and Standards Committee: Audit for the year ended 31 March 2018 | | | | | xx | BDO |
| LDC Annual Audit Letter 2016/17 | | | xx | | | BDO |

Key

ADCS – Assistant Director of Corporate Services

ADLDS – Assistant Director Legal and Democratic Services (formerly ADCS)

DCE – Deputy Chief Executive

HACF – Head of Audit and Counter Fraud (formerly HAFP)

BDO – Council’s external auditors, BDO

x – report was received at a meeting in 2017/18

xx – report or equivalent item was received at meetings in both 2016/17 and 2017/18, even if they were not the same meeting in each year.

Appendix A2: Table of abbreviations

BDO – BDO, the Council’s external auditors. Formerly BDO Stoy Hayward

CIPFA – Chartered institute of Public Finance and Accounting

LDC – Lewes District Council

PKF – Pannell Kerr Forster

PSIAS – Public Sector Internal Audit Standards

Report Title: Annual Governance Statement 2018

Report To: Audit and Standards Committee **Date:** 17 July 2018

Ward(s) Affected: All

Report By: Head of Audit and Counter Fraud

Contact Officer(s): David Heath
Head of Audit and Counter Fraud
David.Heath@lewes-eastbourne.gov.uk
01273 084157

Purpose of Report:

To seek Councillors' approval to the draft Annual Governance Statement (AGS) 2018

Officer's Recommendation(s):

- 1 To comment on and approve the draft Annual Governance Statement (AGS) 2018 (shown at Appendix A).
 - 2 To delegate to officers any final adjustments required to the AGS in the period up to the approval of the Statement of Accounts in July 2018 (or deferred date).
-

Reasons for Recommendations

- 1 To meet the Council's legal requirement to produce an Annual Governance Statement AGS).

Information

2 Background

- 2.1 Lewes District Council is required to prepare an AGS each year in accordance with the statutory requirement set out in the Accounts and Audit Regulations, the most recent reference being regulation 6 (1) of the Accounts and Audit Regulations 2015. The AGS covers the whole control framework of the Council rather than just those controls that have a financial aspect.
- 2.2 The Chartered Institute of Public Finance and Accountancy/Society of Local Authority Chief Executives (CIPFA/SOLACE) issued updated guidance in 2016 on what should be included in the AGS ¹.
- 2.3 The AGS is presented to enable members to comment on and approve it at this meeting of the Committee so that it can be included with the

¹ Delivering Good Governance in Local Government - Framework and Guidance Notes (2016)

Statement of Accounts. Adjustments can be made to the AGS up to the date of approval of the Statement of Accounts.

3 Form and content of the Annual Governance Statement

3.1 The CIPFA/SOLACE guidance (2016) recommends that the following information be included:

- **Scope of responsibility:** An acknowledgement of the responsibility for ensuring there is a sound system of governance (incorporating the system of internal control) and reference to the authority's Code of Corporate Governance.
- **Reference to and an assessment of the effectiveness of the key elements of the governance framework:** This should include the role of those responsible for the development and maintenance of the governance environment, such as:
 - (i) the Authority,
 - (ii) the Executive (the Cabinet),
 - (iii) the Audit and Standards Committee,
 - (iv) Internal Audit, and
 - (v) Others as appropriate
- **Significant governance issues:** An agreed plan showing actions taken, or proposed to deal with, significant governance issues.
- **Previous issues:** A reference to how issues raised in the previous AGS have been resolved.
- **Conclusion:** A commitment to monitoring implementation as part of the next annual review.
- **Opinion on assurance:** An opinion on the level of assurance that the governance arrangements can provide, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

4 Assurance and the Annual Governance Statement

4.1 Best practice recommends that a system of management assurance is in place to underpin the AGS. The Council's assurance framework was adopted in 2006 and is subject to regular review by the Head of Audit and Counter Fraud. In 2017/18 a process of alignment in the management assurance arrangements between Lewes District Council and Eastbourne Borough commenced.

4.2 With reference to the assurance framework the following steps take place:

- The Corporate Management Team (CMT) and Heads of Service each complete assurance statements for their service areas and consider whether there are any significant governance issues (May/ June 2018).
- The Deputy Chief Executive, Assistant Director – Legal and Democratic Services and the Head of Audit and Counter Fraud draft the AGS, evaluating sources of assurances and the supporting evidence. The AGS is also circulated and reviewed with key officers (May/ June 2018).
- CMT as whole review the draft AGS (June 2018)
- The Audit and Standards Committee comment on and approve the draft AGS so that it can be included with the Statement of Accounts (July 2018 (subject to deferment)).
- The AGS is signed off by the Leader of the Council and Chief Executive by 31 July 2018 (subject to deferment)

4.3 The AGS will also be published on the Council’s website.

4.4 The Code of Practice on Local Authority Accounting 2017/18 requires that a specific statement is included in AGS on whether or not the Council’s financial arrangements conform to the CIPFA requirements for the Role of the Chief Financial Officer in Local Government (2015).

5 Code of Corporate Governance

5.1 The CIPFA/SOLACE guidance (2016) revised the principles for good governance for local government. A review of the Council’s Code of Corporate Governance (the Code), and that of Eastbourne Borough Council, was completed in September 2017. It was approved at the Audit and Standards Committee in September 2017 and Full Council approved the inclusion of the Code in the Councils Constitution at its October, 2017 meeting.

6 Financial Appraisal

6.1 There are no additional financial implications arising from this report.

7 Legal Implications

7.1 None other than those identified in the body of the report.

8 Risk Management Implications

8.1 Failure to produce an AGS and maintain proper assurance arrangements to support its production can reduce the likelihood of the Council meeting its objectives, and attract criticism from the Council’s stakeholders and the Council’s external auditor. The Audit and Standards Committee review of the AGS significantly reduces these risks.

9 Sustainability Implications

9.1 I have not completed the Sustainability Implications Questionnaire as this report is exempt from the requirement because it is a progress report.

10 Equality Screening

10.1 I have given due regard to equalities issues and, as this is an internal monitoring report, screening for equalities is not required.

11 Background Papers

11.1 Lewes District Council Local Code of Corporate Governance (Updated September 2017) <https://www.lewes-eastbourne.gov.uk/access-to-information/financial-information/corporate-governance/>

12 Appendices

12.1 Appendix A: Draft Annual Governance Statement 2018.

DRAFT ANNUAL GOVERNANCE STATEMENT (AGS) 2018

Introduction

This is the Lewes District Council's Annual Governance Statement (AGS) for 2018. The AGS includes:

- An acknowledgement of the responsibility to ensure there is a sound system of governance in place at the Council.
- A reference to the governance framework including the local code of corporate governance.
- An outline of key elements of the governance framework and an assessment of its effectiveness.
- A statement on significant governance issues.
- An opinion on the level of assurance that the governance arrangements provide.

The AGS will be published on the Council's website and will also form part of the Council's Statement of Accounts. The AGS is required by Regulation 6 (1) of the Accounts and Audit Regulations 2015.

Scope of responsibility

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. It is responsible for putting in place proper arrangements for the governance of its affairs, and ensuring the effective exercise of its functions.

The Governance Framework comprises the systems and processes by which the Council is directed and controlled, and the activities through which it accounts to, and engages with the community. The framework enables the authority to monitor the achievement of its strategic objectives and consider whether those objectives have led to the delivery of appropriate, cost effective services. The Council has responsibility for conducting, at least annually a review of its effectiveness of its governance framework including the systems of internal control.

The Council has a local Code of Corporate Governance which sets out the governance arrangements at the Council. This can be found in the Councils' website at <https://www.lewes-eastbourne.gov.uk/access-to-information/financial-information/corporate-governance/>

Key elements of the governance framework and an assessment of its effectiveness

The Council

The Council sets out its vision, priorities, projects and planned performance in the Council Plan. Underpinning this are a number of key strategies, programmes, service delivery and project plans which provide detailed commitments in terms of the Council's services and activities. The Medium Term Finance Strategy looks ahead five years and sets out how the Council aims to balance its resources to meet statutory responsibilities and national and local priorities.

The four year Council Plan is reviewed and approved each year by Cabinet and Full Council. The Council Plan 2016-20 was approved by Full Council at its February 2016 meeting and subsequently a refreshed version was agreed by Cabinet in July 2017. The Plan is divided into three themes being customers and communities, place and value for money.

Standards of behaviour and conduct of Councillors and officers are governed by Member and Officer Codes of Conduct, the Anti-Fraud and Corruption Strategy, Whistle Blowing Policy, Anti Bribery Policy, Disciplinary and Grievance procedures and the Dignity at Work Policy. A Core Values and Behaviours Statement was agreed in April 2013, following extensive consultation with staff. These guidance documents and procedures are the subject of training/awareness raising for staff and Councillors and are made available via the Council's intranet. The Council also has a Competency Framework which is part of the performance management and appraisal systems.

A Councillors' induction programme takes place every four years after a District Council Election. Individual Councillors' training needs are reviewed annually and specialist training on specific areas of activity are organised by officers as required e.g. IT, planning and scrutiny matters. Each year all Council committees are invited to identify training needs/issues arising from their work programme. Training needs for each member of staff are assessed as part of the annual appraisal process.

The Council has an established framework for financial governance based on Contract and Financial Procedure Rules, with sound budgeting systems, clear budget guidance for managers and regular reporting of financial performance to Councillors and officers.

At its September 2015 meeting Cabinet approved the integration of staff and services with Eastbourne Borough Council called the "Joint Transformation Programme (JTP)". To support this transformation and change a detailed governance structure was put in place. This includes the:

- Joint Transformation Board (councillors from both councils including from the opposition groups),

- Joint Transformation Delivery Board (officers from both councils with designated roles)
- Joint Transformation Consultative Forum (Unison and staff representatives).
- Joint Transformation Quality Assurance Panel (an officer panel).

In May 2016 the Full Business Case for the Joint Transformation Programme (JTP) was approved by the Cabinets at both Lewes District Council and Eastbourne Borough Council. The JTP comprises three phases of restructuring. Phase 1 was completed in April 2017 with the appointment of seven new Heads of Service and other senior management roles, along with staff undertaking strategy and commissioning functions. Phase 2 was completed in March, 2018 and involved the bulk of service delivery staff. Work on Phase 3 commenced in June 2018 and focuses on support services (including Human Resources, Finance and Legal).

The Head of Audit and Counter Fraud has monitored the impact on the control environment of the Council's restructuring and where appropriate liaised with managers who are working to ensure the control environment keeps pace with these changes.

The General Fund budget for 2017/18 included a savings target of £0.6m half of which was to come from the continuing JTP. This target is expected to be achieved, although because the new JTP Phase Two management restructure was not fully completed until March, 2018 some of the savings have been deferred into 2018/19. This was reported to the Audit and Standards Committee in November 2017.

The Constitution

The Council's Constitution establishes clear arrangements for decision making and the delegation of powers to Councillors and officers. It defines and documents the roles and responsibilities of the Council, Cabinet and Committees (including the Audit and Standards Committee and the Scrutiny Committee) as well as the roles and responsibilities of Councillors and senior officers. The Council has adopted the Leader and Cabinet model.

The Council's Constitution sets out the roles of the Head of Paid Service, Monitoring Officer and Chief Finance Officer (Section 151) - at Lewes District Council these roles are fulfilled by the Chief Executive, Assistant Director - Legal and Democratic Services and Deputy Chief Executive. These roles include responsibility for ensuring that agreed procedures are followed and that applicable statutes, regulations and relevant statements of good practice are complied with and expenditure is lawful. The Head of Paid Service is responsible for overall corporate management and operational responsibility (including overall management responsibility for all officers). The above officer roles sit on the Council's Corporate Management Team and have regularly discussed matters relevant to their roles in the period of the AGS.

Communication between Councillors and officers is governed by the Protocol on Member/Officer Relations. There is also a Councillor Protocol for Procurement.

Cabinet

The Council appoints the Leader who appoints members of Cabinet. The Cabinet currently has eight Councillors and meets seven times in the municipal year. Each member of the Cabinet has a portfolio for which they are responsible. During the period of this AGS the Cabinet undertook a number of key tasks relevant to the governance arrangements including:

- Endorsing the opinion of the Head of Audit and Counter Fraud that the overall standards of internal control were satisfactory at its September 2017 meeting.
- Considering the Council's progress and performance in respect of key projects and targets on a quarterly basis.
- Agreeing the General Fund, Housing Revenue Account, Collection Fund and Treasury Management financial performance for each quarter.

Audit and Standards Committee

The Council has established an Audit and Standards Committee that is responsible, amongst other things, for keeping under review the probity and effectiveness of internal controls and the effectiveness of management arrangements to ensure legal and regulatory compliance. The Committee conforms to the best practice identified in CIPFA's "Audit Committees – Practical Guidance for Local Authorities", and reports to the Cabinet on the effectiveness of internal controls within the Council.

The Audit and Standards Committee has met regularly during period of this AGS. The Chair's annual report on the work of the Audit and Standards Committee was reported to the July 2018 meeting of the Committee.

The Head of Audit and Counter Fraud has reported regularly to the Audit and Standards Committee on the work of Internal Audit, on governance and internal control, and provides an annual report on the systems of internal control which includes an opinion on the internal control environment. For 2017/18 overall standards of control have been generally satisfactory. In the main, procedures and controls remained effective during the year. However, in some areas controls did not operate fully, partly as a result of changes in the organisation and staffing of services arising from the JTP. It is not anticipated that the control issues have had a material effect on the financial accounts for 2017/18, and the issues are being addressed by managers as the JTP process continues.

This opinion is based on the work of Internal Audit, the internal assurance framework, external reviews, 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.

During the period of this AGS there have been no cases for consideration by the Standards Panel relating to a Lewes District Councillor.

Scrutiny Committee

The Council's Scrutiny Committee oversees the independent review of performance and decisions of Cabinet and other activities and functions of the Council. This is achieved through its regular meetings, appointed Scrutiny Panels and the Call In Procedure. The Scrutiny Committee has met four times since April 2017. During the period of this AGS the Scrutiny Committee undertook a number of key tasks relevant to the Council's governance arrangements including:

- Receiving the North Street Quarter Due Diligence Report in November 2017 to conduct a review of the North Street Quarter Development Partner.
- Agreeing the work programme for 2017/18 in September 2017.
- Receiving quarterly portfolio progress and performance reports with the opportunity to make recommendations to Cabinet.
- Receiving the 2018/19 Budget Overview and Tax Base report in January 2018 with the opportunity to forward any comments to the next meeting of Cabinet.

Corporate Management Team (CMT)

The role of CMT is to provide strategic management and planning, and ensure proper oversight of priority and budget setting, service planning and performance management. CMT also provides organisational leadership, engages with Cabinet on strategic issues/direction and, in partnership with members, develops relationships with key stakeholders. Individual members of CMT are responsible for the performance of their relevant department/service areas, progress of their relevant portfolio themes and liaison with portfolio holding members. CMT reviews the Internal Audit Plan, Strategic Risk Register and the AGS.

In July 2016 Lewes District Council and Eastbourne Borough Council formed a joint CMT structure to manage the services of both councils. Meetings of this body take place weekly. The Scheme of Delegation was revised on the establishment of the joint CMT. As the JTP progresses and new heads of service have been appointed interim arrangements have been put in place to ensure appropriate sub delegation and decision making powers.

Under the Code of Practice for Local Authority Accounting 2017/18 the Council is required to confirm that its financial management arrangements conform with governance requirements of the CIPFA Statement on the Role of the Chief Finance Officer (2015). The Council's arrangements conform with the requirements of the Statement and this has been confirmed by the Deputy Chief Executive (Section 151 Officer).

Managers Assurance Statements

As part of the Council's internal assurance framework, each member of CMT have completed a management assurance statement and also confirmed whether there

have been any significant governance issues. For the first time in 2017/18 each Head of Service has also completed these documents.

The Managers' Assurance Statement is intended to collect this assurance by covering operational, project and partnership responsibilities as well as the Bribery Act, Safeguarding, Regulation of Investigatory Powers Act and frauds over £10k. The senior manager can highlight concerns and the necessary actions required to improve governance. Once completed their contents are used to inform the governance statement.

Completed Managers' Assurance Statements were returned from all Directors, Assistant Directors and Heads of Service. Many statements contained minor concerns around the impact of the Joint Transformation Programme. These included: ensuring officer delegations are updated, aligning policies, testing effectiveness of IT to deliver efficiencies, on-going vacancies, training staff, developing new teams and building a joint culture.

CMT were asked to consider whether any of these individual issues or the Joint Transformation Programme as a whole should be noted as a significant governance issue or just noted in the body of the Annual Governance Statement.

CMT recognised that there were indeed risks inherent in the current programme. However it is felt that these risks are being prioritised and work is ongoing to mitigate the risks. Phase one of the programme has gone well and it is felt that this demonstrates that controls over JTP arrangements are already in place. The bulk of recruitment was carried out in January 2018 and most vacancies were filled by the end of the financial year. There is also a new development programme in place for Heads of Service. It was therefore agreed that it should appear in the body of the Annual Governance Statement but not as a separate significant governance issue.

Internal Audit and Counter Fraud

The Council has an Internal Audit and Counter Fraud Division that is an independent, objective assurance and consulting function. From July 2017 this service has been provided by a shared service between Lewes District Council and Eastbourne Borough Council. The Head of Audit Counter Fraud for the two councils was appointed to this post in April 2017.

The service operates in accordance with the auditing guidelines in the Public Sector Internal Auditing Standards (PSIAS). Many of the standards set out in the PSIAS are also found in the Statement of the Role of the Head of Internal Audit published by CIPFA in 2010.

It is a requirement of the PSIAS for an external assessment of internal audit to be completed at least every five years. This review is being undertaken by Chichester District Council - it is almost complete and the results will be reported to the September 2018 meeting of the Audit and Standards Committee.

The Council has a strong counter fraud culture that is supported by Councillors and officers. The Counter Fraud Investigations teams work closely with officers in other departments to prevent, detect and investigate fraud, particularly in the areas of housing tenancy fraud, Council Tax fraud and Right to Buy Fraud. The outcome of this work informs the opinion on the internal control environment. The Council works closely with the national Single Fraud Investigation Service (SFIS) in the DWP to ensure an effective response to cases of Housing Benefit fraud.

Summaries of the cases investigated and the outcomes have been included in the regular reports to the Audit and Standards Committee, as well as the Annual Report on Fraud and Corruption which is reported to the July 2018 meeting of the Committee.

In April 2016, the Head of Audit and Counter Fraud reviewed the Council's compliance with the CIPFA Code of Practice on managing the risk of fraud and corruption. The results confirmed that the Council has adopted a response that is appropriate for its fraud and corruption risks and there are adequate means to maintain its vigilance to tackle fraud. Since this review there has been nothing that has arisen to require this opinion to change. Further work to develop the approach to fraud will be undertaken by the Audit and Counter Fraud service over the coming year.

The Council has a local Code of Corporate Governance, which is reviewed annually. In 2016, the Chartered Institute of Public Finance and Accountancy / Society of Local Authority Chief Executives issued updated guidance for delivering good governance in local government. A revised Code of Corporate Governance taking account of the 2016 guidance was approved by the September 2017 meeting of the Audit and Standards Committee. Full Council approved the inclusion of the Code in the Council's Constitution at its October 2017 meeting.

The work has ensured a consistent approach to corporate governance at both Lewes District Council and Eastbourne Borough Council.

Managing Risks

The Council's risk management framework is outlined in its Risk Management Strategy, and is well established within the Council. There are robust systems for identifying, evaluating and managing risk in the decision making and service planning processes. In March 2018 the Audit and Standards Committee became the principal recipient of the Council's strategic risk register and ongoing updates with each risk becoming the responsibility of CMT as a whole. CMT reviews the strategic risks on a quarterly basis and where changes are proposed they are reported to the Audit and Standards Committee. Operational and key project related risks are reviewed as part of service planning. Key staff are trained in the assessment, management and monitoring of risk. Risk assessment and management is an integral part of the Council's approach to project management, as set out in the Project Management Toolkit. Further work to enhance risk procedures will take place during 2018/19.

The Audit and Standards Committee also receives updates on risk management at every meeting. The reports during 2017/18 noted that most risks are mitigated by the effective operation of controls or other measures. Whilst there are some risks that are outside the Council's control, such as a major incident, 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 impact of such events and continues to monitor risks and the effectiveness of controls.

Communication and Partnership Working

The Council has a variety of communication channels with local residents and other stakeholders. In addition the Council actively engages with different sections of the community through focus groups, user groups, partnership meetings and networks. The Council's Consultation and Communication strategies set out the approach and specific consultations are planned and agreed in an annual programme.

The Council has a system for reviewing partnership working and has identified a small number of strategic partnerships which require more robust governance arrangements. Partnership governance is subject to an annual review process. Good governance in partnerships is also reflected in the Council's Local Code of Corporate Governance.

The Council has grant agreements with three voluntary and community associations that receive Council funding. These agreements include enhanced monitoring and governance arrangements. The Council has guidance for partnership working which incorporates the requirement for an annual review to be undertaken by partnership lead officers.

Measuring and managing performance

The Council has clear annual business planning and performance management arrangements in place. Performance and project management is supported by the corporate software system (Pentana).

Progress and performance information is reported to Corporate Management Team each month, Scrutiny Committee, and Cabinet each quarter. Operational performance monitoring takes place at monthly operational management meetings. The quality of services is monitored through regular/ ad hoc consultation with, and feedback from, service users in the form of commissioned survey research, comments and complaints and the Council's own online surveys.

The Council's strategic priorities, projects and performance targets were determined as part of a review of portfolio responsibility during summer 2015 and restated in the updated Council Plan for 2016-2020. These priorities were communicated via the website and internally through the Corporate Briefing and Infolink. A review of the Council Plan for the first year (2016/17) was reported to Cabinet in June 2017. Cabinet has received quarterly reports on progress and performance in respect of key projects and targets through 2017/18. The Business Planning and Performance Team is responsible for overseeing the Council's business planning, project

management and performance management arrangements to ensure efficient and effective delivery of the Joint Transformation Programme and improvement targets over the short to medium term. A joint Performance Management Framework was adopted in March 2018 which established a common approach to performance management across Lewes and Eastbourne Councils.

The Council has a joint Project Management Toolkit that contains a set of principles and procedures for the planning, control and delivery of projects across Lewes and Eastbourne Councils. The Council has developed a set of clear and consistent project documents and associated tools which have been the subject of consultation and training amongst senior officers.

Complaints and Whistleblowing

Customer complaints and compliments continue to be monitored as part of monthly performance monitoring and management arrangements. Data is also reported to the Scrutiny Committee and Cabinet each quarter.

The Council Whistleblowing Policy sets out how staff, Councillors partners and contractors can raise concerns in relation to their work for the Council. In 2017/18 the Head of Audit and Counter Fraud has confirmed there have been no reported cases of whistleblowing.

External Audit

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 core duties of the external auditor are to give an opinion on the financial statements and to review arrangements for securing value for money. In addition it can consider electors' questions and objections and make formal recommendations as well as report in the public interest. To ensure there is an effective relationship with the external auditor council officers provide a range of information and responses in a timely manner as well as carefully considering audit findings and recommendations.

The Council's external Auditor, BDO, reports to the Audit and Standards Committee. Key reports during 2017/18 were:

Annual Audit Letter for 2016/17 (October 2017) – This report summarised the key issues from the work carried out by BDO during the year, and was presented to the November 2017 meeting of the Committee. The report confirms the interim results that were included in the Audit Completion Report that was presented to the September 2017 meeting of the Committee. The key issues were:

- BDO issued an unmodified true and fair opinion on the financial statements for the year ended 31 March 2017.
- BDO identified a number of immaterial misstatements, but these were found to have no material impact on the opinion on the financial statements.

- BDO did not find any significant deficiencies in internal controls.
- BDO were satisfied that the Annual Governance Statement (AGS) was not misleading or inconsistent with other information they were aware of from the audit.
- BDO issued an unmodified opinion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- BDO noted that, whilst there is a funding gap in the Medium Term Financial Strategy (MTFS) the Council has appropriate arrangements to remain financially sustainable over a period of the MTFS. All of the required savings for 2017/18 had been identified.
- BDO noted that the Council's Whole of Government Accounts (WGA) submission is below the threshold for further work other than to submit the WGA Assurance Statement - the relevant section of the statement was submitted in advance of the statutory deadline.
- BDO noted that the Council had made progress against all the recommendations that were raised in respect of the New Homes Project, and there is evidence that the learning from this project has been applied to other capital projects.
- The BDO review of grant claims and returns for the year ended 31 March 2017 is in progress, and the results will be reported on completion of this work.

Under the provisions of the Local Audit and Accountability Act 2014, the Secretary of State for Communities and Local Government has specified that a company, Public Sector Audit Appointments (PSAA) Limited, will appoint auditors to local government, police and some NHS bodies.

The Council opted into the PSAA arrangements, and was consulted on the appointment of the external auditor for the period of five years from 2018/19. The PSAA have appointed Deloitte LLP, and the Council responded to the consultation to confirm its acceptance of the appointment, which will start on 1 April 2018. Deloitte LLP will also be the external auditors for Eastbourne Borough Council.

Significant governance issues

Each member of Corporate Management Team and every Head of Service have completed a significant governance issues statement for 2017/18. For 2017/18 there have been no significant governance issues identified.

Opinion on assurance

The Council has an assurance framework that sets out the sources of assurance within the Council's governance environment and provides the evidence to support the Annual Governance Statement.

We have been advised by the Audit and Standards Committee of the results of the assessment of effectiveness of the governance framework. It is our opinion that Council's governance arrangements in 2017/18 are fit for purpose and provide a

robust platform for achieving the Council's priorities and meeting the challenges in 2018/19.

.....
Councillor Andy Smith,
Leader of the Council.

.....
Robert Cottrill,
Chief Executive.

Date:

Date:

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Report Title: Annual Report on Internal Audit Performance and Effectiveness 2017/18

Report To: Audit and Standards Committee **Date:** 17 July 2018

Ward(s) Affected: All

Report By: Head of Audit and Counter Fraud

Contact Officer

Name: David Heath

Post Title: Head of Audit and Counter Fraud

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Purpose of Report:

To inform Councillors of the Internal Audit work of the Audit and Performance Division during 2017/18.

To inform Councillors on the outcome of the review of the effectiveness of Internal Audit for 2017/18.

Officers Recommendation(s):

- 1** To note that the Internal Audit coverage in 2017/18 has been sufficient to enable the Head of Audit and Counter Fraud (HACF) to issue an unqualified opinion on the overall adequacy and effectiveness of the Council's control environment (see Section 3).
 - 2** To note the satisfactory outcome of the review of the effectiveness of Internal Audit for 2017/18 (see Sections 7 - 10).
-

Reasons for Recommendations

- 1** The remit of the Audit and Standards Committee includes a duty to consider the annual report by the HACF, and to keep the work of Internal Audit under review to ensure that it is able to discharge its functions effectively.

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 then 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 March 2017. The impact of the new standards was reported to the September 2016 meeting of the Committee.

2.3 The requirements of the PSIAS overlap with those of the Accounts and Audit (England) Regulations 2015, which require that the organisation conducts a review of the effectiveness of Internal Audit at least annually. This requirement has been met by an internal study carried out by the HACF, with the results reviewed by the Deputy Chief Executive and now reported to the Audit and Standards Committee. The review has drawn on the results of the quality review processes that form part of the PSIAS and the associated Local Government Application Note (LGAN) issued by CIPFA.

3 Overall conclusions on Internal Audit Performance and Effectiveness 2017/18

3.1 The work carried out by Internal Audit during 2017/18 is outlined in Section 4 of this report. The audit coverage has been sufficient to enable the HAFP to issue an unqualified opinion on the overall adequacy and effectiveness of the Council's control environment. This opinion is included in the Annual Report on the Council's Systems of Internal Control 2017/18 that is presented separately to this meeting of the Committee.

3.2 In the past year Internal Audit has continued to focus on the Council's main financial systems and the HB subsidy grant claim, whilst at the same time providing resources to assist in the projects that form part of the Council's work on restructuring and regeneration. This approach helps to ensure the adequacy of internal control in key areas, safeguards the Council's subsidy payments, ensures that the work of internal audit is integrated with the work of the external auditors (BDO), and helps to provide assurance on quality and controls in key Council developments. The HACF believes that these are necessary priorities, which also assist in the Council's management and control of risk.

3.3 The review of the effectiveness of Internal Audit has taken into account the work carried out by the service during 2017/18 and the results of the performance and quality assurance processes that are outlined in Sections 7 to 10 of this report. The results of the review enable the HACF to report that the Internal Audit service at Lewes is fully effective, is subject to satisfactory management oversight and has complied with the PSIAS in all major areas.

3.4 In September 2015, Cabinet approved a strategy for the development of shared services between Lewes District Council (LDC) and Eastbourne Borough Council (EBC) based on the integration of the majority of council services via a Joint Transformation Programme (JTP). The full integration of the respective Internal Audit and Counter Fraud Teams in both councils took place on 1 July 2017. Progress had already been made in coordinating internal audit activities and in sharing expertise and resources during 2016/17 and that forms the background to the activities outlined in this report.

4 Work of Internal Audit 2017/18

4.1 This section of the report informs Councillors of the work undertaken by Internal Audit during the year, compared against the annual programme that was agreed by the Audit and Standards Committee in March 2017.

Use of Internal Audit resources

- 4.2 Table 1 shows the total planned audit days compared to the actual audit days spent for 2017/18, together with comparative data for 2016/17. Table 1 shows that for 2017/18 a total of 557 audit days have been undertaken compared to the budget of 622 days.

Table 1: Plan audit days compared to actual audit days for 2017/18

| Audit Area | Actual audit days for 2016/17 | Plan audit days for 2017/18 | Actual audit days for 2017/18 |
|--|-------------------------------|-----------------------------|-------------------------------|
| Main Systems | 347 | 295 | 347 |
| Central Systems | 83 | 65 | 67 |
| Departmental Systems | 86 | 65 | 3 |
| Performance and Management Scrutiny | 8 | 45 | 34 |
| Computer Audit | 2 | 5 | 5 |
| Management Responsibilities/Unplanned Audits | 113 | 147 | 101 |
| Days Total | 639 | 622 | 557 |

- 4.3 The variance of 65 days has arisen mainly from the retirement of the Senior Auditor in January 2017, with the vacancy filled on 4 September 2017, the additional time being spent on management tasks arising from the JTP, and a period of six weeks absence for a team member following an operation. The overall position gradually improved as the year has progressed, but there was a shortfall in the time available for audit work.
- 4.4 As was anticipated when the Audit Plan 2017/18 was prepared, the ongoing restructuring of the Council necessitated a review of the annual programme. The results of this review exercise were reported to the January 2018 meeting of the Committee. The appropriate sections of that report are included below to remind Committee members of the changes that were agreed.

Review of the 2017/18 Audit Plan (reported January 2018)

5 Review of 2017/18 Audit Plan

- 5.1 As part of the report to the March 2017 meeting of the Committee that detailed the Annual Audit Plan, HACF advised that there would be a nine month review of the Audit Plan for 2017/18 to assess whether any significant changes are necessary.
- 5.2 That review has taken place and the results of the review are now presented to the Committee. The review takes account of a range of issues, in particular the Joint Transformation Programme, the impact of the significant extra work on the Benefits subsidy claim with BDO, the time between the retirement of the Senior Auditor and the arrival of the replacement, and the extra audit days worked by HACF. There has been a significant impact on the number of days available to complete the audit programme for 2017/18, and there has been a need to re-assign some tasks.

5.3 HACF advises that the significant aspects of the annual audit plan will be covered. The exceptions are:

- The audit of Legal Services (in Central Systems) will be scheduled into the Annual Plan for 2018/19.
- The planned audits of Members Allowances and Expenses, and Licensing (in Departmental Systems) will be scheduled into the Annual Plan for 2018/19.

Other audits in the programme for 2017/18 that are planned or underway will continue to a normal conclusion.

Audit Work Undertaken

5.4 The paragraphs below summarise the main functional areas reviewed in the year and the key audits undertaken and completed. More detailed information on the audits completed in 2017/18 was provided to each meeting of the Audit and Standards Committee.

5.5 *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 2016/17. A final report was issued, together with a separate final report on the issues arising from the review of Non-Domestic Rates (NDR). The corresponding work for 2017/18 is nearing completion and a draft report is being prepared.

5.6 The work on behalf of BDO to test the Council's HB subsidy claim 2015/16 was completed, and the audited claim submitted, during July 2017. BDO's planning for this work had set out the standard testing and identified the likely need for significant additional testing to address the issues noted in the previous year's claim - the standard testing and the initial extra testing were completed in late September. The timetabled date for BDO to have signed off and submitted the audited claim was at the end of November 2016, but that date was not met because of further additional testing, reperformance by BDO, and the resolution of queries and challenges. The overall value of the claim was £36.5m. In July 2017, DWP confirmed the results of the audit - there had been an overpayment of subsidy of £6,976, but with a related understatement of £2,367 the net effect was a recovery of £4,609 by DWP.

5.7 The work on the HB subsidy claim for 2016/17 is well advanced. BDO had identified the need for significant additional testing to address the issues noted in the 2015/16 claim and other errors noted in the current claim. The timetabled date for BDO to sign off and submit the audited claim was the end of November 2017 but, because of the significant extra work required and BDO's other commitments, Internal Audit is now working towards the submission of the claim by mid - August 2018.

5.8 *Central Systems:* A final report was issued for the audit of Ethics (2017). A final report has been issued for a review of EBC/LDC compliance with aspects of the Regulatory Powers Act (RIPA). CMT requested a similar review of compliance with the General Data Protection Regulation (GDPR) at both councils – the interim results have been reported to CMT, and a follow up

review of progress is underway. HACF has carried out an independent consultancy review of options for the future management of the Lewes and Eastbourne Leisure Trusts – the results of the review were reported to the November 2017 meeting of the Committee. HACF is leading on an audit of the Joint Ventures and Council Companies that have been established by both EBC and LDC to help provide services and improve the councils' respective financial positions – the audit is underway.

- 5.9 Departmental Systems:** The audit of Estates Management, incorporating work on the corresponding function at EBC, began in early 2017 but was put on hold to free resources for the work on the HB subsidy claim and the testing of the major financial systems. The audit is at the draft report stage.
- 5.10 Performance and Management Scrutiny:** The main work in this category was in reviewing the data that supported the Annual Governance Statement (AGS) for 2017, and specific tasks related to the Internal Audit aspects of the Council's Joint Transformation Programme (JTP). Recent work has been the review of risk management issues linked to the report on Risk Management and the Strategic Risk Register that was reported to the March 2018 meeting of the Committee
- 5.11 Computer Audit:** Internal Audit completed the IT aspects of the testing of the main financial systems.
- 5.12 Management Responsibilities and 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.
- 5.13** HACF carried out an independent consultancy review of the options for the future management of strategic procurement at both councils. The results of the review were reported to the November 2017 meeting of the Committee. A final report has been issued for a review - also carried out by HACF - of the Prevent and Protect Strategy.
- 5.14** CMT requested Internal Audit to carry out an assurance review to support the establishment of the newly configured Health and Safety (H&S) service. The review includes site visits to two key service areas – the Eastbourne Crematorium and the Waste and Recycling (W&R) service for LDC. A final interim report has been issued on the W&R aspects of the review – the visit to Eastbourne crematorium has yet to be arranged.
- 5.15** The major project in this category is the Council's response to the 2016/17 NFI data matching exercise. Preparations for the 2016/17 exercise began in April 2016, and the first matches were returned to LDC in January 2017. Further reports have been received since then and there are now over 2,000 matches detailed across 93 reports. The reports set out the potential frauds among HB claimants, housing tenants, and anyone receiving payments or discounts from the Council.
- 5.16** Initially, Council services nominated officers to investigate the matches in their areas, targeting the 'Recommended' matches that appeared to indicate the greatest likelihood of fraud. The work requires the weeding out those matches

that were the result of error or coincidence, and then the examination of the remaining matches to assess the likelihood of fraud. Any suspected cases of fraud would be passed to the Counter Fraud Team for action, with any suspected cases of HB fraud referred to DWP.

- 5.17** The exercise to investigate reported matches has found no cases of fraud or error so far. Because the work is resource intensive and services have experienced staffing issues during the JTP process, the investigation of matches is now being done in Internal Audit but not as a priority task.
- 5.18** The conduct and progress of the NFI exercise has been regularly reported to the Audit and Standards Committee.

6 Follow Up of Audit Recommendations

- 6.1** As part of the control procedures detailed in the Internal Audit Manual all audit recommendations are followed up. The purpose of this is to check whether all accepted recommendations have been implemented. The early focus for follow up in 2017/18 was on confirming the implementation of the recommendations that had been agreed in the previous year. Since then the follow up procedures have concentrated on the recommendations due to be actioned during 2017/18.
- 6.2** The results of the follow up work for 2017/18 show 100% implementation of those recommendations for which it has been possible to confirm management action. For some audits the results of the follow up are not yet confirmed. This information will be provided to the Committee at its next meeting.

7 Review of the Internal Audit Service against its aims, strategy and objectives

- 7.1** The LGAN requires that the Internal Audit service is periodically reviewed against its aims, strategy and objectives. The aim, objectives and strategy for the service for 2017/18 were set out in the Annual Audit Plan 2017/18 that was presented to the March 2017 meeting of the Audit and Standards Committee. The aims and objectives were updated in January 2018 as part of the work on the revised Charter for Internal Audit and Counter Fraud (see section 8). The revised statements are as follows:

Service Aim

- 7.2** Internal Auditing is an independent and objective assurance and consulting activity designed to add value and improve the operations at both councils. Counter Fraud is an independent and objective activity designed to help prevent and detect fraud, and undertake appropriate investigations when necessary. Working together, these activities help the councils accomplish their objectives by bringing a systematic and disciplined approach to improving the effectiveness of risk management, control and governance processes.

Service Objectives

The Internal Audit service has the following service objectives:

- To provide an efficient and effective Internal Audit function which achieves its service standards, and improves performance where possible.

- To deliver the Councils' Audit Plans
- To provide an efficient and effective Counter Fraud Team that supports the councils' Anti-Fraud and Corruption Strategy by carrying out a planned programme of work to help prevent and detect fraud, and provide resources to investigate suspected fraud cases.

Internal Audit Strategy

The Internal Audit service is provided internally. The staffing is set at the level necessary to ensure audit coverage of the key areas within the Annual Audit Plan based on a detailed risk assessment.

For the majority of 2017/18, the staffing of Internal Audit has been at 3.6 FTE, after the filling of an Auditor vacancy. The creation of the merged Audit and Counter Fraud service for Lewes and Eastbourne from July 2017 has enabled the movement of work and resources between the respective teams.

- 7.3** The HAFP has compared the performance of the Internal Audit service with the aim, objectives and strategy, and has examined the organisation, working methods, and quality standards of the service. The review results, together with the details given in the Annual Report on the Council's Systems of Internal Control 2017/18, indicate that the Internal Audit service achieves its service aim, objectives and expected outcome, and operates in accordance with the Internal Audit Strategy as approved by the Audit and Standards Committee.

8 Review of Internal Audit Charter

- 8.1** The PSIAS require that HACF periodically reviews the Charter and present it to senior management and the Audit and Standards Committee for approval. The Charter for Internal Audit and Internal Audit Code of Ethics were approved by the Audit and Standards Committee in March 2013, and were subject to minor changes to comply with the updated PSIAS in 2016.
- 8.2** HACF reviews the documents annually to confirm that they remain valid and up to date, and that Internal Audit activities are operated in accordance with the requirements of the documents. The creation of the merged Audit and Counter Fraud service for Lewes and Eastbourne provided the opportunity for a fundamental review of the documents. An updated Charter of Internal Audit and Counter Fraud was presented to the January 2018 meeting the Committee, and was approved.

9 Quality Assurance and Improvement Programme (QAIP)

- 9.1** The PSIAS require that HACF develops and maintains a QAIP that covers all aspects of Internal Audit activity, and which includes periodic assessments of quality, performance and conformance with the standards. The main elements of the QAIP are set out below.
- 9.2** The results of the quality reviews and assessments have been considered by HACF, who confirms that the standards of Internal Audit work comply with the audit manual and the PSIAS.

Review by external auditors BDO

- 9.3** BDO make use of Internal Audit's work for their audits of key financial systems and the audits of the grant subsidy claim for HB, and use Internal Audit results to inform their opinion of the Council's control environment.

Quality reviews by Internal Audit

- 9.4** Each audit assignment is subject to quality reviews by the Audit Manager (AM) to establish that the field work and audit reports have been prepared and completed in accordance with audit manual procedures, quality standards and the objectives of the audit.

External assessment

- 9.5** The PSIAS set requirements in terms of external assessments, which must be conducted at least every five years by a qualified, independent assessor (or assessment team) from outside the organisation.
- 9.6** HACF has previously agreed with the Audit and Standards Committee to put in place suitable arrangements for an external assessment, and report the arrangements to the Committee. As anticipated the most economic arrangements involve the internal audit services in neighbouring authorities in a shared assessment process. The planned External Peer Review of LDC Internal Audit is being carried out by the Principal Auditor at Chichester District Council, and is underway. The results of the review will be reported to September 2018 meeting of the Committee.

Internal assessment

- 9.7** The PSIAS require that there are annual internal assessments that are carried out by people external to Internal Audit, but with a sufficient knowledge of internal audit practices, including knowledge of the PSIAS, the LGAN and/or IIA practice guidance.
- 9.8** The Audit Manager (AM) at LDC has carried out the internal assessment for 2017/18, comparing Internal Audit processes and procedures with the requirements of the PSIAS and LGAN. The method of assessment is that used by the peer review team from Chichester District Council that is conducting the external assessment. The AM is not external to internal audit but has the necessary knowledge of internal audit practices, PSIAS, LGAN and IIA practice guidance.
- 9.9** HACF has reviewed the results of the internal assessment, and confirms that Internal Audit either Conforms Fully or Generally Conforms with the detailed requirements of the PSIAS and LGAN in the planning, management, conduct and reporting of engagements. The Generally Conforms results are mainly in areas such as staffing, training, and appraisals where standard Council procedures show some minor differences from the PSIAS. HACF does not propose, or is unable, to make changes in these areas. HACF is examining a possible change in the preparation of the Annual Audit Plan to incorporate consideration of risk maturity and risk appetite, in order to comply with PSIAS requirements.

10 Feedback from Users

- 10.1** Customer satisfaction surveys have been part of Internal Audit's quality assurance measures since 2001. The PSIAS and LGAN require that performance monitoring arrangements include obtaining feedback from stakeholders.
- 10.2** As part of the arrangements for the external assessment of Internal Audit (see 9.6), HACF has adopted the survey questionnaire that is recommended by the PSIAS. During May 2018, the survey questionnaires were sent to the Chief Executive, members of the Corporate Management Team (CMT), Heads of Service and the Chair of the Audit and Standards Committee. The previous questionnaire asked clients to rate various aspects of the Internal Audit service and past results were Very Good, Good or Satisfactory. The PSIAS questionnaire includes 17 positive statements about the role, organisation and work of Internal Audit and the relationship with the rest of the Council, and asks clients to show whether they Do not agree, Partially agree, Generally agree, Fully agree.
- 10.3** The survey results show that 94% of the responses were either Generally agree or Fully agree. The remainder were either Partially agree (4%) or unable to comment (2%). One client did not agree with a statement about the Council using the knowledge of Internal Audit to improve business processes. HACF will use the Partially Agree and Do not agree responses to explore with clients how to improve the specific aspects of the service.
- 10.4** The survey results have been copied to the peer review team at Chichester District Council to form part of the external assessment.

11 Performance Indicators (PIs)

- 11.1** Proposals for a revised set of PIs for Internal Audit were agreed at the September 2013 meeting of the Committee, and the agreed PIs have formed the framework for the reporting on Internal Audit performance since then.
- 11.2** As part of the standardisation of the shared Internal Audit service at both Lewes and Eastbourne, HACF is examining the range of PIs that will cover the merged service. The proposals for the shared PIs, together with PI results for 2017/18, will be presented to the September 2018 meeting of the Committee.

12 Counter Fraud Team

- 12.1** Each meeting of the Audit and Standards Committee receives a full update on the work of the Counter Fraud Team, and normally this report would include details of their work during 2017/18. This meeting of the Committee is receiving a detailed Annual Report on the Council's work to Combat Fraud and Corruption 2017/18. To avoid duplication, no further comment on the work of the Counter Fraud Team is included here.

13 Financial Appraisal

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

14 Sustainability Implications

14.1 I have not completed the Sustainability Implications Questionnaire as this report is exempt from the requirement because it is a progress report.

15 Risk Management Implications

15.1 The risk assessment shows that if the Audit and Standards Committee does not ensure that Internal Audit is able to discharge its functions effectively there is a risk that a key aspect of the Council's internal control arrangements will not comply fully with best practice. At present, this risk is mitigated by an effective Internal Audit service that is subject to proper management oversight and monitoring by the Audit and Standards Committee.

16 Equality Screening

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

17 Background Papers

[2017/18 Annual Audit Plan](#)

18 Appendices

Appendix A: Table of abbreviations

APPENDIX A

TABLE OF ABBREVIATIONS

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

DWP – Department of Work and Pensions

EBC – Eastbourne Borough Council

FTE – Full Time Equivalent

HACF – Head of Audit and Counter Fraud

HB – Housing Benefit

IT – Information Technology

JTP – Joint Transformation Project

LDC – Lewes District Council

LGAN – Local Government Application Note

NFI – National Fraud Initiative

PIs – Performance Indicators

PSIAS – Public Sector Internal Audit Standards

QAIP – Quality Assurance and Improvement Programme

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Report Title: Annual Report on the Council's Systems of Internal Control 2017/18

Report To: Audit and Standards Committee **Date:** 17 July 2018

Ward(s) Affected: All

Report By: Head of Audit and Counter Fraud

Contact Officer

Name: David Heath

Post Title: Head of Audit and Counter Fraud

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Purpose of Report:

To inform Councillors on the adequacy and effectiveness of the Council's systems of internal control for 2017/18.

Officers Recommendation(s):

- 1 To receive the annual report by the Head of Audit and Counter Fraud (HACF).
 - 2 To note that the overall standards of internal control were generally satisfactory during 2017/18 (as shown in Section 3).
 - 3 To note that the generally satisfactory opinion on internal control is taken forward into the draft Annual Governance Statement (AGS) 2018 that is presented separately to this meeting of the Committee.
 - 4 To report to the Cabinet on the Council's systems of internal control.
-

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 HACF, 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 were applied from 1 April 2013. The PSIAS have been updated, with new standards published in March 2017. The new standards are not materially different from the previous version, and so have not been separately reported to the Committee.
-

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 HACF, with the results independently reviewed by the Deputy Chief Executive and now reported to the Audit and Standards Committee.

3 Opinion of the Head of Audit and Counter Fraud on the Internal Control Environment at Lewes District Council for the year ended 31 March 2018

3.1 The overall standards of control have been generally satisfactory. In the main, procedures and controls remained effective during most of 2017/18. However, in some areas controls did not operate fully, partly as a result of changes in the organisation and staffing of services arising from the JTP. It is not anticipated that the control issues would have a material effect on the financial results for 2017/18, and the issues are being addressed as the JTP process continues.

3.2 This opinion is based on the work of Internal Audit, the management assurance framework, external reviews, 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.

3.3 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 2017/18

4.1 The work carried out by Internal Audit has been sufficient to enable HACF 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 2017/18 that is presented separately to this meeting of the Committee.

5 Risk Management

5.1 Cabinet approved the Risk Management Strategy in September 2003. Since then risk management at the Council has been developed via a series of action plans, with the result that all the elements of the risk management framework set out in the strategy are in place and are maintained at best practice standards.

5.2 The Annual Report on Risk Management and the Strategic Risk Register was presented to the March 2018 meeting of the Committee, and subsequently to the Cabinet. The Committee receives updates on risk management at every meeting. The reports during 2017/18 have noted that most risks are mitigated by the effective operation of controls or other measures. However, there are some risks that are beyond its control, for example a major incident, a 'flu' pandemic, a downturn in the national economy or a major change in government policy or legislation. The Council has sound planning and

response measures to mitigate the effects of such events, and continues to monitor risks and the effectiveness of controls.

- 5.3** In response to reductions in Government funding for local authorities, the Council continues to make savings each year in its General Fund (which covers all services except the management and maintenance of Council owned homes). At its meeting in February 2018, Council agreed a net budget of £11.82m for 2018/19 including a savings target of £1.03m – of this, £0.70m is to be delivered by Phases 2 and 3 of the JTP and £0.20m from increasing commercial income streams. The 2018/19 budget is to be seen in the context of a Medium Term Finance Strategy that will require an additional £0.73m of savings in the net budget by 2021/22, including £0.30m from the JTP.
- 5.4** There are also pressures to reduce spending on the management and maintenance of Council owned (HRA) housing. Starting in 2016/17, the Government has required all housing authorities to reduce tenants' rents by a 1% in cash terms in each of the four years through to 2019/20. As a result, by 2019/20, total annual rent income will have fallen by £0.6m to £14.4m. This means that savings of £2.2m will be needed to offset the expected impact of inflation on expenditure budgets over that period. A share of the JTP savings will pass through to the HRA, and the 2018/19 HRA budget has been reduced by a target of £0.30m accordingly.
- 5.5** The system of management assurance (see Section 6) has confirmed the absence of significant control issues during the period of the savings programme so far. However, some managers have raised minor concerns about the effect of the JTP on capacity, procedures and controls. HACF will monitor the impact on the control environment of the JTP, and will liaise with managers who are working to ensure that the control environment keeps pace with these changes. This comment is reflected in the draft Annual Governance Statement (AGS) 2018.
- 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 system of management assurance has reported the absence of significant control issues, and CMT confirmed this position at its meeting on 26 June 2018. Managers' comments about minor concerns have been reflected in the Annual Governance Statement (AGS).

7 External assurance

- 7.1** 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 Council's current external auditors are BDO, and the results of their external reviews have helped inform the opinion on the internal control environment. The recent results are summarised below.

7.2 Grant Claims and Returns Certification for the year ended 31 March 2016. The report was presented to the September 2017 meeting of the Committee. The key points were.

- The value of the Housing Benefit subsidy claim was £35.5m.
- The audit identified a number of errors in the cases tested, which required a significant amount of extra testing by BDO and the Council.
- The main errors were in the administration of benefits involving non-HRA rent rebates and rent allowances, which resulted in an overstatement of the subsidy claimed.
- There were issues arising from the administration of HRA rent rebates involving carer's allowance. A 100% check on all such cases noted a maximum possible overstatement of benefit of £20, and no adjustment was made to the claim form.
- The audit identified an error in the identification of prior year uncashed payments, which resulted in an over-claim of subsidy of £47.
- As a result of the errors found in administering benefits BDO qualified the claim and quantified the effect of the errors, reducing the final subsidy amount by £4,609.
- BDO carried out a 'reasonable assurance' review of the pooling of housing capital receipts. The value of the housing capital receipts subject to pooling was £1.2m. The return was unqualified. An adjustment was made in the amount of new build expenditure but this an information field included for DCLG, and does not impact of total housing capital receipts subject to pooling.

7.3 Annual Audit Letter 2016/17 (October 2017) – This report summarises the key issues from the work carried out by BDO during the year, and was presented to the November 2017 meeting of the Committee. The report confirms the interim results that were included in the Audit Completion Report that was presented to the September 2017 meeting of the Committee. The key issues were:

- BDO issued an unmodified true and fair opinion on the financial statements for the year ended 31 March 2017.
- BDO identified a number of immaterial misstatements, but these were found to have no material impact on the opinion on the financial statements.
- BDO did not find any significant deficiencies in internal controls.
- BDO were satisfied that the Annual Governance Statement (AGS) was not misleading or inconsistent with other information they were aware of from the audit.
- BDO issued an unmodified opinion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- BDO noted that, whilst there is a funding gap in the Medium Term Financial Strategy (MTFS) the Council has appropriate arrangements to remain financially sustainable over a period of the MTFS. All of the required savings for 2017/18 have been identified.
- BDO noted that the Council's Whole of Government Accounts (WGA) submission is below the threshold for further work other than to submit the WGA Assurance Statement - the relevant section of the statement was submitted in advance of the statutory deadline.

- BDO noted that the Council had made progress against all the recommendations that were raised in respect of the New Homes Project, and there is evidence that the learning from this project has been applied to other capital projects.
- The BDO review of grant claims and returns for the year ended 31 March 2017 was underway, and the results will be reported on completion of this work.

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

8 Corporate Governance

8.1 The CIPFA/SOLACE guidance (2016) revised the principles for good governance for local government. A review of the Council's Code of Corporate Governance (the Code), and that of Eastbourne Borough Council, was completed in September 2017. It was approved at the Audit and Standards Committee in September 2017 and Full Council approved the inclusion of the Code in the Council's Constitution at its October, 2017 meeting.

8.2 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 2018 is reported separately to this meeting of the Committee.

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

Appendix A1: Table of abbreviations.

APPENDIX A1

Table of abbreviations

AGS – Annual Governance Statement

BDO – BDO, the Council’s external auditors. Formerly BDO Stoy Hayward

CIPFA – Chartered institute of Public Finance and Accounting

CMT – Corporate Management Team

EBC – Eastbourne Borough Council

HACF – Head of Audit and Counter Fraud

HAFP – Head of Audit, Fraud and Procurement

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

PSIAS – Public Sector Internal Audit Standards

WGA – Whole of Government Accounts

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Report Title: Interim Report on the Council's Systems of Internal Control 2018/19

Report To: Audit and Standards Committee **Date:** 17 July 2018

Ward(s) Affected: All

Report By: Head of Audit and Counter Fraud

Contact Officer

Name: David Heath

Post Title: Head of Audit and Counter Fraud

E-mail: David.Heath@lewes-eastbourne.gov.uk

Tel no: 01273 085157

Purpose of Report:

To inform Councillors on the adequacy and effectiveness of the Council's systems of internal control during the first three months of 2018/19, 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 generally satisfactory during the first three months of 2018/19 (as shown in Section 3).
-

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 first applied from 1 April 2013. The PSIAS have been updated, with new standards published in March 2017. The new standards are not materially different from the previous version, and so have not been separately reported to the Committee.
- 2.2 The PSIAS 2017 continue to specify the requirements for the reporting to the Audit and Standards Committee and senior management by the Head of Audit and Counter Fraud (HACF). These requirements are met via a series of reports, including interim reports to each meeting of the Committee.

- 2.3** Each interim report includes a review of the work undertaken by Internal Audit compared to the annual programme, an opinion of HACF 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.
- 2.4** In September 2015, Cabinet approved a strategy for the development of shared services between Lewes District Council (LDC) and Eastbourne Borough Council (EBC) based on the integration of the majority of council services via a Joint Transformation Programme (JTP). The formal integration of the Internal Audit and Counter Fraud Teams in both councils took place on 1 July 2017.

3 Internal Control Environment at Lewes District Council

- 3.1** The Annual Report on the Council's Systems of Internal Control for 2017/18 is presented separately to this meeting of the Committee. The report includes the opinion of HACF that the overall standards of internal control are generally satisfactory. This opinion is based on the work of Internal Audit, the internal assurance framework, external reviews, and the Council's work on risk management. In the three 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 2018/19

- 4.1** Table 1 shows that a total of 155 audit days have been undertaken compared to 165 days planned in the first three months of the year.

Table 1: Plan audit days compared to actual audit days for April to June 2018

| Audit Area | Actual audit days for the year 2017/18 | Plan audit days for the year 2018/19 | Actual audit days to date | Pro rata plan audit days to date |
|--|--|--------------------------------------|---------------------------|----------------------------------|
| Main Systems | 347 | 308 | 120 | |
| Central Systems | 67 | 65 | 1 | |
| Departmental Systems | 3 | 87 | - | |
| Performance and Management Scrutiny | 34 | 30 | 9 | |
| Computer Audit | 5 | 25 | 9 | |
| Management Responsibilities/Unplanned Audits | 101 | 158 | 16 | |
| Total | 557 | 673 | 155 | 165 |

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.

The variance of 10 days has arisen mainly from staff leave and public holidays early in the year. It is estimated that the audit days will be closer to plan by the year end.

- 4.2** This section of the report summarises the work undertaken by Internal Audit, compared to the annual plan that was presented to the Audit and Standards Committee in March 2018. Further information on each of the audits completed since the previous meeting of the Committee is given at Appendix A1.
- 4.3 *Main Systems:*** The key 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 2017/18. The testing is nearing completion and a draft report is being prepared. The results so far have contributed to the overall opinion given by HACF (see Section 3 above).
- 4.4** The work on behalf of BDO to test the Council's HB subsidy claim 2016/17 has been the other main priority and is well advanced. BDO had identified the need for significant additional testing to address the issues noted in the 2015/16 claim and other errors noted in the current claim. The timetabled date for BDO to sign off and submit the audited claim was the end of November 2017 but, because of the significant extra work required and BDO's other commitments, Internal Audit is now working towards the submission of the claim in mid-August 2018.
- 4.5 *Central Systems:*** Nothing significant to report.
- 4.6 *Departmental Systems:*** The audit of Estates Management, incorporating work on the corresponding function at EBC, began in 2017 but was put on hold to free resources for the work on the HB subsidy claim and the testing of the main financial systems - the audit has been completed by audit personnel in Eastbourne and a draft report issued.
- 4.7 *Performance and Management Scrutiny:*** The initial work in this category was in reviewing the data that supports the Annual Governance Statement (AGS) for 2018.
- 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 Counter Fraud Team, liaison with BDO, managing the Follow Up procedures, as well as for special projects or investigations.
- 4.10** CMT requested Internal Audit to carry out an assurance review to support the establishment of the newly configured Health and Safety (H&S) service. The review includes site visits to two key service areas – the Eastbourne Crematorium and the Waste and Recycling (W&R) service for LDC. A final interim report has been issued on the W&R aspects of the review. The remaining work for this study was put aside to free resources for an urgent review of the management of statutory building compliance at both councils. The final results from the compliance review and the visit to Eastbourne crematorium are to be confirmed.
- 4.11** Internal Audit continues to coordinate the Council's work on NFI data matching exercises. Internal Audit, the Counter Fraud Team and service managers prepared for the receipt of the reported matches, and nominated officers to investigate matches in their service areas. There were over 2,000 separate matches detailed

across 93 reports. Each report sets out different types of potential frauds among benefit claimants, housing tenants, and anyone receiving payments or discounts from the Council. The exercise involves analysis of the matches to identify those that are the result of error or coincidence, and then the examination of the remaining matches to assess the likelihood of fraud - 335 matches have been examined, with no fraud or error noted so far. Because the work is resource intensive and services have experienced staffing issues during the JTP process, the investigation of matches is now being done in Internal Audit but not as a priority task. The Audit and Standards Committee will be kept advised of progress.

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 2018/19 has been on confirming the implementation of the recommendations that had been agreed in the previous year.

6 Quality Reviews/Customer Satisfaction Surveys/Performance Indicators (PIs)

- 6.1** The results of the Internal Audit quality reviews and customer satisfaction surveys for 2017/18 are reported separately to this meeting of the Committee. The results enabled the HACF to report that the Internal Audit service at Lewes achieves its aims, and objectives, and operates in accordance with the Internal Audit Strategy as approved by the Audit and Standards Committee.
- 6.2** As part of the standardisation of the shared Internal Audit service at both Lewes and Eastbourne, HACF is examining the range of PIs that will cover the service. The proposals for the shared PIs, together with PI results for 2017/18, will be presented to the September 2018 meeting of the Committee.
- 6.3** The planned External Peer Review of LDC Internal Audit is underway. The review is being carried out by the Principal Auditor at Chichester District Council. The results of the review will be reported to September 2018 meeting of the Committee.

7 Combatting Fraud and Corruption

Local initiatives

- 7.1** The Investigation Team is a member 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. Since 2014/15, a sub group of authorities within ESFOG, including LDC and EBC, have been working as a 'Hub' to coordinate new counter fraud initiatives across East Sussex.
- 7.2** The Hub is administered by officers at Eastbourne, with input from ESFOG partners as appropriate. Lewes and Eastbourne Counter Fraud activities DC have benefitted from Hub funding in the ongoing provision of training, the introduction of a shared case management system, a shared approach to publicity for Hub activities, and the set-up of an on-line system to allow the public to report suspected frauds – the Counter Fraud Teams at Eastbourne and Lewes use a shared web link to receive these reports.

Counter Fraud Team

- 7.3** At present, countering housing tenancy fraud and abandonment, and preventing RTB fraud, are the main operational priorities for the Counter Fraud Team at Lewes because of the evidence of this being a high risk area for the Council. There are 15 cases of suspected abandonment and/or subletting under investigation, plus two of suspected housing application fraud. Two properties have been returned to stock after cases of abandonment. Further property returns are anticipated in current cases where evidence gives a strong indication that the tenant no longer lives at the property.
- 7.4** Since April 2018, 13 new RTB applications have been received and checked to prevent fraud and protect the Council against money laundering. In the same period, 13 RTB applications have been approved and passed for processing, and eight applications are currently under review. In this period, seven RTB applications have been withdrawn or closed after intervention by the team. The team will assess these applications to determine whether the cases indicate potential fraud.
- 7.5** Audit and Counter Fraud has in place an agreement with DWP for the management of cases of HB fraud. The major work on each HB case is the responsibility of the national Single Fraud Investigation Service (SFIS) within DWP. LDC retains a role in referring cases of suspected HB fraud to SFIS and handling requests for information. In an agreement with Counter Fraud colleagues at Eastbourne, a member of that team carries out the DWP liaison work for LDC and thus allows the LDC team to focus on case work in other areas. In the period since April 2018, there have been five referrals to SFIS, and nine information requests have been actioned.

8 Risk Management

- 8.1** 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.
- 8.2** The Annual Report on Risk Management and the Strategic Risk Register was presented to the March 2018 meeting of the Committee, and subsequently to the Cabinet. 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.
- 8.3** In response to reductions in Government funding for local authorities, the Council continues to make savings each year in its General Fund (which covers all services except the management and maintenance of Council owned homes). At its meeting in February 2018, Council agreed a net budget of £11.82m for 2018/19 including a savings target of £1.03m – of this, £0.70m is to be delivered by Phases 2 and 3 of the JTP and £0.20m from increasing commercial income streams. The 2018/19

budget is to be seen in the context of a Medium Term Finance Strategy that will require an additional £0.73m of savings in the net budget by 2021/22, including £0.30m from the JTP.

- 8.4** There are also pressures to reduce spending on the management and maintenance of Council owned (HRA) housing. Starting in 2016/17, the Government has required all housing authorities to reduce tenants' rents by a 1% in cash terms in each of the four years through to 2019/20. As a result, by 2019/20, total annual rent income will have fallen by £0.6m to £14.4m. This means that savings of £2.2m will be needed to offset the expected impact of inflation on expenditure budgets over that period. A share of the JTP savings will pass through to the HRA, and the 2018/19 HRA budget has been reduced by a target of £0.30m accordingly.
- 8.5** The HACF will continue to monitor the impact on the control environment of the JTP, and will liaise with managers who are working to ensure that the control environment keeps pace with these changes.

9 System of management assurance

- 9.1** 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 senior managers are required to consider whether there were any significant governance issues during 2017/18. None were reported and, at its meeting on 26 June 2018, CMT confirmed that there were no significant governance issues to report.

10 Corporate governance

- 10.1** 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 2018 is presented to this of the Audit and Standards Committee.

11 External assurance

- 11.1** 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 Council's current external auditors are BDO, and the results of their external reviews have helped inform the opinion on the internal control environment. There have been no recent results since the last meeting of the Committee in March 2018, at which the Committee considered BDO's Planning Report to the Audit and Standards Committee: Audit for the year ended 31 March 2018.

12 Future external audit arrangements

- 12.1** Under the provisions of the Local Audit and Accountability Act 2014, the Secretary of State for Communities and Local Government has specified that a company, Public Sector Audit Appointments (PSAA) Limited, will appoint auditors to local government, police and some NHS bodies.
- 12.2** The Council has opted into the PSAA arrangements, and was consulted on the appointment of the external auditor for the period of five years from 2018/19. PSAA have appointed Deloitte LLP, and the Council responded to the consultation to confirm its acceptance of the appointment, which started on 1 April 2018. Deloitte LLP will also be the external auditors for EBC.
- 12.3** BDO is carrying out the audits of the 2017/18 accounts and the 2017/18 HB subsidy claim, and will therefore be working with the Council until at least November 2018. HACF obtained cost quotations from Deloitte LLP and other companies for the independent check and sign off of the HB subsidy claim exercises after the BDO contract has ceased. Deloitte LLP have been appointed to this role for the 2018/19 HB subsidy claim.

13 Financial Appraisal

- 13.1** There are no additional financial implications from this report.

14 Sustainability Implications

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

15 Risk Management Implications

- 15.1** 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.

16 Legal Implications

- 16.1** There are no legal implications arising from this report.

17 Equality Screening

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

18 Background Papers

[2018/19 Annual Audit Plan](#)

19 Appendices

- 19.1** There is no Statement of Internal Audit work and key issues (normally Appendix A1) for this report.

19.2 Appendix A2 - Table of abbreviations.

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

APPENDIX A2

Table of abbreviations

AGS – Annual Governance Statement
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
DWP – Department of Work and Pensions
EBC – Eastbourne Borough Council
ESFOG – East Sussex Fraud Officers Group
ESPB - East Sussex Prevent Board
GDPR - General Data Protection Regulation
HACF – Head of Audit and Counter Fraud
HB – Housing Benefit
HRA – Housing Revenue Account. Refers to Council owned housing
HSO – Health and Safety Officer
ISO – International Organisation for Standardisation
IT – Information Technology
JTP – Joint Transformation Project
LATC – Local Authority Trading Company
LDC – Lewes District Council
NDR – Non Domestic Rates
NFI – National Fraud Initiative
PFSS - Property and Facilities Shared Service
PIs – Performance Indicators
PSIAS – Public Sector Internal Audit Standards
PSAA - Public Sector Audit Appointments
QAIP – Quality Assurance and Improvement Programme
RTB – Right to Buy
SFIS – Single Fraud Investigation Service
WGA – Whole of Government Accounts
W&R – Waste and Recycling

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| Body: | Audit and Standards Committee |
| Date: | 17 July 2018 |
| Subject: | Statement of Accounts 2017/18 |
| Report of: | Deputy Chief Executive |
| Cabinet member: | Councillor Bill Giles (Cabinet Member for Finance) |
| Ward(s): | ALL |
| Purpose of the report: | To update members on the progress of the Statement of Accounts 17/18 and the audit of these accounts |
| Recommendation: | Members are asked to note the position in regard to the Statement of Accounts 17/18. |
| Reasons for recommendations: | <ol style="list-style-type: none"> 1 The Accounts and Audit Regulations 2015 require the Chief Finance Officer and Councillors to certify and approve an audited set of accounts for publication by no later than 30 July. 2 As the completion the final accounts or 17/18 was delayed the auditors, BDO LLP, will now commence their work at the beginning of August. |
| Contact: | Pauline Adams Head of Finance Pauline.adams@lewes-eastbourne.gov.uk 01323 415979 |
| 1.0 Introduction | |
| 1.1 | The statutory deadline for local authorities to publish draft accounts and make them available to the auditor has come forward this year by one month, from 30 June to 31 May. The deadline for completion of the publication of the audited accounts has been brought forward by two months, from 30 September to 31 July. |
| 2.0 Statement of Accounts 17/18 | |
| 2.1 | Due to circumstances outside the Council's control the draft accounts were not completed until 25 th of June, 3 weeks behind schedule. |
| 2.2 | The reasons for this delay were due to: |
| | <ol style="list-style-type: none"> 1. The failure of the external valuer appointed to carry out revaluations of council property for balance sheet purposes, to report the outcome |

| | |
|-------------|--|
| | <p>of their review in accordance with the timetable that they had agreed to. The final valuations were not received until 28th May. This was particularly disappointing given that members of the Finance team met with the valuer before appointing them, commissioned the valuation early in the calendar year, and stressed throughout that there was no room for slippage</p> |
| | <p>2. Having finally received the valuation information, the next stage was to process it through the asset register software. This software has been used successfully for a number of years to calculate, among other things, the depreciation charges on the tens of thousands of asset components that the Council holds. This year, there were technical problems with the performance of the system, and the final accounting information only become available by 18th June.</p> |
| | <p>Once all the asset management information was made available this had to be fed into all the major financial statements and the analysis required for various notes to the Accounts. The Finance team achieved this within one week and the accounts were finally completed on 22nd June.</p> |
| 3.0 | Audit of Accounts |
| 3.1 | <p>The Accounts were sent to the Council's external auditors on 25th June, and following discussions with the Audit Manager it was agreed to delay the start of audit until August, as it would have been extremely onus for both the auditors and the finance to have completed all the audit work by the end of July.</p> |
| 3.2 | <p>The audit will now commence at the beginning of August and the final accounts and audit report will be submitted to this Committee for approval at its September meeting.</p> |
| 4.0 | Consultation |
| 4.1 | <p>The draft accounts are available on the Council's Web site and are open for public inspection when any taxpayer of the Borough is entitled to come, inspect and make copies of the accounts and all books, deeds, contracts, bills, vouchers and receipts related to those accounts.</p> |
| 8.0 | Financial appraisal |
| 8.1 | <p>The final outturn for the 17/18 year was presented to Cabinet on 2 July 2018.</p> |
| 9.0 | Legal implications |
| 9.1 | <p>The auditor has made the monitoring officer aware of the situation and informed Public Sector Audit Appointments Limited of the delay.</p> |
| 11.0 | Conclusion |
| 11.1 | <p>The preparation of draft accounts for 17/18 was delayed and not submitted</p> |

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| | to the auditors until 3 weeks after the deadline required by regulation. |
| 11.2 | The external audit work will now commence at the beginning of August and the results reported to this Committee at its September meeting. |

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