

Report To:	Audit and Standards Committee
Date:	19 November 2018
Report Title:	Interim Report on the Council's Systems of Internal Control 2018/19
Report of:	David Heath, Head of Audit and Counter Fraud
Ward(s) Affected:	All
Purpose of report:	To inform Councillors on the adequacy and effectiveness of the Council's systems of internal control during the first seven months of 2018/19, and to summarise the work on which this opinion is based
Officer recommendation:	To note that the overall standards of internal control were generally satisfactory during the first seven months of 2018/19 (as shown in Section 2)
Reasons for recommendation:	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
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1 Introduction

- 1.1** 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.
- 1.2** 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.
- 1.3** 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.

- 1.4** 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.

2 Internal Control Environment at Lewes District Council

- 2.1** The Annual Report on the Council's Systems of Internal Control for 2017/18 was presented to the July meeting of the Committee. The report included 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 seven 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.

3 Internal Audit work 2018/19

- 3.1** Table 1 shows that a total of 409 audit days have been undertaken compared to 399 days planned in the first seven months of the year.

Table 1: Plan audit days compared to actual audit days for April to October 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	297	
Central Systems	67	65	40	
Departmental Systems	3	87	1	
Performance and Management Scrutiny	34	30	11	
Computer Audit	5	25	3	
Management Responsibilities/Unplanned Audits	101	158	57	
Total	557	673	409	399

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 from the team's focus on the submission of the HB subsidy claim, which has meant fewer days spent on annual leave and training than had been expected at this stage of the year (see 3.4 – 3.5). It is estimated that the audit days will be closer to plan by the year end.

- 3.2** 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.

- 3.3 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 completed and a final report has been issued. The results have contributed to the overall opinion given by HACF (see Section 2 above).
- 3.4** The work on behalf of BDO to test the Council's HB subsidy claim 2016/17 has been the other main priority and is now complete. 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, the claim was submitted in the last week of September 2018.
- 3.5** The corresponding exercise to test the Council's HB subsidy claim 2017/18 is now the main priority and the work is underway. The results from the initial sample testing have helped to inform BDO's work on the Council's 2017/18 accounts. BDO have identified the need for significant additional testing to address the issues noted in the 2016/17 claim, but BDO are looking at ways to try to shorten the timetable for this exercise.
- 3.6 Central Systems:** The annual audit of Ethics is at the draft report stage. This is a light touch review – because of the generally satisfactory situation noted over the last two audits the focus of the 2018 review is on the implementation of the recommendations from the previous report. An audit of Safeguarding at both councils has been completed by audit personnel in Eastbourne, and a final report has been issued. The initial planning for a review of joint ventures and Council owned companies was done in 2017/18 – the review has been completed and is at the draft report stage.
- 3.7 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 final report has been issued. An audit of Licensing is at the planning stage, with the fieldwork to begin shortly.
- 3.8 Performance and Management Scrutiny:** The initial work in this category was the review of the data that supports the Annual Governance Statement (AGS) for 2018, with the main task being the examination of the revised Strategic Risk Register.
- 3.9 Computer Audit:** Internal Audit has examined the IT aspects of the main financial systems and has begun the implementation of . An audit of Cyber Security is at the planning stage.
- 3.10 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.

- 3.11** 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 was issued on the W&R aspects of the review, and the results of the H&S review of the crematorium have been included in a draft report that also covers other aspects of the Bereavement Services at the location. Internal Audit has also carried out a review of the management of statutory building compliance at both councils; an interim report was issued in June 2018, with a final report issued during October 2018.
- 3.12** Internal Audit has coordinated the Council's work on the NFI data matching exercise that began in 2016. The Council received over 2,000 separate matches detailed across 93 reports, each report setting out different types of potential frauds among benefit claimants, housing tenants, and anyone receiving payments or discounts from the Council. The exercise has involved 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. Because the work is resource intensive and services have experienced staffing issues during the JTP process, the investigation of matches was being done in Internal Audit but not as a priority task. That work has now ceased.
- 3.13** The preparations for the 2018 NFI exercise are underway, with the Counter Fraud Investigations Manager in Eastbourne taking the coordination role for both councils. The necessary data downloads have been submitted and a targeted approach to the examination of reported matches will be in place when the matches are received in February 2019.

4 Follow up of Audit Recommendations

- 4.1** 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.

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

- 5.1** The results of the Internal Audit quality reviews and customer satisfaction surveys for 2017/18 were reported to the July 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.
- 5.2** As part of the standardisation of the Internal Audit service at both Lewes and Eastbourne, HACF is examining the range of PIs that will cover the shared service. The proposals for the shared PIs are presented separately to this meeting of the Committee.

6 Peer Review

- 6.1** The External Peer Review of LDC Internal Audit has been completed. The review was carried out by the Principal Auditor at Chichester District Council. The overall results of the review are that the LDC Internal Audit service generally conforms to the standards set by PSIAS 2017.
- 6.2** The Peer Review examined the service in four key sections – Purpose and positioning; Structure and resources; Audit execution; Impacts – comparing service activities to the statements of good practice contained within the PSIAS. The review also took account of the results from the client questionnaires sent to CMT, Heads of Service and the Chair of the Audit and Standards Committee.
- 6.3** The review found that the Internal Audit service fully complies with 43% of the statements of good practice and, for the remainder, complies with the PSIAS requirements in all material respects. The exceptions were in areas such as annual appraisals, succession planning, and the rotation and technical development of audit staff who are not professionally qualified. No remedial action is planned because the service complies with Council policies in these areas, but these do not meet PSIAS requirements in all respects.
- 6.4** Where the service is planning remedial action is in completing the audit manual which is in the processing of being re-worked following the merger with Eastbourne Borough Council. The work is underway, and includes the recent procurement of the Pentana audit management system, but no target date for completion has been set. In another area, the service commits to more regular team meetings to facilitate the transfer of knowledge between team members.

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 has been administered by officers at Eastbourne, with input from ESFOG partners as appropriate. Lewes and Eastbourne Counter Fraud activities have benefitted from Hub funding in the 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.
- 7.3** Hub partners have agreed to wind down Hub activities and for it to no longer exist as a formal entity. Hub funds have been set aside to cover known future commitments, with the balance divided among members to fund local Counter Fraud initiatives. Counter Fraud staff in the member authorities continue to share information and liaise on individual cases.

Counter Fraud Team

- 7.4** 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 20

cases of suspected abandonment and/or subletting under investigation, plus two of suspected housing application fraud. Five properties have been returned to stock after joint action by officers in Housing, Legal Services and Counter Fraud to address cases of abandonment or anti-social behaviour. Further property returns are anticipated in current cases where evidence gives a strong indication that the tenant no longer lives at the property.

- 7.5** Since April 2018, 25 new RTB applications have been received for checking to prevent fraud and protect the Council against money laundering. In the same period, 17 RTB applications have been approved and passed for processing, and 13 applications are currently under review. In the same 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.
- 7.6** 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. A member of that Eastbourne Counter Fraud 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 seven referrals to SFIS, and 24 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 the Council's 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** CMT has reviewed the Strategic Risk Register, and the results of the review were reported to the September 2018 meeting of the Committee.
- 8.4** 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.

- 8.5** 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.
- 8.6** 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 AGS for 2018 was presented to the July 2018 meeting 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.
- 11.2** Audit Completion Report (September 2018) – This report summarised the key issues from work carried out by BDO during the year ended 31 March 2018. When the report was published it represented an interim position because BDO were in the process of completing the audit – the Council had not prepared the draft and final Statement of Accounts in accordance with the new statutory deadlines. The interim key issues highlighted in the report overview section were:
- BDO had not identified any significant audit risks since the presentation of their Audit Plan in February 2018, and there were no significant changes to the planned audit approach.

- BDO had not identified any material misstatements, although the audit was still in progress and could result in audit differences.
- BDO were satisfied that, despite the recognised funding gap in the Medium Term Financial Strategy (MTFS), the Council has appropriate arrangements to remain financially sustainable over the period of the MTFS. All the required savings for 2018/19 had been identified.
- BDO anticipated issuing an unmodified opinion on the arrangements to secure economy, efficiency and effectiveness in the use of resources.
- Subject to successful completion of outstanding work, BDO anticipated issuing an unmodified opinion on the Council's financial statements, and on the consistency of other information in the Statement of Accounts with the financial statements.

11.3 Future external audit arrangements

11.4 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.

11.5 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.

11.6 BDO is finalising the audit of the 2017/18 accounts and is carrying out the audit of the 2017/18 HB subsidy claim, and will therefore be working with the Council for some months into 2019. 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.

12 Financial Appraisal

12.1 There are no financial implications arising from the recommendations in this report other than those already contained within existing budgets.

13 Legal Implications

13.1 There are no direct legal implications arising from this report.

14 Risk Management Implications

14.1 If the Council does not have an effective risk management framework that is subject to proper oversight by Councillors it will not be able to demonstrate that it has in place adequate means to safeguard Council assets and services, and it could be subject to criticism from the Council's external auditor or the public.

15 Equality analysis

15.1 An equalities impact assessment is not considered necessary because the report is for information only and involves no key decisions.

16 Background Papers

Report to the Audit and Standards Committee – Annual Audit Plan 2018/19, 19 March 2018

[2018/19 Annual Audit Plan](#)

17 Appendices

17.1 Appendix A1 - Statement of Internal Audit work and key issues.

17.2 Appendix A2 - Table of abbreviations.

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

APPENDIX A1

Statement of Internal Audit work and key issues.

Audit Report: Management of Statutory Compliance in the Corporate Property Portfolio

Date of issue: 24 October 2018

Introduction

Internal Audit has carried out a review of the procedures and controls within Property and Facilities Shared Service (PFSS) that ensure the corporate properties of EBC and LDC maintain statutory compliance. The review was requested by the Director of Regeneration and Planning

The Internal Audit review complemented a related review by consultants from AECOM Limited (Clear Sustainable Futures). The Director of Regeneration and Planning requested that AECOM carry out an urgent investigation of compliance at a small sample of four corporate properties in response to concerns about remedial works raised by the then Head of Service for PFSS. The initial AECOM investigation was extended to cover a total of 30 buildings within the property portfolios of Eastbourne Borough Council and Lewes District Council. AECOM issued a final report in May 2018, and the findings of the AECOM review have informed the corresponding work by Internal Audit.

Internal Audit issued an interim statement of key issues from the review in June 2018. The review has been completed after some further work to obtain an up to date position following changes in the senior staffing in August 2018. These changes include the appointment of a new Interim Head of Service for PFSS.

Summary of findings

From the audit work carried out during this review, Internal Audit has obtained partial assurance that the management and control of statutory compliance have been sufficient to achieve compliance in all properties. Compliance testing is being regularised via contracts with external test companies and records of test results are being improved, although some gaps remain. A major issue is that there has been a lack of evidence that remedial work identified as necessary by previous testing has been carried out, and there is a concern over the management processes to prioritise, plan and monitor essential repairs. It is likely that some essential remedial work was not done. This situation was started to be rectified after the publication of the AECOM report.

The management processes and structures within PFSS have not been effective in dealing with the situation outlined above. There is evidence of action being taken recently - in the period of the AECOM review and after the publication of the AECOM report – to address a range of management and control issues.

There has been limited management reporting on the compliance situation with the regular reporting to the Strategic Property Boards (SPBs) focussed on the positive developments in testing, but without sufficient reference to the known concerns over remedial work. Only

very recently have these gaps in reporting been addressed.

The Internal Audit report included five recommendations to address the issues noted by the review. The Interim Head of Service for PFSS has accepted the recommendations, and provided outlines of how the issues will be addressed.

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
LLP – Limited Liability Partnership
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
SPB - Strategic Property Boards
WGA – Whole of Government Accounts
W&R – Waste and Recycling