

**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

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**Purpose of Report:**

To inform Councillors on the adequacy and effectiveness of the Council's systems of internal control during the first 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).
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**Reasons for Recommendations**

- 1 The remit of the Audit and Standards Committee includes the duties to agree an Annual Audit Plan and keep it under review, and to keep under review the probity and effectiveness of internal controls, both financial and operational, including the Council's arrangements for identifying and managing risk.

**Information**

**2 Background**

- 2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) has, with the other governing bodies that set auditing standards for the various parts of the public sector, adopted a common set of Public Sector Internal Audit Standards (PSIAS) that were 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