

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

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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.
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Reasons for Recommendations

- 1 The remit of the Audit and Standards Committee includes a duty to keep under review the probity and effectiveness of internal controls, both financial and operational, including the Council's arrangements for identifying and managing risk. There is a further duty to consider the annual report by the 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.
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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.
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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.
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- 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
