



**Lewes District Council**

**To all Members of the Audit and Standards Committee**

A meeting of the **Audit and Standards Committee** will be held in the **Ditchling Room, Southover House, Southover Road, Lewes Southover House, Southover Road, Lewes** on **Monday, 19 June 2017** at **10:00** which you are requested to attend.

Please note the venue for this meeting which is wheelchair accessible and has an induction loop to help people who are hearing impaired.

This meeting may be filmed, recorded or broadcast by any person or organisation. Anyone wishing to film or record must notify the Chair prior to the start of the meeting. Members of the public attending the meeting are deemed to have consented to be filmed or recorded, as liability for this is not within the Council's control.

09/06/2017

Catherine Knight  
Assistant Director of Legal and Democratic Services

**Agenda**

- 1 Committee Membership 2017/2018**  
To note the appointment of Councillor Ruth O'Keeffe on the Audit and Standards Committee membership for the remainder of the current municipal year.
- 2 Minutes**  
To approve the Minutes of the meeting held on 20 March 2017 (copy previously circulated).
- 3 Apologies for Absence/Declaration of Substitute Members**
- 4 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.
- 5 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.

**6 Written Questions from Councillors**

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

**7 Annual Report on Internal Audit Performance and Effectiveness 2016/17 (page 4)**

To receive the Report of the Head of Audit and Counter Fraud (Report No 80/17 herewith).

**8 Annual Report on the Council's Systems of Internal Control 2016/17 (page 16)**

To consider the Report of the Head of Audit and Counter Fraud (Report No 81/17 herewith).

**9 Annual Report on the Council's work to combat Fraud and Corruption 2016/17 (page 23)**

To consider the Report of the Head of Audit and Counter Fraud (Report No 82/17 herewith).

**10 Interim Report on the Council's Systems of Internal Control 2017/18 (page 31)**

To receive the Report of the Head of Audit and Counter Fraud (Report No 83/17 herewith).

**11 Annual Governance Statement 2017 (page 42)**

To consider the Report of the Head of Audit and Counter Fraud (Report No 84/17 herewith).

**12 Annual Report on the work of the Audit and Standards Committee 2016/17 (page 57)**

To consider the Report of the Chair of the Audit and Standards Committee (Report No 85/17 herewith).

**13 Lewes District Council - Fee Letter 2017/18 (page 64)**

To consider the Report of BDO Accountants and Business Advisers (Report No 86/17 herewith).

**14 Statement of Accounts 2016/2017 (page 68)**

To receive the Report of the Deputy Chief Executive (Report No 87/17 herewith).

**15 Treasury Management (page 72)**

To consider the Report of the Deputy Chief Executive (Report No 88/17 herewith).

**16 Date of Next Meeting**

To note that the next meeting of the Audit and Standards Committee is scheduled to be held on Monday, 25 September 2017 in the Ditchling Room, Southover House, Southover Road, Lewes commencing at 10:00am.

For further information about items appearing on this Agenda, please contact Zoe Downton at Southover House, Southover Road, Lewes, East Sussex BN7 1AB Telephone 01273 471600

**Distribution:** Councillors M Chartier (Chair), S Catlin, N Enever, S Gauntlett, A Loraine, R O'Keeffe, J Peterson and T Rowell

*(Members of the Committee who are unable to attend this meeting or find a substitute councillor to attend on their behalf should notify Zoe Downton, Committee Officer, [zoe.downton@lewes.gov.uk](mailto:zoe.downton@lewes.gov.uk))*

**Item No: 7**

**Report No: 80/17**

**Report Title:** Annual Report on Internal Audit Performance and Effectiveness 2016/17

**Report To:** Audit and Standards Committee

**Date:** 19 June 2017

**Ward(s) Affected:** All

**Report By:** Head of Audit and Counter Fraud

**Contact Officer**

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**Purpose of Report:**

**To inform Councillors of the Internal Audit work of the Audit and Performance Division for 2016/17.**

**To inform Councillors on the outcome of the review of the effectiveness of Internal Audit for 2016/17.**

**Officers Recommendation(s):**

- 1** To note that the Internal Audit coverage in 2016/17 has been sufficient to enable the Head of Audit and Counter Fraud (HACF, previously HAFP) to issue an unqualified opinion on the overall adequacy and effectiveness of the Council's control environment (see paragraph 3.1).
  - 2** To note the satisfactory outcome of the review of the effectiveness of Internal Audit for 2016/17 (see paragraph 3.3).
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**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 Head of Audit, Fraud and Procurement (HAFP) advised the Audit and Standards Committee of the effect of the standards at its March 2013 meeting.

**2.2** The PSIAS have been updated, with new standards published in April 2016. The impact of the new standards was reported to the September 2016 meeting of the Committee.

**2.3** The 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 2016/17**

**3.1** The work carried out by Internal Audit during 2016/17 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 2016/17 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 section during 2016/17 and the results of the performance and quality assurance processes that are outlined in Sections 5 to 7 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 Fraud Investigation Teams in both councils is due to be in place by 1 July 2017. Progress has already been made in coordinating internal audit activities and in sharing expertise and resources during 2016/17, and this forms the background to the activities outlined in this report.

## **4 Work of Internal Audit 2016/17**

**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 2015.

## Use of Internal Audit resources

- 4.2** Table 1 shows the total planned audit days compared to the actual audit days spent, together with comparative data for 2015/16.
- 4.3** Table 1 shows that for 2016/17 a total of 649 audit days have been undertaken compared to the budget of 636 days.

Table 1: Plan audit days compared to actual audit days for 2016/17

<b>Audit Area</b>	<b>Actual audit days for 2015/16</b>	<b>Plan audit days for 2016/17</b>	<b>Actual audit days for 2016/17</b>
Main Systems	360	290	352
Central Systems	57	70	83
Departmental Systems	68	70	86
Performance and Management Scrutiny	27	45	8
Computer Audit	2	45	2
Management Responsibilities/Unplanned Audits	88	116	118
Days Total	602	636	649

- 4.4** As has been predicted for some months the final results are close to plan, with a variance of just 13 days. There were staffing changes during the year, including the retirement of one of the Senior Auditors at LDC in January 2017. The potential shortfall in audit days did not arise because HACF has been involved in more audit work that was originally envisaged.
- 4.5** As was anticipated when the Audit Plan 2016/17 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 2017 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 2016/17 Audit Plan (reported January 2017)**

- 4.6** The review has taken place at the nine month stage, and the results of the review are now presented to the Committee. The review was scheduled to take 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 retirement of the Senior Auditor and the extra audit days worked by HAFP. There has been little overall impact on the number of days available to complete the audit programme for 2016/17, but there has been a need to re-assign a number of tasks.
- 4.7** HAFP advises that all significant aspects of the annual audit plan will be covered. The exceptions are:
- As previously reported, the planned audit of IT Security and Networks will not be possible because of the retirement of the Senior Auditor who was the specialist computer auditor. The audit will be scheduled for a future date in the audit cycle.

- The planned audit of Members Allowances and Expenses is scheduled into the Annual Plan for 2017/18 that is presented separately to the Committee.

Other audits in the programme for 2016/17 that are planned or underway will continue to a normal conclusion.

### **Audit Work Undertaken**

- 4.8** 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 2016/17 has been provided to each meeting of the Audit and Standards Committee.
- 4.9 *Main Systems:*** The initial work was on the testing of the major financial systems in order to gain assurance on the adequacy of internal controls for the Annual Governance Statement (AGS) and to inform BDO's work on the Council's accounts for 2015/16. A final report was issued. The corresponding work for 2016/17 is at the draft report stage.
- 4.10** The priority work to test the Council's subsidy claim for Benefits for 2015/16 was started in June 2016. BDO's initial planning for this work had set out the standard testing requirements and identified the likely need for significant additional testing to address the issues noted in the previous year's claim. The standard testing and the initial additional 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 the extra work that has been required. This has included further additional testing, reperformance by BDO, and the resolution of queries and challenges that have continued into April 2017. The audited claim is expected to be submitted at some time during June 2017.
- 4.11** The work for the 2016/17 claim is at the planning stage, with the aim of ensuring a shared and consistent EBC/LDC approach to the audit of the HB subsidy claims at both councils.
- 4.12 *Central Systems:*** Final reports were issued for the audits of Ethics (2016), Newhaven Business Centre, Insurance, Electoral Registration and Elections, and for the priority audit of Business Continuity Planning (BCP). The results of the joint review of the EBC/LDC Leisure Trusts have been discussed with CMT, and a draft report has been issued. The current audit of Ethics (2017) is underway.
- 4.13 *Departmental Systems:*** The final reports from the audits of Right to Buy (RTB), Private Sector Housing and Cemeteries have been issued. The audit of Estates Management, incorporating work on the corresponding function at EBC, began in January 2017 but has been put on hold to free resources for the work on the HB subsidy claim 2015/16 and the testing of the major financial systems.
- 4.14** The final report from the audit of RTB included an estimate of the impact of the discounting errors in completed and ongoing RTB sales in the period 2012/13 – 2015/16. The estimated loss to LDC was approximately £100,000. Immediate action was taken to correct the prices of ongoing sales, as was reported to the



September 2016 meeting of the Committee. The effect is that the loss to LDC has been reduced to £88,000.

**4.15 Performance and Management Scrutiny:** The main work in this category has been in reviewing the data that supported the Annual Governance Statement (AGS), and specific tasks related to the Internal Audit aspects of the Council's Joint Transformation Programme (JTP).

**4.16 Computer Audit:** Internal Audit completed the IT aspects of the testing of the main financial systems. As noted at 4.7 above, the majority of the planned coverage of IT has been rescheduled.

**4.17 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.

**4.18** There has been one unplanned audit that has been completed - a small scale exercise to review cash handling procedures at the Lewes Tourist Information Centre (TIC), and there were no significant outcomes. Follow up has confirmed that the further preventative measures that were planned by the TIC Manager have been actioned. Two reviews - Strategic Procurement, and the EBC/LDC response to the Prevent and Protect Strategy – both to be carried out by HACF, are underway.

**4.19** The major project in this category has been the work on the National Fraud Initiative (NFI) data matching exercise. Internal Audit continues to coordinate the Council's work on NFI data matching exercises. Council services submitted the various data ranges in mid-October 2016 and afterwards dealt with a number of queries from the Cabinet Office. .

**4.20** Internal Audit, the Investigations Team and service managers prepared for the receipt of the reported matches, and nominated officers to investigate matches in their service areas. The reported matches arrived in late January 2017 - there are 2,006 separate matches detailed across 93 reports; additional reports are expected as the exercise progresses. 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 weed out those that are the result of error or coincidence, and then the examination of the remaining matches to assess the likelihood of fraud. The exercise is at an early stage, with 322 matches examined and no fraud or error noted so far. The Audit and Standards Committee will be kept advised of progress.

## **5 Follow Up of Audit Recommendations**

**5.1** 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 2016/17 was on confirming the implementation of the recommendations that had been agreed in the previous year. The results of this work were reported to the June 2016 meeting of this Committee. Since then the follow up



procedures have concentrated on the recommendations due to be actioned during 2016/17.

- 5.2** The results of the follow up work for 2016/17 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.

## **6 Review of the Internal Audit Service against its aims, strategy and objectives**

- 6.1** 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 2016/17 were set out in the Annual Audit Plan 2016/17 that was presented to the March 2016 meeting of the Audit and Standards Committee, as outlined below.

### **Service Aim**

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

### **Service Objectives**

The Internal Audit function is provided internally, and 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 Council's Annual Audit Plan and Strategic Audit Plan.
- To provide an efficient and effective Investigations 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 desired outcome is for the Council to be able to demonstrate an effective control environment with no significant control issues, and to provide a satisfactory and unqualified audit opinion in its Annual Governance Statement (AGS).

The Council's AGS reports on the effectiveness of the governance framework, and is approved by the Audit and Standards Committee. The AGS is based upon the results from the Council's assurance arrangements, and the work by Internal Audit and the Council's external auditors, BDO.

### **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.

From January 2016, the staffing of Internal Audit was set at 2.9 FTE but with support from the Internal Audit Manager at Eastbourne BC adding the

equivalent of an extra 0.2 FTE for specific assignments. This level of staffing has not been maintained throughout 2016/17, but there has been no adverse impact on the number of direct audit days (see 4.2 to 4.5).

- 6.2** The HAFP has compared the performance of the Internal Audit service with the aim, objectives and strategy, and has examined the organisation, working methods, performance 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 2016/17, demonstrate 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.

## **7 Review of Internal Audit Charter**

- 7.1** 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.
- 7.2** 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. HACF has confirmed that the documents remain largely as approved in March 2013, except for the minor changes. If there is a need for more significant changes to the documents they will be presented to the Audit and Standards Committee for approval, and circulated to senior managers.

## **8 Quality Assurance and Improvement Programme (QAIP)**

- 8.1** 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.
- 8.2** 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**

- 8.3** 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**

- 8.4** Each audit assignment is subject to quality reviews by the Principal Audit Manager (PAM) 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**

- 8.5** The PSIAS set new 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. LDC has until March 2018 to have carried out an external assessment.
- 8.6** HACF has previously agreed with the Audit and Standards Committee that he will put in place suitable arrangements for an external assessment, and will report the arrangements to the Committee. As anticipated the most economic arrangements will involve the internal audit services in neighbouring authorities in a shared assessment process. During March 2015, the outline arrangements for the assessments were agreed with the authorities comprising the Sussex Audit Group. Following a pilot assessment at a neighbouring authority, Lewes is scheduled to be assessed later in 2017.

## **Internal assessment**

- 8.7** 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.
- 8.8** The Audit Manager (AM) at LDC has carried out the internal assessment for 2016/17, comparing Internal Audit processes and procedures with the requirements of the PSIAS and LGAN. The AM is not external to internal audit but has the necessary knowledge of internal audit practices, PSIAS, LGAN and IIA practice guidance.
- 8.9** HACF has reviewed the results of the internal assessment, and confirms that Internal Audit works in accordance with the detailed requirements of the PSIAS and LGAN in the planning, management, conduct and reporting of engagements.

## **9 Feedback from Users**

- 9.1** 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.
- 9.2** During May 2017, feedback questionnaires were sent to the Chief Executive and members of the Corporate Management Team (CMT), and to those service managers who have had direct contact with Internal Audit during 2016/17. All comments from that exercise were reported as Very Good, Good or Satisfactory.

## **10 Performance Indicators (PIs)**

- 10.1** Proposals for a revised set of PIs for Internal Audit were agreed at the September 2013 meeting of the Committee, and the new PIs formed the framework for the report on Internal Audit Benchmarking that was presented to the December 2013 meeting of the Committee.

**10.2** The Performance Indicator (PI) results for 2015/16, 2016/17 and the targets for 2017/18 are detailed at Appendix A. The main factors leading to variances from the performance targets for 2016/17 can be summarised as:

- The staffing changes that have taken place during 2016/17.
- The need to apply significant additional resources to the work on the HB subsidy claim with BDO that has impacted on the resources available for other audits in the 2016/17 programme.

## **11 Fraud Investigation Team**

**11.1** Each meeting of the Audit and Standards Committee receives a full update on the work of the Fraud Investigations Team, and normally this report would include details of their work during 2016/17. This meeting of the Committee is receiving a detailed Annual Report on the Council's work to Combat Fraud and Corruption 2016/17. To avoid duplication, no further comment on the work of the Fraud Investigation Team is included here.

## **12 Financial Appraisal**

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

## **13 Sustainability Implications**

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

## **14 Risk Management Implications**

**14.1** 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.

## **15 Equality Screening**

**15.1** 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.

## **16 Background Papers**

[2016/17 Annual Plan](#)

## **17 Appendices**

**Appendix A:** Performance Indicators (PIs) for Internal Audit.

**Appendix B:** Table of abbreviations

## APPENDIX A PERFORMANCE INDICATORS (PIs) FOR INTERNAL AUDIT

Performance Indicator	Actual 2015/16	Target 2016/17	Actual 2016/17	Target 2017/18
<b>Input of resources</b>				
1 Staffing FTE	3.00	3.1	3.1	3.1
2 Employee costs	£140,412	£145,290	£140,160	£149,900
3 Total costs	£166,994	£173,620	£164,197	£175,300
4 Cost per chargeable day	£277.39	£273.00	£253.00	£281.83
5 Total external audit fee	£62,878	£64,516	tbc	tbc
<b>Productivity and Efficiency</b>				
6 Number of core systems audits carried out in the year	14	14	14	14
7 Number of days spent on core systems audits	360	290	352	295
8 Number of audits/reviews in original plan	30	40	37	39
9 % of original plan carried out	77%	90%	89%	90%
10 Number of audits/reviews in revised plan	40	-	40	-
11 % of revised plan carried out	82%	90%	100%	90%
12 Number of chargeable days	602	636	649	622
13 Number of non-chargeable days	222	158	115	140
14 % of draft reports issued within 15 days of the end of the audit	86%	90%	92%	90%
<b>Outcome and degree of influence of the service</b>				
15 % of recommendations implemented by the agreed date.	86%	90%	tbc	90%
16 All comments from client satisfaction questionnaires in Categories 1 (Very Good), 2 (Good) or 3 (Satisfactory).	100%	100%	100%	100%

### Notes

All the PIs are for the Internal Audit service. There are no PIs for the Fraud Investigations Team.

Items 1 to 4 – The results reflect the savings that are related to the staffing changes that have taken place during 2016/17, offset by the additional costs arising from the increased number of days spent by HACF on audit work. For 2017/18, the forecast increase in costs and the forecast reduction in audit days lead to an increase in the cost per chargeable day.

Items 7 to 11 – The time spent on core systems audits reflects the significant additional resources required for the work on the HB subsidy claim with BDO, and this has impacted on the resources available for other audits in the 2016/17 programme.

Item 10 - This reflects the position by the end of the year, with audits having been added to/taken from the plan. No target or forecast is appropriate.

Item 13 – The result for 2016/17 reflects reduced staffing and the focus on core activities.

Item 15 - The results of the follow up work for 2016/17 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.

Item 16 – This includes results from questionnaires sent to audit clients, and members of the Corporate Management Team.

## **Appendix B: 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  
RTB – Right to Buy



**Agenda Item No:** 8 **Report No:** 81/17

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

**Report To:** Audit and Standards Committee **Date:** 19 June 2017

**Ward(s) Affected:** All

**Report By:** Head of Audit and Counter Fraud

**Contact Officer**  
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**Purpose of Report:**

**To inform Councillors on the adequacy and effectiveness of the Council's systems of internal control for 2016/17.**

**Officers Recommendation(s):**

- 1** To receive the annual report by the Head of Audit and Counter Fraud (HACF, previously HAFP).
  - 2** To note that the overall standards of internal control were satisfactory during 2016/17 (as shown in Section 3).
  - 3** To note that the satisfactory opinion on internal control is taken forward into the draft Annual Governance Statement (AGS) 2017 that is presented separately to this meeting of the Committee. The approved AGS is to be included with the Statement of Accounts 2016/17 that will be published in September 2017 (see Section 7).
  - 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 April 2016. The impact of the new standards was reported to the September 2016 meeting of 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 2017**

- 3.1** The overall standards of internal control are satisfactory. This opinion is based on the work of Internal Audit, other internal reviews and external assurance bodies, 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. In most cases managers have addressed the control issues since the respective audits, and within those recommendations not yet implemented there are no issues that create significant risks for the Council.
- 3.2** 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 2016/17**

- 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 2016/17 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 was presented to the June 2016 of the Committee, and subsequently to the Cabinet. The Committee receives updates on risk management at every meeting. The reports during 2016/17 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 has been making significant savings each year in its General Fund budget (which covers all services except the management and maintenance of Council owned homes) since 2011/12.
- 5.4** The General Fund budget for 2016/17 included a savings target of £0.685m including £0.4m to be generated from the JTP with EBC, of which Phase One (creating a single team of leaders and managers across LDC, EBC and Eastbourne Homes) is the main driver. This target is expected to be achieved, although because the new JTP Phase One management restructure will not be fully completed until June 2017, some of the savings will be deferred into 2017/18.
- 5.5** General Fund savings continue to be required over the next four years, with net expenditure to reduce by £2.2m from £13.2m to £11.0m by 2020/21 - £0.9m is to be generated from the remaining elements of the JTP. In 2017/18, the JTP is required to deliver General Fund savings of £0.3m.
- 5.6** 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.
- 5.7** The system of management assurance (see Section 6) has confirmed the operation of controls and the absence of significant control issues during the period of the savings programme so far. 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) 2017.
- 5.8** 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 framework has enabled senior officers to confirm the proper operation of internal controls, including compliance with the Constitution, in those services for which they were responsible in 2016/17. As part of this process all members of the Corporate Management Team (CMT) are required to consider whether there were any significant governance issues during 2016/17. At its meeting on 30

May 2017 CMT confirmed that there were no significant governance issues to report.

## **7 Corporate Governance**

- 7.1** In March 2016 the HACF in consultation with key officers, reviewed the Council's Local Code of Corporate Governance, and concluded that the arrangements remain satisfactory and fit for purpose. These results were reported to the March 2016 meeting of the Committee.
- 7.2** 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 2017 is reported separately to this meeting of the Committee.

## **8 External assurance**

- 8.1** The Government relies on external auditors to periodically review the work of the Council to make sure it is meeting its statutory obligations and performing well in its services. The results of these external reviews have helped inform the opinion on the internal control environment. The recent results are summarised below.
- 8.2** Annual Audit Letter for 2015/16 (October 2016) – This report summarised the key issues from the work carried out by BDO during the year, and was presented to the November 2016 meeting of the Committee. The key issues were:
- BDO issued an unqualified true and fair opinion on the financial statements for the period ended 31 March 2016.
  - BDO identified a number of misstatements on the Cash Flow Statement and in the classification of short term investments. These were corrected before completion of the financial statements.
  - BDO were satisfied that the Narrative Report, which local authorities include in the Statement of Accounts to offer interested parties guidance on the most significant matters, was consistent with the financial statements.
  - BDO did not identify any significant deficiencies in the Council's framework of internal controls, but did report on areas where improvements in controls could be made including declarations of related party transactions, the documentation of Council Tax discounts, and access to some IT systems.
  - BDO were satisfied that the Annual Governance Statement (AGS) was not misleading or inconsistent with other information they were aware of from their audit work.
  - BDO issued an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.
  - BDO found that the Council has adequate arrangements for budget setting and budget monitoring, and the Council has identified sufficient savings over the next four years to balance its budget.

- BDO noted that many of the savings will arise from the Joint Transformation Programme with EBC, and BDO were satisfied that there are effective governance arrangements in place to oversee delivery of the project.
- BDO noted that the Council's Whole of Government Accounts (WGA) submission is below the threshold for further work other than to submit the WGA Assurance Statement. This was submitted on 7 October 2016 ahead of national deadline.
- BDO reported that the review of grant claims and returns for 2015/16 is in progress, and the results will be reported on completion.
- BDO reviewed the governance arrangements for Council's New Homes Project, and made a number of recommendations for improvement that should be applied to future projects.

**8.3** Grant Claims and Returns Certification for year ended 31 March 2015 (April 2016). The report was presented to the June 2016 meeting of the Committee. The key points were:

- The audit identified a high level of errors within the cases tested, which required a significant amount of extra testing by BDO and the Council. No amendments were made to the final claim submitted to DWP.
- The main errors were in the administration of benefits involving non-HRA rent rebates and rent allowances. There were a small number of cases of incorrect classification of expenditure as non-HRA, when the expenditure should have been classified as HRA rent rebates.
- The audit identified deficiencies in the Council's systems and controls around the identification of prior year uncashed payments, resulting in an under claim of £556.
- As a result of the errors found in administering benefits, BDO qualified the claim across all benefit expenditure types. The additional work required to be completed by the Council and BDO meant that the audited claim was submitted to DWP in March 2016, four months after the deadline date.
- The certification of the returns for the Pooling of Housing Capital Receipts was completed satisfactorily without amendment of certification. The main reported issue was the need for the Council to have in place appropriate plans to use retained receipts by certain milestone dates, otherwise the receipts must be paid to DCLG.

**8.4** As was reported to the June 2016 meeting of the Committee, DWP made a marginal adjustment to the submitted claim which was agreed at a total value of approximately £35.8m.

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

## **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 1: 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



**Agenda Item No: 9**

**Report No: 82/17**

**Report Title:** Annual Report on the Council's work to combat Fraud and Corruption 2016/17

**Report To:** Audit and Standards Committee **Date:** 19 June 2017

**Ward(s) Affected:** All

**Report By:** Head of Audit and Counter Fraud

**Contact Officer**

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**Purpose of Report:**

**To inform Councillors on the adequacy and effectiveness of the Council's systems to combat fraud and corruption during 2016/17.**

**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 2016/17 (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. In recognition of these priorities 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 2016/17, 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 Fraud Investigation Teams in both councils is due to be in place by 1 July 2017. Significant progress has already been made in coordinating counter fraud activities and in sharing expertise and resources during 2016/17, and this forms the background to the activities outlined in this report.

### **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 had in place for some years 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 a network of 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, and the HACF provides regular reports to the Audit and Standards Committee on the internal control environment. HACF is reporting separately to the June 2017 meeting of the Committee that the overall standards of internal control were satisfactory during 2016/17.

## **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.
- 4.2** The main counter fraud body is now the Fraud Investigation 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.

### **Fraud Investigation Team**

- 4.3** The Fraud Investigation Team had previously focused solely on benefits fraud, and had undertaken a range of pro-active anti-fraud work in this area. The team 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.

- 4.4** The Fraud Investigation Team has the following service objective:

To provide an efficient and effective Investigations 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.

- 4.5** The Fraud Investigation 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 including tenancy fraud, and business rates fraud. The Council believes that this level of staffing is commensurate with the levels of risk, but has been seeking to make more effective use of resources by drawing on the expertise of colleagues at EBC to support LDC activities in some key areas (see 4.7, 4.9, and 5.7, and 6.3).
- 4.6** The work to develop the role of the Investigations Team has been particularly successful in the relationship with Housing Services where officers from both departments work together on joint initiatives (see 6.5 to 6.9 below). In addition, Housing Services have allocated a part time post to the role of tenancy audit, which involves a rolling programme of checks on the validity of tenancies and the identity of people living in Council properties. Future planned activities with Housing Services include a joint Internal Audit/Fraud review of the housing register procedures in 2017.
- 4.7** In July 2016, the Fraud Investigation Team implemented a new regime of checks on Right to Buy (RTB) applications. The new checks were introduced in response to

issues noted in an audit of RTB carried out by the Internal Audit Manager at EBC, and as a result of research with other local authorities into fraud risks related to the RTB process. 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 Investigations Teams at LDC and EBC apply the same methods of checking RTBs. The teams liaise regularly to ensure the shared approach continues to reflect developing best practice.

- 4.8** At present, countering housing tenancy fraud and abandonment, and preventing RTB fraud, are the main operational priorities for the Fraud Investigation Team 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 has been trialled but requires further work.
- 4.9** The Fraud Investigation Team has continued to work with colleagues in the Benefits Team 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, and administering the penalties for cases that are not subject to prosecution. In an agreement with the Fraud Investigation Team at EBC, a member of that team has carried out the DWP liaison work for LDC using existing EBC procedures and thus allow the LDC team to focus on case work in other areas.
- 4.10** 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 Fraud Investigation 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 base data was forwarded to the Audit Commission in October 2016. 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. Each report highlights a number of 'Recommended' matches that appeared to indicate the greatest likelihood of fraud.
- 5.3** Council services nominated officers to investigate the matches in their areas. Because the work is resource intensive, services are targeting their efforts with the initial focus on those matches that are recommended for review. 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 LDC Investigation Team for action, with any suspected cases of HB fraud referred to DWP. The exercise to investigate reported matches is at an early stage and will run until April 2018.

- 5.4** The conduct and progress of the NFI 2016/17 has been regularly reported to the Audit and Standards Committee.

### **National Anti-Fraud Network (NAFN)**

- 5.5** The Council is signed up 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**

- 5.6** 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. During 2014/15, a sub group of authorities within ESFOG, including LDC, submitted a successful funding bid to DCLG for the development of a 'Hub' approach to coordinating new counter fraud initiatives across East Sussex.
- 5.7** The Hub is managed by officers at EBC in accordance with the corporate governance arrangements of that authority, with input from ESFOG partners as appropriate. LDC has benefitted from Hub funding in the ongoing provision of training, the introduction of a shared case management system, and publicity material for the LDC campaign to counter housing tenancy fraud. Current projects include a shared approach to publicity for Hub activities and the development of an on-line system to allow the public to report suspected frauds – the Investigations Teams at EBC and LDC will use a shared web link to receive these reports. The next priorities will include a coordinated exercise to counter business rates fraud across the county, using a methodology developed with Hub partners.
- 5.8** 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 Fraud Investigation Team are part of a national information sharing network for tenancy fraud.
- 5.9** 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 2016/17**

- 6.1** The results of the Council's counter fraud and corruption work during 2016/17 is summarised as follows.

## **Corruption**

- 6.2** There were no reported cases of corruption during 2016/17.

## **Housing Benefit fraud**

- 6.3** During 2016/17 the Fraud Investigation Team continued to work closely with DWP colleagues to maintain the effectiveness of the SLA. A total of 112 HB cases were passed to SFIS via the SLA procedures, and 69 information requests were actioned, including those processed by the colleague in the Fraud Investigation Team at EBC who carries out the DWP liaison work for LDC.

## **Council Tax Reduction Scheme (CTRS) fraud**

- 6.4** 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. One CTRS case was investigated but was closed in February 2017, and nine CTRS cases have been closed without investigation. The amounts of the CTR invalidly claimed are being recovered by the Revenues Team but, with no investigation in most cases, the Council is unable to obtain the £50 administrative penalty (Adpen) that could result from each case.

## **Housing Tenancy fraud**

- 6.5** During 2016/17, the work on counter tenancy fraud included monitoring best practice guidance from other authorities, maintaining effective referral arrangements with officers in LDC Housing Services, and responding to cases reported by residents.
- 6.6** A total of 18 suspected cases of tenancy fraud were referred to the team during 2016/17, to add to a number of long running cases that were reported during 2015/16. All of the 2015/16 cases were cleared by January 2017, with four properties returned to the Council's housing stock after the team had proved abandonment by the tenant. The majority of the other cases were closed because the investigations had established that there had been no fraud or abandonment. 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. Ten cases were under investigation at the end of March 2017, including one of suspected housing application fraud.

## **Right to Buy (RTB) Scheme**

- 6.7** Since July 2016, 58 RTB applications have been subject to the new regime of checks by the Fraud Investigation Team and 30 applications have been withdrawn after intervention by the team. Applications are withdrawn for a variety of reasons - it is not possible to say that the withdrawals indicate fraud, although in a few cases there was an initial suspicion of potential fraud when the withdrawal was made.
- 6.8** There is a debate underway on the correct way to value the results of RTB interventions/investigations. At present, the 30 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 £2.25m in discounts that were not given. Because it is not possible to



say that withdrawals indicate fraud, this is not claimed as a saving arising from the prevention of fraud. The 30 withdrawals have saved the Council approximately £9,000 from the property valuations that have not been required.

- 6.9** Two cases of suspected RTB fraud are being investigated – one involves an ongoing application.

### **Business Rate fraud**

- 6.10** NDR is the development priority for the team, based upon some initial research, training and a small pilot study in 2016. The team will revisit the risk assessment for NDR to determine the impact of recent government announcements on NDR, and the possible effect on rate reliefs to small businesses. It is anticipated that action to counter business rate fraud will be a shared priority for the partner authorities within the East Sussex Counter Fraud Hub. Work is underway to develop a joint approach including a formal protocol to enable the sharing of NDR data across the Hub. Once in place the protocol will allow the sharing of data in the investigation of other types of fraud.

## **7 Council tax - Single Person Discounts (SPDs)**

- 7.1** The Council has joined with other local authorities in East Sussex to employ a private sector company (Northgate) to check on the status of Single Person Discounts (SPDs) claimed by residents against their Council Tax liability. During 2016/17, the last year of the current contract with Northgate, this process identified 239 cases of SPDs to which the liable person was not entitled - the SPDs were removed without the need to prove fraud. The result has been a total increase in Council Tax collections of approximately £71,250 in 2016/17, with the cost of the Northgate service at approximately £4,400. These results compare favourably with previous years covered by the contract (242 SPDs removed in 2014/15, 28 in 2015/16).
- 7.2** The Council and the other authorities are currently engaged in a procurement exercise to determine the company that will operate the equivalent service in the years ahead.

## **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.

**Agenda Item No:** 10 **Report No:** 83/17

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

**Report To:** Audit and Standards Committee **Date:** 19 June 2017

**Ward(s) Affected:** All

**Report By:** Head of Audit and Counter Fraud

**Contact Officer**  
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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 two months of 2017/18, and to summarise the work on which this opinion is based.**

### **Officers Recommendation(s):**

- 1 To note that the overall standards of internal control were satisfactory during the first two months of 2017/18 (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 apply from 1 April 2013. The PSIAS have been updated, with new standards published in April 2016. The impact of the new standards was reported to the September 2016 meeting of the Committee.
- 2.2 The PSIAS 2016 continue to specify the requirements for the reporting to the Audit and Standards Committee and senior management by Head of Audit and Counter Fraud (HACF, formerly HAFP). 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 full integration of the respective Internal Audit and Fraud Investigation Teams in both councils is due to be in place by 1 July 2017. Progress has already been made in coordinating internal audit and counter fraud activities and in sharing expertise and resources, and this forms the background to the activities outlined in this report.

### **3 Internal Control Environment at Lewes District Council**

- 3.1** The Annual Report on the Council's Systems of Internal Control for 2016/17 included the opinion of HACF that the overall standards of internal control are satisfactory. This opinion was based on the work of Internal Audit and the Council's external auditors, BDO, and the Council's work on risk management. In the two 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 2017/18**

- 4.1** Table 1 shows that a total of 71 audit days have been undertaken compared to 93 planned in the first two months of the year.

Table 1: Plan audit days compared to actual audit days for April to May 2017

Audit Area	Actual audit days for the year 2016/17	Plan audit days for the year 2017/18	Actual audit days to date	Pro rata plan audit days to date
Main Systems	347	295	52	
Central Systems	83	65	1	
Departmental Systems	86	65	-	
Performance and Management Scrutiny	8	45	2	
Computer Audit	2	5	-	
Management Responsibilities/Unplanned Audits	113	147	16	
Total	639	622	71	93

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 22 days has arisen mainly from the retirement of the Senior Auditor in January 2017, with the vacancy not yet filled. In addition, the HACF has been

involved in less audit work in the first two months of the year than was originally envisaged. 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 2017. Further information on each of the audits completed since the previous meeting of the Committee is given at Appendix A.
- 4.3 *Main Systems:*** The main 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 2016/17. A draft report is being prepared.
- 4.4** The work on behalf of BDO to test the Council's HB subsidy claim 2015/16 was completed in May 2017, and the audited claim is expected to be submitted at some time during late June 2017. The work on the HB subsidy claim for 2016/17 is at the planning stage, with the aim of ensuring a shared and consistent EBC/LDC approach to the audit of the HB subsidy claims at both councils.
- 4.5 *Central Systems:*** The current audit of Ethics is underway, with the work being done by the Audit Manager at EBC. Initial planning for the audit of EBC/LDC compliance with the Regulatory Powers Act (RIPA) is underway.
- 4.6 *Departmental Systems:*** The audit of Estates Management, incorporating work on the corresponding function at EBC, began in January 2017 but has been put on hold to free resources for the work on the HB subsidy claim 2015/16 and the testing of the major financial systems – the audit will recommence as soon as resources become available.
- 4.7 *Performance and Management Scrutiny:*** The main work in this category has been in reviewing the data that supports the Annual Governance Statement (AGS) for 2017.
- 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 Fraud Investigations Team, liaison with BDO, managing the Follow Up procedures, as well as for special projects or investigations.
- 4.10** Two reviews - Strategic Procurement, and the EBC/LDC response to the Prevent and Protect Strategy – both being carried out by HACF - are underway.
- 4.11** Internal Audit continues to coordinate the Council's work on NFI data matching exercises. Internal Audit, the Investigations Team and service managers prepared for the receipt of the reported matches, and nominated officers to investigate matches in their service areas. The reported matches arrived in late January 2017 - there are over 2,000 separate matches detailed across 93 reports; additional reports are expected as the exercise progresses. 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 weed out those that are the result of error or coincidence, and

then the examination of the remaining matches to assess the likelihood of fraud. The exercise is at an early stage, with 322 matches examined and no fraud or error noted so far. 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 2016/17 has been on confirming the implementation of the recommendations that had been agreed in the previous year. The results of this work are reported separately to this meeting of the Committee.

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

- 6.1** The results of the Internal Audit quality reviews, customer satisfaction surveys and PIs for 2016/17 are reported separately to this meeting of the Audit and Standards Committee. The results enabled the HACF to report that the Internal Audit service at Lewes is fully effective, is subject to satisfactory management oversight, achieves its aims, and objectives, and operates in accordance with the Internal Audit Strategy as approved by the Audit and Standards 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.
- 7.2** A sub group of six authorities within ESFOG are working together in a 'Hub' approach to coordinate new anti-fraud initiatives across East Sussex and Brighton. The Hub is managed by officers at Eastbourne BC with input from ESFOG partners. Current Hub projects include a shared approach to publicity for Hub activities and the development of an on-line system to allow the public to report suspected frauds – the Investigations Teams at EBC and LDC will use a shared web link to receive these reports. The next priorities will include a coordinated exercise to counter business rates fraud across the county, using a methodology developed with Hub partners.

### **LDC Investigations Team**

- 7.3** At present, countering housing tenancy fraud and abandonment, and preventing RTB fraud, are the main operational priorities for the Fraud Investigation Team because of the evidence of this being a high risk area for the Council. Twelve cases of suspected abandonment and/or subletting are under investigation, plus one of suspected housing application fraud. One property is to be returned at the end of June 2017 after the tenant accepted that she no longer lives at the address. Two cases of suspected RTB fraud are being investigated – one involves an ongoing application. The team is assessing a number of withdrawn RTB applications because the cases could indicate potential fraud.
- 7.4** NDR is the development priority for the team, based upon some initial research, training and a small pilot study in 2016. The team will revisit the risk assessment for

NDR to determine the impact of recent government announcements on NDR, and the possible effect on rate reliefs to small businesses. The aim is to have a coordinated exercise to counter business rates fraud across the county, using a methodology developed with Hub partners.

- 7.5** Internal Audit has in place an agreement with DWP for the management of cases of HB fraud. The major work on each HB case will be 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 the Fraud Investigation Team at EBC, a member of that team carries out the DWP liaison work for LDC using existing EBC procedures and thus allow the LDC team to focus on case work in other areas.

## **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 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 has been making significant savings each year in its General Fund budget (which covers all services except the management and maintenance of Council owned homes) since 2011/12.
- 8.4** The General Fund budget for 2016/17 included a savings target of £0.685m including £0.4m to be generated from the JTP with EBC, of which Phase One (creating a single team of leaders and managers across LDC, EBC and Eastbourne Homes) is the main driver. This target is expected to be achieved, although because the new JTP Phase One management restructure will not be fully completed until June 2017, some of the savings will be deferred into 2017/18.
- 8.5** General Fund savings continue to be required over the next four years, with net expenditure to reduce by £2.2m from £13.2m to £11.0m by 2020/21 - £0.9m is to be generated from the remaining elements of the JTP. In 2017/18, the JTP is required to deliver General Fund savings of £0.3m.
- 8.6** 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.

## **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 all members of the Corporate Management Team (CMT) are required to consider whether there were any significant governance issues during 2016/17. At its meeting on 30 May 2017 CMT confirmed that there were no significant governance issues to report, and there has been nothing in the first two months of the financial year to change these assessments.

## **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 2017 is presented separately to this meeting of the 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 results of these external reviews have helped inform the opinion on the internal control environment. The recent results are summarised below.

- 11.2** Annual Audit Letter for 2015/16 (October 2016) – This report summarised the key issues from the work carried out by BDO during the year, and was presented to the November 2016 meeting of the Committee. The key issues were:

- BDO issued an unqualified true and fair opinion on the financial statements for the period ended 31 March 2016.
- BDO identified a number of misstatements on the Cash Flow Statement and in the classification of short term investments. These were corrected before completion of the financial statements.
- BDO were satisfied that the Narrative Report, which local authorities include in the Statement of Accounts to offer interested parties guidance on the most significant matters, was consistent with the financial statements.
- BDO did not identify any significant deficiencies in the Council's framework of internal controls, but did report on areas where improvements in controls could be made including declarations of related party transactions, the documentation of Council Tax discounts, and access to some IT systems.
- BDO were satisfied that the Annual Governance Statement (AGS) was not misleading or inconsistent with other information they were aware of from their audit work.
- BDO issued an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.



- BDO found that the Council has adequate arrangements for budget setting and budget monitoring, and the Council has identified sufficient savings over the next four years to balance its budget.
- BDO noted that many of the savings will arise from the Joint Transformation Programme with EBC, and BDO were satisfied that there are effective governance arrangements in place to oversee delivery of the project.
- BDO noted that the Council's Whole of Government Accounts (WGA) submission is below the threshold for further work other than to submit the WGA Assurance Statement. This was submitted on 7 October 2016 ahead of national deadline.
- BDO reported that the review of grant claims and returns for 2015/16 is in progress, and the results will be reported on completion.
- BDO reviewed the governance arrangements for Council's New Homes Project, and made a number of recommendations for improvement that should be applied to future projects.

**11.3** Grant Claims and Returns Certification for year ended 31 March 2015 (April 2016). The report was presented to the June 2016 meeting of the Committee. The key points were:

- The audit identified a high level of errors within the cases tested, which required a significant amount of extra testing by BDO and the Council. No amendments were made to the final claim submitted to DWP.
- The main errors were in the administration of benefits involving non-HRA rent rebates and rent allowances. There were a small number of cases of incorrect classification of expenditure as non-HRA, when the expenditure should have been classified as HRA rent rebates.
- The audit identified deficiencies in the Council's systems and controls around the identification of prior year uncashed payments, resulting in an under claim of £556.
- As a result of the errors found in administering benefits, BDO qualified the claim across all benefit expenditure types. The additional work required to be completed by the Council and BDO meant that the audited claim was submitted to DWP in March 2016, four months after the deadline date.
- The certification of the returns for the Pooling of Housing Capital Receipts was completed satisfactorily without amendment of certification. The main reported issue was the need for the Council to have in place appropriate plans to use retained receipts by certain milestone dates, otherwise the receipts must be paid to DCLG.

**11.4** As was reported to the June 2016 meeting of the Committee, DWP made a marginal adjustment to the submitted claim which was agreed at a total value of approximately £35.8m.

### **11.5 Financial Appraisal**

**11.6** There are no additional financial implications from this report.

## **12 Sustainability Implications**

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

## **13 Risk Management Implications**

- 13.1** 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.

## **14 Legal Implications**

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

## **15 Equality Screening**

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

## **16 Background Papers**

[2017/18 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: Electoral Registration and Elections**

**Date of final issue: 27 March 2017**

#### **Overall opinion:**

Internal Audit has reviewed the procedures and controls governing the administration of electoral registration and the conduct of elections at LDC. The initial focus of the audit was the local and national elections in May 2015, with the audit work begun in December 2015. Exceptionally, the audit had to be suspended to enable the staff in Democratic Services to plan and carry out an extensive programme of elections during 2016. The audit has now been completed, and the findings have been updated to take account of the elections that took place during in 2016.

From the audit work carried out during this review Internal Audit has obtained full assurance that there is sound system of internal control covering electoral registration and elections. Proper processes are in place and compliance with the processes and controls is good. The particular circumstances of May 2015 parliamentary elections and the EU Referendum in June 2016 created stresses for the electoral system nationally and locally. So far as can be determined these stresses were handled effectively with no significant adverse impact on the conduct of the elections managed by LDC. The satisfactory situation means that there are no improvements that need to be made within the scope and objectives of the audit, and the report contains no recommendations.

#### **Main points:**

##### **Registration of electors**

Registers of electors are compiled as required under the Representation of Peoples Acts, with full and edited copies of the register held in the appropriate public places and correctly circulated. The 2015 and 2016 elections were based on electoral registers that had been compiled in accordance with the new system of Individual Electoral Registration (IER), including the online registration service, which was introduced in June 2014. The IER process was supported by arrangements that enabled voter identities to be verified via cross referral to other government agencies. An additional 5,368 voters were added to the Lewes register in the period between the May 2015 Parliamentary election and the EU Referendum in June 2016.

European and overseas citizens who are entitled to vote are recorded correctly and effective measures have been introduced to encourage postal voting – these arrangements were applied to the elections during 2015 and 2016. Postal voting for the EU referendum was adopted by the highest proportion (18%) of the voters in the District since postal voting on demand was introduced in 2001.

The EU Referendum booklet issued by the UK Government and the social media campaigns encouraged people to register to vote for the EU Referendum. Nationally, this resulted in significant numbers of electors already registered attempting to re-register – in Lewes 650 of the 850 new registrations were found to be duplicate, and these required specific action to protect the integrity of the register. The Gov.uk online registration website crashed two hours before the registration deadline on 7 June 2016, which resulted

in emergency legislation being passed to extend the registration deadline to midnight on 9 June. These issues combined to create unprecedented challenges for election administrators nationally, and at Lewes their resolution required significant levels of staff overtime in Democratic Services.

### **Conduct of elections**

In all significant respects the elections in 2015 and 2016 were planned and conducted in accordance with the timetables established by legislation, and the detailed timetables and guidance from the Electoral Commission. . Election planning was subject to a formal project management process including risk assessments and senior level monitoring.

The Electoral Commission guidance included recommended staffing levels, and these were applied in the planning, administration and management of the 2015 and 2016 elections. The Council had anticipated that there would be a higher turnout for the May 2015 and June 2016 elections, and therefore the decision was taken to provide the recommended training to all those holding key positions.

The Electoral Commission reviews the conduct of elections and assesses the performance of Returning Officers (ROs). The audit noted that, in July 2015, the Commission had reported on an issue affecting LDC – it concerned parish postal ballot packs containing a duplicate of the District ballot paper instead of the relevant parish ballot paper. Replacement ballot papers were issued and the majority of affected electors were able to return a valid vote. The error occurred in town council areas within Brighton that were subject to a joint election planning agreement with Brighton and Hove City Council (BHCC). The error had been made by the Brighton RO, but the legislation and Commission guidance is clear that ultimate responsibility lies with the Lewes RO. Internal Audit found no evidence of this issue arising in subsequent elections and so it is not considered material in the context of the overall opinion above.

### **Electoral expenditure**

Electoral expenses are paid and accounted for correctly. There are reasonable procedures in place to meet the costs of the election support services such as printing, transport, and the set-up of polling/counting centres.

## **Appendix A2**

### **Table of abbreviations**

AGS – Annual Governance Statement  
BCP – Business Continuity Planning  
BDO – BDO, the Council's external auditors. Formerly BDO Stoy Hayward  
CIPFA – Chartered Institute of Public Finance and Accounting  
CMT – Corporate Management Team  
CTRS – Council Tax Reduction Scheme  
DCLG – Department for Communities and Local Government  
DFGs – Disabled Facilities Grants  
DWP – Department of Work and Pensions  
EBC – Eastbourne Borough Council  
ESFOG – East Sussex Fraud Officers Group  
HACF – Head of Audit and Counter Fraud  
HB – Housing Benefit  
HRA – Housing Revenue Account. Refers to Council owned housing  
ISO – International Organisation for Standardisation  
IT – Information Technology  
JTP – Joint Transformation Project  
LDC – Lewes District Council  
NFI – National Fraud Initiative  
PIs – Performance Indicators  
PSIAS – Public Sector Internal Audit Standards  
QAIP – Quality Assurance and Improvement Programme  
RO – Returning Officer  
RTB – Right to Buy  
SFIS – Single Fraud Investigation Service  
WGA – Whole of Government Accounts

**Agenda Item No: 11**

**Report No: 84/17**

**Report Title: Annual Governance Statement 2017**

**Report To: Audit and Standards Committee**      **Date: 19 June 2017**

**Ward(s)  
Affected: All**

**Report By: Head of Audit and Counter Fraud**

**Contact  
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**Purpose of Report:**

**To seek Councillors' approval to the draft Annual Governance Statement (AGS) 2017**

**Officer's Recommendation(s):**

- 1** To comment on and approve the draft Annual Governance Statement (AGS) 2017 (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 September 2017.
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**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 with effect from the financial year 2016/17<sup>1</sup>.

- 2.3** The AGS is presented to enable members to comment on and approve it in advance of its publication with the draft Statement of Accounts by 30 June 2017. Adjustments can be made to the AGS up to the date of approval of the audited Statement of Accounts which must be published by 30 September 2017.

### **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 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.

- 3.2** The new guidance is less prescriptive which means councils can adopt more innovative approaches in preparing their AGS's.

### **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

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<sup>1</sup> Delivering Good Governance in Local Government: Framework and Guidance Notes (2016)



adopted in 2006 and is subject to regular review by the Head of Audit and Counter Fraud.

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

- 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 (April/May 2017).
- The Corporate Management Team each complete assurance statements for their service areas and then review the draft AGS and consider significant governance issues (May 2017).
- The Audit and Standards Committee comment on and approve the draft AGS (June 2017).
- The AGS is published with the draft Statement of Accounts (30 June 2017).
- The AGS with any amendments required is included with the Statement of Accounts and presented to the Audit and Standards Committee (September 2017).
- The AGS is signed off by the Leader of the Council and Chief Executive by 30 September 2017.
- The AGS is published with the audited Statement of Accounts (30 September 2017).

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

**4.4** The Code of Practice on Local Authority Accounting 2016/17 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) has revised the principles for good governance for local government. A review of the Council's Code of Corporate Governance, and that of Eastbourne Borough Council, is underway to take account of the revised principles. The aim is for this work to be completed by the time the AGS is signed on 30 September 2017. This review is being undertaken by the Head of Audit and Counter Fraud and the Assistant Director – Corporate Governance. This work will ensure a consistent approach to corporate governance at both Lewes District Council and Eastbourne Borough Council.

## **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 March 2016) <http://www.lewes.gov.uk/council/3748.asp>

## **12 Appendices**

- 12.1** Appendix A: Draft Annual Governance Statement 2017.

**DRAFT ANNUAL GOVERNANCE STATEMENT (AGS) 2017**

**Introduction**

This is the Lewes District Council's Annual Governance Statement (AGS) for 2017. The AGS includes:

- 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 at <http://www.lewes.gov.uk/council/3748.asp>

## **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 is 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. 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 (members from both councils including from the opposition groups),
- Joint Transformation Core Team (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 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. Phase 2 has commenced with the intention of publishing a draft target operating model by the end of August 2017. The workforce of Lewes District Council transferred to Eastbourne Borough Council in February 2017.

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 2016/17 included a savings target of £0.685m including £0.4m to be generated from the JTP with EBC, of which Phase One (creating a single team of leaders and managers across LDC, EBC and Eastbourne Homes) is the main driver. This target is expected to be achieved, although because the new JTP Phase One management restructure will not be fully completed until June 2017, some of the savings will be deferred into 2017/18. This was reported to the Audit and Standards Committee in March 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 seven members 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 then Head of Audit, Fraud and Procurement that the overall standards of internal control were satisfactory at its September 2016 meeting.
- Receiving and endorsing the annual report on risk management including the strategic risks identified by Corporate Management Team at its July 2016 meeting.
- Considering the Council's progress and performance in respect of key projects on a quarterly basis.
- Agreeing the General Fund and Housing Revenue Account 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 is reported to this 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 2016/17, the overall standards of internal control were satisfactory. Whilst recommendations have been made to improve management controls, there were no instances in which internal control issues created significant risks for the Council.

An audit of Right to Buy reported to the Audit and Standards Committee in September 2016 identified minimal assurance that there was an adequate system of internal control covering the administration of Right to Buy applications. Appropriate corrective action was taken during the audit to address immediate issues and risks, and further changes to the controls covering the processing of Right to Buy cases have been introduced.

During the period of this AGS there has been one case for consideration by the Standards Panel relating to a Lewes District Councillor. It met in February 2017 and concluded that the Councillor had failed to comply with the Code of Conduct. The Panel required the Monitoring Officer to arrange training for the Councillor on the Code, and the training took place in April 2017.

### **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 seven times since April 2016. 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 Waste and Recycling Service Review in July 2016 with opportunity to make comments in advance of Cabinet considering the review options.
- Agreeing the work programme for 2016/17 in July 2016.
- Receiving quarterly portfolio progress and performance reports with the opportunity to make recommendations to Cabinet.
- Receiving the 2017/18 Budget Overview and Tax Base report in January 2017 with the opportunity to forward any comments to the next meeting of Cabinet.
- The Scrutiny Panel at its March 2017 meeting calling in of a draft Executive Member Decision on the Application for LDC Business Rates Discount Scheme.

### **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, and 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 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.

As part of the Council's internal assurance framework, CMT have confirmed the proper operation of internal controls including compliance with the Constitution in



those service areas for which they are responsible by completing an assurance statement and considering significant governance issues.

Under the Code of Practice for Local Authority Accounting 2016/17 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).

## **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 will be 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 Division 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 must be completed by 31 March 2018. Through the Sussex Audit Group this is due to be completed by December 2017.

The Council has a strong counter fraud culture that is supported by Councillors and officers. The Fraud Investigations Team works 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 this meeting of the Committee. The preparatory work on the National Fraud Initiative 2016/17 began in April 2016, with the required datasets being submitted in October 2016. Regular reports on the progress of the exercise have been provided to the Audit and Standards 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.

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 review of the Council's Code of Corporate Governance and that of Eastbourne Borough Council is underway to take account of the revised principles. The aim is for this work to be completed by the time the AGS is signed on 30 September 2017. The review is being carried out by the Head of Audit and Counter Fraud and the Assistant Director – Corporate Governance. This work will ensure 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 it is fully established and embedded within the Council. There are robust systems for identifying and evaluating risk in the decision making and service planning processes. Strategic risks are updated and reported annually to the Audit and Standards Committee (June 2016) and Cabinet (July 2016). Each risk is owned by a member of CMT. Operational 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 key Council projects.

The Audit and Standards Committee receives updates on risk management at every meeting. The reports during 2016/17 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.

## **Business Continuity**

The Council has a Business Continuity Plan (BCP), which was updated in September 2014. An Internal Audit review of the BCP in June 2016 identified some areas for improvement in the Council's BCP arrangements. There is a risk that a loss of IT services would mean that the priorities for restoration of services that are set out in the BCP may not be achieved in all circumstances. This risk is partially mitigated through preventative measures, and more effective mitigation is gradually being put in place with the significant upgrading of the Council's IT infrastructure and with the introduction of IT shared services with Eastbourne Borough Council. As part of the ongoing improvements the Assistant Director of Business Transformation was designated the lead officer for business continuity in July 2016 and standardisation of BCP arrangements at both councils is underway.

## **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 an annual review process. Good governance in partnerships is also reflected in the Council's Local Code of Corporate Governance.

The Council has service level agreements (SLAs) for three strategic partnerships with voluntary and community associations that receive Council funding. These agreements include enhanced monitoring and governance arrangements. The guidance for partnership working was reviewed in April 2016 to take account of the changing nature of the partnerships that the Council is involved with. This guidance 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 (Covalent).

Progress and performance information is reported to Corporate Management Team, Scrutiny Committee, and Cabinet each quarter. Operational performance monitoring takes place at monthly service review 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 year-end Performance Report for 2015/16 was considered by the Scrutiny Committee and Cabinet in July 2016 providing a high level summary of progress and performance. 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. 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.

The Council has a Project Management Framework that contains a set of principles and procedures for the planning, control and delivery of projects. 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 for the Service Delivery Directorate. 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 2016/17 Corporate Management Team and the Head of Audit and Counter Fraud have 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 2016/17 were:

Annual Audit Letter for 2015/16 (October 2016) – This report summarised the key issues from the work carried out by BDO during the year, and was presented to the November 2016 meeting of the Committee. The key issues were:

- BDO issued an unqualified true and fair opinion on the financial statements for the period ended 31 March 2016 on 7 October 2016, shortly after the national deadline of 30 September 2016.
- BDO identified a number of misstatements on the Cash Flow Statement and in the classification of short term investments. These were corrected before completion of the financial statements.
- BDO were satisfied that the Narrative Report, which local authorities include in the Statement of Accounts to offer interested parties guidance on the most significant matters, was consistent with the financial statements.
- BDO did not identify any significant deficiencies in the Council's framework of internal controls, but did report on areas where improvements in controls could be made including declarations of related party transactions, the documentation of Council Tax discounts, and access to some IT systems.
- BDO were satisfied that the Annual Governance Statement (AGS) was not misleading or inconsistent with other information they were aware of from their audit work.
- BDO issued an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

- BDO found that the Council has adequate arrangements for budget setting and budget monitoring, and the Council has identified sufficient savings over the next four years to balance its budget.
- BDO noted that many of the savings will arise from the Joint Transformation Programme with EBC, and BDO were satisfied that there are effective governance arrangements in place to oversee delivery of the project.
- BDO noted that the Council's Whole of Government Accounts (WGA) submission is below the threshold for further work other than to submit the WGA Assurance Statement. This was submitted on 7 October 2016 ahead of national deadline.
- BDO reviewed the governance arrangements for Council's New Homes Project, and made a number of recommendations for improvement that should be applied to future projects.

Grant Claims and Returns Certification for year ended 31 March 2015 (April 2016). The report was presented to the June 2016 meeting of the Committee. The key points were:

- The audit identified a high level of errors within the cases tested, which required a significant amount of extra testing by BDO and the Council. No amendments were made to the final claim submitted to DWP.
- The main errors were in the administration of benefits involving non-HRA rent rebates and rent allowances. There were a small number of cases of incorrect classification of expenditure as non-HRA, when the expenditure should have been classified as HRA rent rebates.
- The audit identified deficiencies in the Council's systems and controls around the identification of prior year uncashed payments, resulting in an under claim of £556.
- As a result of the errors found in administering benefits, BDO qualified the claim across all benefit expenditure types. The additional work required to be completed by the Council and BDO meant that the audited claim was submitted to DWP in March 2016, four months after the deadline date.
- The certification of the returns for the Pooling of Housing Capital Receipts was completed satisfactorily without amendment of certification. The main reported issue was the need for the Council to have in place appropriate plans to use retained receipts by certain milestone dates, otherwise the receipts must be paid to DCLG.

The DWP made a marginal adjustment to the submitted claim which was agreed at a total value of approximately £35.8m.

## **Significant governance issues**

Each member of Corporate Management Team has completed an Assurance Statement including the identification of significant governance issues for 2016/17. For 2016/17 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 2016/17 are fit for purpose and provide a robust platform for achieving the Council's priorities and meeting the challenges in 2017/18.

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

Date:

.....  
Robert Cottrill,  
Chief Executive.

Date:

**Agenda Item No: 12**

**Report No: 85/17**

**Report Title: Annual Report on the work of the Audit and Standards Committee 2016/17**

**Report To: Audit and Standards Committee Date: 19 June 2017**

**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**

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**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 and 18).**
- 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 19).**

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**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 service. Since November 2014 this monitoring role has also covered the work of the Investigations Team.

- 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 in the five meetings of the Committee that were held during the financial year 2016/17.
- 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 During 2016/17, Councillors Chartier, Gauntlett, and Rowell from the minority group served on the Committee. Councillors Enever, Linington, Loraine, and Robertson from the majority group served on the Committee. Councillor Catlin, Independent, served on the Committee from the September 2016 meeting.
- 9 The Committee maintains a pool of Members 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 2016/17, the Committee comprised a mix of 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. On 20 June 2016, Councillors resolved to receive training on the roles of Internal and External Audit, and this training was provided following the Committee meeting on 26 September 2016. All Councillors present at the Committee meeting attended the training.

## **Meetings of the Committee**

- 12** The Committee normally meets five times per year. During 2016/17, Committee meetings were held on 20 June 2016, 26 September 2016, 28 November 2016, 16 January 2017 and 20 March 2017. All meetings during 2016/17 were 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 2016/17 are detailed at Appendix A1.
- 15** During 2016/17, the Committee received 30 reports, which represents an increase over the number of reports in 2015/16.

## **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 and risk management are satisfactory. 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. In most cases managers have addressed the control issues since the respective audits, and within those recommendations not yet implemented there are no issues that create significant risks for the Council.

## **Terms of Reference**

- 19** 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 2017/18**

- 20** It is anticipated that the scope and content of the Committee's activities will remain broadly similar to those in 2016/17.

## **Financial Appraisal**

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

## **Sustainability Implications**

- 22** 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**

- 23** 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**

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

## **Background Papers**

- 25** None

## **Appendices**

- 26** 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 2016/17

Report	June 2016	Sept 2016	Nov 2016	Jan 2017	March 2017	Source
Annual Report on the work of the Audit and Standards Committee 2015/16		xx				Chair
Annual Report on Internal Audit Performance and Effectiveness 2015/16	xx					HACF
Annual Report on the Council's Systems of Internal Control 2015/16	xx					HACF
Annual Report on Risk Management	xx					HACF
Annual Report on the Council's work to combat Fraud and Corruption 2015/16	xx					HACF
Interim Report on the Council's Systems of Internal Control 2015/16	xx	xx	xx	xx	xx	HACF
Annual Audit Plan 2017/18					xx	HACF
Statement of Accounts 2015/16	xx	xx				HF
Treasury Management Report	xx	xx	xx	xx	xx	HF
Annual Treasury Management Strategy Statement and Investment Strategy 2017/18 to 2019/20				xx		HF
Annual Treasury Management Report 2015/16	xx					HF
Annual Governance Statement 2016	xx					HACF
Committee Training Requirements	xx					ADCS

Report	June 2016	Sept 2016	Nov 2016	Jan 2017	March 2017	Source
Annual report on the establishment and maintenance of a Register of Interests 2015/16		xx				ADLDS
Oversight of the Council's Surveillance Policy				x		ADLDS
LDC – Planning Letter 2016/17	xx					BDO
LDC – Grant Claims and Returns Certification	xx					BDO
LDC – Report to the Audit and Standards Committee: Audit for the year ended 31 March 2016		xx	xx			BDO
LDC – Planning Report to the Audit and Standards Committee: Audit for the year ended 31 March 2017					xx	BDO
LDC Annual Audit Letter 2015/16			xx			BDO

### **Key**

ADCS – Assistant Director of Corporate Services

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

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

HF – Head of Finance

BDO – Council's external auditors, BDO

x – report was received at a meeting in 2016/17

xx – report or equivalent item was received at meetings in both 2015/16 and 2016/17, 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



# LEWES DISTRICT COUNCIL

FEE LETTER 2017/18

21 April 2017



# PROPOSED FEES

## Scope of the audit

We are required to report to you our proposed fees and programme of work for the 2017/18 financial year.

## Code audit fee

The Code audit fee is based on the work required under the Code of Audit Practice issued by the National Audit Office (NAO) and covers the audit of the financial statements and value for money conclusion.

Public Sector Audit Appointments Limited (PSAA) is responsible for setting the scale fees for local authorities and consulted on the proposed work programme and scale of fees in October 2016. The consultation closed in January 2017 and no changes have been made to the overall work programme or scale fees for 2017/18 compared to 2016/17. PSAA has the power to determine the fee above or below the scale fee where there has been a change that requires substantially more or less work than envisaged by the scale fee.

## Certification of housing benefits subsidy claim

PSAA makes arrangements for certification of housing benefit subsidy claims. An indicative fee is set based on the latest actual certification fees available.

## Audit related services

Audit related services are those non-audit services that are largely carried out by members of the engagement team where the work involved is closely related to the work performed in the audit and the threats to auditor independence are clearly insignificant and, as a consequence, safeguards need not be applied. In recent years, a number of grants and returns were included in the certification scale fee that are no longer mandated for review by PSAA, but still require certification by the auditor. These are covered by separate engagement letters with the Council.

## Other non-audit services

Other non-audit services are those services not closely related to the work performed in the audit that could be provided by a number of firms. Auditors are prevented from undertaking such work if it would present a threat to independence for which no adequate safeguards are available. Independence concerns may arise due to the nature of the work or from the value of fees derived.

## Fees

AUDIT AREA	PROPOSED 2017/18 (£)	SCALE 2017/18 (£)	PROPOSED 2016/17 (£)
Code audit fee	46,418	46,418	46,418
Additional Code audit fee for our use of resources work - capital projects review	-	-	1,000
Housing benefits subsidy claim <sup>(1)</sup>	15,598	TBC	15,598
<b>Total PSAA regime fees</b>	<b>76,078</b>		<b>76,078</b>
<b>Audit related services</b>			
Pooling of housing capital receipts return	1,500	N/A	1,500
Other non-audit services - None	-	N/A	-
<b>Total fees</b>	<b>63,516</b>	<b>N/A</b>	<b>64,516</b>

(1) The indicative scale fee for certification of the housing benefit subsidy claim is £11,699 in 2016/17 and £14,960 in 2015/16. However, the audit of the 2015/16 housing benefit subsidy claim is still ongoing and we will agree our fees on completion of this work. We have therefore, at this stage, based our proposed fees for 2017/18 and 2016/17 on the 2014/15 outturn fee of £15,598. We will keep the level of certification fees under review if additional work is required.

## Amendments to the proposed fees

If we need to propose any amendments to the fees during the course of the audit, where our assessment of risk and complexity are significantly different from those reflected in the proposed fee or where we are required to carry out work in exercising our additional powers and duties, we will first discuss this with the Chief Finance Officer. Where this requires a variation to the scale fee we will seek approval from PSAA. If necessary, we will also prepare a report outlining the reasons why the fee needs to change for discussion with the Audit and Standards Committee. At this stage, nothing has come to our attention that would require us to seek approval to amend the scale fee.

## Billing arrangements

We will raise invoices for the Code audit fee on a quarterly basis, at £11,604.50 per quarter, from June 2017. Other fee invoices will be raised as the work is completed.

# AUDIT ARRANGEMENTS

## Planned outputs

We plan to issue the following reports and opinions over the course of the 2017/18 audit:

REPORT	DATE
Audit plan	March 2018
Report on any significant deficiencies in internal controls	July 2018
Audit completion report	July 2018
Independent auditor's report including: <ul style="list-style-type: none"> <li>Opinion on the financial statements</li> <li>Use of resources conclusion</li> <li>Certificate of audit closure</li> </ul>	July 2018
Annual audit letter	October 2018
Grant claims and returns certification report	January 2019

## Client satisfaction

We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact Janine in the first instance. Alternatively, you may wish to contact our Managing Partner, Paul Eagland. Any complaint will be investigated carefully and promptly. If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales ("ICAEW"). In addition, the PSAA complaints handling procedure is detailed on their website <http://www.psaa.co.uk/about-us/contact-us/complaints/>.

## Audit team

The key members of the audit team will be:

### Engagement Lead - Janine Combrinck

Email: [janine.combrinck@bdo.co.uk](mailto:janine.combrinck@bdo.co.uk)

Tel: 020 7893 2631

Janine will be responsible for the overall delivery of the audit including the quality of outputs and liaison with senior management.

### Project Manager - Lucy Trevett

Email: [lucy.trevett@bdo.co.uk](mailto:lucy.trevett@bdo.co.uk)

Tel: 020 7034 5878

Lucy will manage and co-ordinate each aspect of the audit and will be the key contact with the finance team.

### Senior - Tawanda Mutenga

Email: [tawanda.mutenga@bdo.co.uk](mailto:tawanda.mutenga@bdo.co.uk)

Tel: 01473 320711

Tawanda will lead the delivery of the financial statements audit.

## Audit appointments for 2018/19 and beyond

Our current contract negotiated by the Audit Commission in April 2014 will end after the 2017/18 audit.

PSAA has been specified as an appointing person under the provisions of the Local Audit and Accountability Act 2014 and regulation 3 of the Local Audit (Appointing Person) Regulations 2015. For external audits from 2018/19, PSAA will appoint an auditor to relevant principal local government authorities that have opted into its national scheme.

Those authorities that have not opted into this national scheme are required to make local appointments for external audit services for 2018/19 and beyond, in accordance with the Local Audit and Accountability Act 2014.

Page 66 of 96 Audit appointments for 2018/19 must be made by 31 December 2017.

The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising. No responsibility to any third party is accepted.

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

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**Agenda Item No: 14**

**Report No: 87/17**

**Report Title: Statement of Accounts 2016/2017**

**Report To: Audit and Standards Committee Date: 19 June 2017**

**Ward(s) Affected: All**

**Report By: Alan Osborne, Deputy Chief Executive**

**Contact Officer(s)-**

**Name(s): Stephen Jump**  
**Post Title(s): Deputy Head of Finance, Finance Shared Service**  
**E-mail(s): [steve.jump@lewes.gov.uk](mailto:steve.jump@lewes.gov.uk)**  
**Tel No(s): 01273 085257**

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**Purpose of Report:**

**To provide assurance to the Audit and Standards Committee that the Council's Statement of Accounts for 2016/2017 has been prepared in accordance with statutory requirements and recommended accounting practice.**

**Officers Recommendation:**

1. To note the action taken to prepare, publish and enable public inspection of the 2016/2017 Statement of Accounts.
- 

**Reasons for Recommendations**

- 1 The Council's constitution enables the Audit and Standards Committee to approve the Annual Statement of Accounts. The Accounts and Audit Regulations 2015 require the Deputy Chief Executive to certify by 30 June that the Statement of Accounts presents fairly the financial position of the Council, in advance of the external audit of those Accounts taking place.

**Information**

**2 Approval of the Accounts**

- 2.1 The Audit and Standards Committee is required to approve the Council's formal annual Accounts, which include statements of its income and expenditure for the year and its balance sheet at the year end. The requirement stems from the Council's Constitution, the Accounts and Audit Regulations and the Code of Practice on Local Authority Accounting published each year by the Chartered Institute of Public Finance and Accountancy (CIPFA).

- 2.2** The Accounts and Audit Regulations 2015 (the Regulations) came into effect from 1 April 2015 for financial years beginning on or after 1 April 2015. The Regulations specify the framework for the approval and auditing of local authority accounting statements, and also require a local authority (other than a smaller authority such as a Town or Parish Council) to prepare a 'narrative statement' on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.
- 2.3** The Regulations require the Council's responsible financial officer (the Deputy Chief Executive) to certify the 2016/2017 Accounts by 30 June, with no approval by councillors at that stage. The external audit then takes place, with a final audited set of Accounts, including any necessary amendments, being brought to councillors to approve by 30 September, the final deadline for publication. The intended consequence of the Regulations is that, when approving the Accounts, councillors can be made aware of the findings of the audit and hence make a better informed decision.
- 2.4** At the time of writing this report, it is the intention that the Deputy Chief Executive will certify the Statement of Accounts 2016/2017 in the week commencing 26 June, maximising the time available for final 'quality checking'. It will then be sent to the Council's external auditor, BDO, triggering the start of their audit work. It will also be published on the Council's website on 30 June 2017.
- 2.5** The Regulations include a phased timetable for faster closure and publication of the audited accounts in future years: there will be a requirement to publish 2017/2018 draft accounts by 31 May 2018 and the audited accounts by 31 July 2018. This shortening of the timetable will present a significant challenge to both the Finance team and the external auditors.

### **3 Inspection of the Accounts**

- 3.1** Any person has the right to inspect the Council's accounts and supporting records. Local government electors for the area of the Council are also able to ask the auditor questions about the accounts and may object to the accounts asking the auditor to issue a report in the public interest and/or apply to the court for a declaration that an item in the accounts is unlawful.
- 3.2** The Regulations prescribe certain dates to be included within a thirty day period for the exercise of public rights before the final publication of the accounts and auditor's report. For the 2016/2017 accounts, the thirty working day period must include the first ten working days of July. Consequently, the period for the exercise of public rights has been set for the period 3 July to 11 August 2017. This is advertised on the Council's website, along with a link to the National Audit Office guide for the public 'Council Accounts – A Guide to your rights'.

## 4 Format of the Accounts

- 4.1 The Statement of Accounts comprises the following core elements, with the Council free to determine the order in which they are presented :

**Movement in Reserves Statement** - this shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those the Council can apply to fund expenditure or reduce local taxation) and other reserves.

**Comprehensive Income and Expenditure Statement (CIES)** - this records all of the spending and income used in the day to day provision of all services including Council housing and also includes any profit or loss from the use and disposal of assets within the period. The account also shows how much is received from council taxpayers, business ratepayers and from general government grants to help meet the cost of services. In a change from previous years' reporting, CIPFA now require authorities to analyse the financial performance of their operations on the basis of the organisational structure under which they operate, rather than standard service classifications. This change enhances the clarity of reporting and enables the CIES to be presented in the same format as the financial performance reports which Cabinet receive for each quarter.

**Balance Sheet** – this provides a snapshot of the Council's financial position as at 31 March 2017 and includes the General Fund and Housing Revenue Account balances. It sets out what the Council owns, owes and is owed at that point in time, and identifies amounts which are set aside in reserves to finance future spending.

**Cash Flow Statement** – this summarises the total receipts and payments of cash arising from the Council's activities in the year ie it excludes amounts which the Council owes but has not yet paid and is owed but has not yet received.

**Notes to the Financial Statements** – these explain the significant items within each of the core elements along with an explanation of the accounting policies that were followed when compiling and presenting the Accounts.

**Housing Revenue Account** – this statutory 'ring-fenced' account reports for the year on the management of the Council's housing stock. It shows the major elements of housing running costs (maintenance, management and capital financing costs) and how these are met by rents, service charges and other income.

**Collection Fund** – this shows the Council’s transactions in relation to the collection of non-domestic rates and council tax, and their payment over to the Government and ‘precepting authorities’ (East Sussex County Council, the Sussex Police and Crime Commissioner, East Sussex Fire Authority and Lewes District Council).

**Statement of Responsibilities for the Statement of Accounts** – this explains the relative responsibilities of the Council and Deputy Chief Executive in terms of making arrangements for the administration of the Council’s financial affairs, keeping financial records, etc. Before publication of the audited Accounts in September, the Chair of the Audit and Standards Committee and the Deputy Chief Executive will sign this Statement.

- 4.2** A new ‘Expenditure and Funding Analysis’ is required as part of the Statement of Accounts. The objective is to demonstrate to council tax and rent payers how the funding available to the Council (ie government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned in accordance with generally accepted accounting practices. As such, it provides a link between the Council’s management and statutory financial accounts.
- 4.3** The Council is required to publish with the Statement of Accounts, a Narrative Report and an Annual Governance Statement (see the separate report on this Agenda). The purpose of the Narrative Report is to offer interested parties a concise and easily understandable effective guide to the most significant matters reported in the accounts.

### **Financial Implications**

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

### **Risk Management Implications**

- 6** I have completed the Risk Management Questionnaire. The issues covered by the recommendations are not significant in terms of risk.

### **Equality Screening**

- 7** This is a routine report for which detailed Equality Analysis is not required to be undertaken.

### **Legal Implications**

- 8** None arising from this report.

### **Background Papers**

- 9** Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and Guidance Notes for Practitioners.



**Agenda Item No: 15**

**Report No: 88/17**

**Report Title: Treasury Management**

**Report To: Audit and Standards Committee Date: 19 June 2017**

**Ward(s) Affected: All**

**Report By: Alan Osborne, Deputy Chief Executive**

**Contact Officer(s)-**

**Name(s): Stephen Jump**  
**Post Title(s): Deputy Head of Finance, Finance Shared Service**  
**E-mail(s): [steve.jump@lewes.gov.uk](mailto:steve.jump@lewes.gov.uk)**  
**Tel No(s): 01273 085257**

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**Purpose of Report:**

**To present details of recent Treasury Management activity and the Annual Treasury Management Report 2016/2017.**

**Officers Recommendation:**

1. To confirm to Cabinet that Treasury Management activity between 1 March and 31 May 2017 has been in accordance with the approved Treasury Strategies for that period.
  2. To review the Annual Treasury Management Report for 2016/2017.
- 

**Reasons for Recommendations**

- 1.1 The Council's approved Treasury Strategy Statement requires the Audit and Standards Committee to review details of Treasury Strategy transactions against the criteria set out in the Strategy and make observations to Cabinet as appropriate.
- 1.2 The Treasury Strategy Statement also requires the Audit and Standards Committee to review a formal summary report after the year end before it is considered by Council, in accordance with best practice and guidance issued by the Chartered Institute of Public Finance and Accountancy.

**2 Treasury Management Activity**

- 2.1 The timetable for reporting Treasury Management activity in 2017/2018 is shown in the table below. This takes into account the timescale for the publication of each Committee agenda and is on the basis that it is preferable to report on activity for complete months. Any extraordinary activity taking place between the close of the

reporting period and the date of the Audit and Standards Committee meeting will be reported verbally at that meeting.

Meeting date	Reporting period for transactions
19 June 2017	1 March to 31 May 2017
25 September 2017	1 June to 31 August 2017
27 November 2017	1 September to 31 October 2017
22 January 2018	1 November to 31 December 2017
19 March 2018	1 January to 28 February 2018

## 2.2 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 31 May 2017 and identifies the long-term credit rating of each counterparty at the date of investment. It is important to note that credit ratings are only one of the criteria that are taken into account when determining whether a potential counterparty is suitable. All of the deposits met the necessary criteria. The minimum rating required for deposits made after 1 April 2017 is long term BBB+ (Fitch) ( a minimum A- rating applied in 2016/2017).

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
233516	Nationwide Building Society	13/12/16	13/06/17	182	1,000,000	0.42	A
235017	Eastbourne Borough Council	30/05/17	30/08/17	92	3,000,000	0.32	*
					<u>4,000,000</u>		
*UK Government body and therefore not subject to credit rating							

## 2.3 Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured since 1 March 2017, in maturity date order. It is important to note that the table includes sums reinvested and that in total the Council's investments have not increased by £14.5m over this period.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
234516	Debt Management Office	15/02/17	01/03/17	14	2,000,000	0.15	*
234716	Debt Management Office	03/03/17	06/03/17	03	1,000,000	0.10	*
234816	Debt Management Office	10/03/17	13/03/17	03	4,500,000	0.10	*
235117	Debt Management Office	15/05/17	22/05/17	07	2,000,000	0.10	*
234917	Coventry Building Society	09/05/17	23/05/17	14	2,000,000	0.13	A
232016	Thurrock Borough Council	28/11/16	30/05/17	183	3,000,000	0.35	*
	<b>Total</b>				<u>14,500,000</u>		
*UK Government body and therefore not subject to credit rating							

With the exception of the weekend of 13/14 May 2017 (when the balance held at Lloyds Bank exceeded the treasury limit by £190,000 as a result of an unexpected receipts shortly before the close of business on 12 May), at no stage did the total amount held by any counterparty exceed the approved limit set out in the

Investment Strategy. The average rate of interest earned on deposits held in the period 1 March and 31 May 2017 was 0.33%, above the average bank base rate for the period of 0.25%. Those made during the period averaged 0.27%.

## 2.4 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following interest bearing accounts in the period covered by this report, with the average amount held being £1m generating interest of approximately £300.

	Balance at 31 May '17 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	Nil	Nil	0.15%
Lloyds Bank Corporate Account	306	839	0.15%

## 2.5 Use of Money Market Funds

Details of the amounts held in the two Money Market Fund (MMF) accounts used by the Council are shown below. The approved Investment Strategy allows a maximum investment of £3m in each fund, and at no time was this limit exceeded.

	Balance at 31 May '17 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	450	1,388	0.34%
Deutsche Managed Sterling Fund	1,750	1,756	0.34%

## 2.6 Treasury Bills (T-Bills)

No T-Bills were held at 31 May 2017 and there was no activity in the period.

## 2.7 Secured Investments

The investment below is secured against the assets of the bank. The interest rate can vary, by reference to changes in the 3 month 'London Interbank Offered Rate (LIBOR)'.

Ref	Counterparty	Date From	Date To	Days	Principal £	Current Rate %	Long Term Rating
XS113251472	Bank of Nova Scotia	22 Jul 16	02 Nov 17	414	2,000,000	0.51	AAA
					2,000,000		

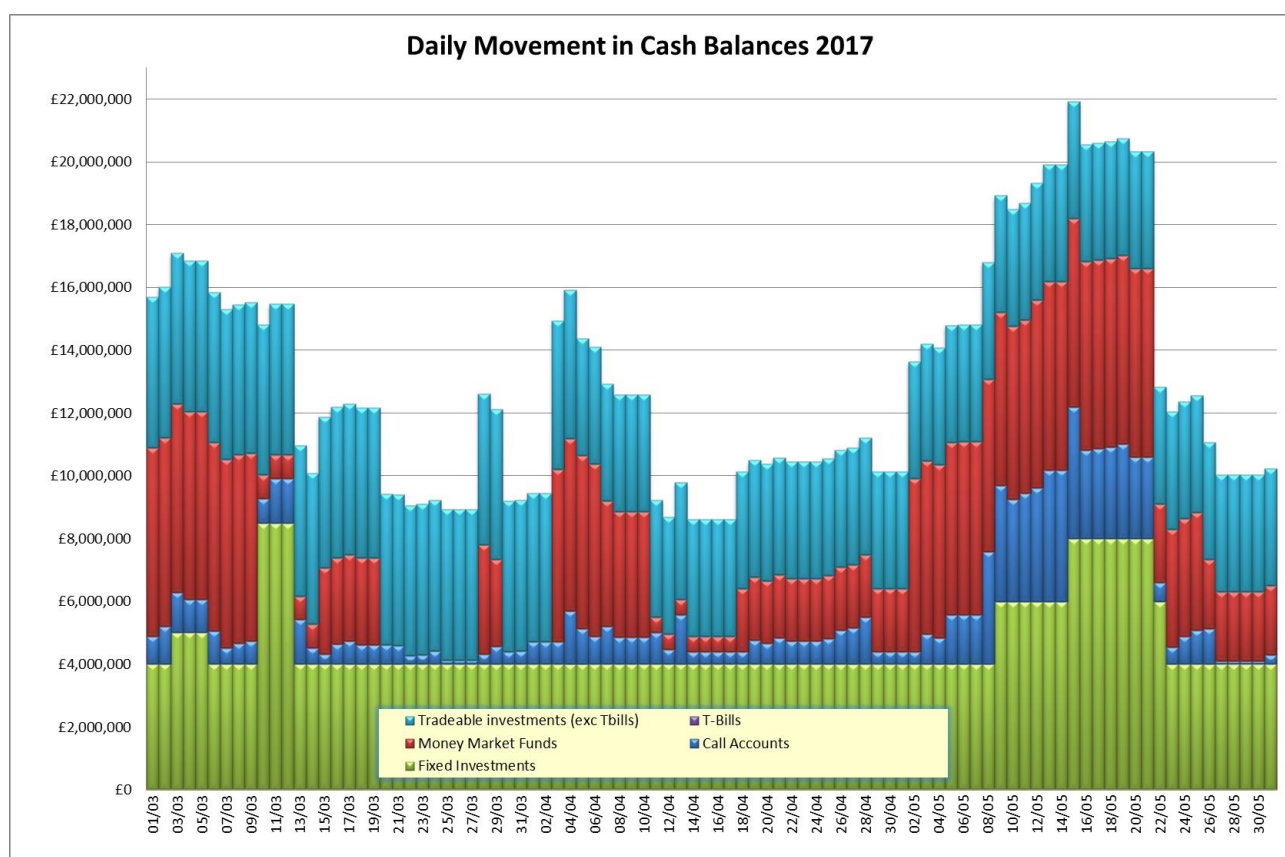
## 2.8 Tradeable Investments

The table overleaf shows the Tradeable Investments held at 31 May 2017. It is the Council's intention to hold investments until maturity.

Ref	Counterparty		Date From	Date To	Days	Principal £	Rate %	Long Term Rating
Held at 31 May 2017								
XS0966280561	Svenska Handelsbanken	FB	11 Nov 16	29 Aug 17	291	618,000	0.62	AAA
XS0434423926	Unilever Plc	FB	11 Nov 16	16 Jun 17	217	<u>1,110,000</u>	0.48	AAA
						<u>1,728,000</u>		
FB – Fixed Bond								

## 2.9 Overall investment position

The chart below summarises the Council's investment position over the period 1 March to 31 May 2017. It shows the total sums invested each day as Fixed Term deposits, T-Bills, amounts held in Deposit accounts, MMFs and Tradeable Investments.



## 2.10 Borrowing

The current account with Lloyds Bank remained in credit throughout the period. Temporary borrowing for cash-flow management purposes took place as shown overleaf:

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %
<b>Borrowings at 31 May 2017</b>						
46117	Blackburn with Darwen Council	27/04/17	01/06/17	35	4,000,000	0.25
	<b>Total</b>				<u>4,000,000</u>	
<b>Borrowings repaid in period</b>						
45816	Derbyshire Pension Fund	28/03/17	11/04/17	14	4,000,000	0.50
45917	Thurrock Borough Council	11/04/17	27/04/17	16	6,000,000	0.30
46017	Newport City Council	12/04/17	28/04/17	16	1,000,000	0.17
46217	Derbyshire Police	27/04/17	26/05/17	29	2,000,000	0.20
	<b>Total</b>				<u>13,000,000</u>	

There has been no change in the total value of the Council's long term borrowing in the reporting period, which remains at £56.673m.

### 3 Annual Treasury Management Report

- 3.1 As well as reviewing details of Treasury transactions during the course of the year, the Audit and Standards Committee is required to review a formal summary report after the year end before it is considered by Council in accordance with best practice and guidance issued by the Chartered Institute of Public Finance and Accountancy.
- 3.2 The Annual Report is attached at Appendix 1. It should be noted that this report has been drafted prior to the final closure of the Council's accounts and, as a result, some minor changes may be necessary. If so, the changes will be reported verbally at the meeting.
- 3.3 Should the Audit and Standards Committee comment on the contents of the Annual Report, its comments will be passed on to Cabinet which will also be reviewing the Annual Report when it meets on 26 June 2017.

### Financial Implications

- 4 All relevant implications are referred to in the above paragraphs.

### Risk Management Implications

- 5 The risk management implications associated with this activity are explained in the approved Treasury Management Strategy. No additional implications have arisen during the period covered by this report.

### Equality Screening

- 6 This is a routine report for which detailed Equality Analysis is not required to be undertaken.

## **Legal Implications**

7 None arising from this report.

## **Appendix**

8 Appendix 1: Annual Treasury Management Report 2016/2017

## **Background Papers**

Treasury Strategy Statement <http://www.lewes.gov.uk/council/20987.asp>

**Lewes District Council**

**Annual Treasury Management Report 2016/2017**

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## 1. Background

1.1 The Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury management report. The report must review treasury management activities and set out the final position of the Council's Treasury Prudential Indicators. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

1.2 The Council defines its Treasury Management activities as:

*"the management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

1.3 The Council agreed its Treasury Management Strategy Statement and Investment Strategy 2016/2017 to 2018/2019 at its meeting in February 2016.

## 2. Overall Summary of Activity 2016/2017

2.1 The table below lists the key elements of the 2016/2017 Strategy and records actual performance against each one of them.

Key Element	Target in Strategy	Actual Performance	
<b>Borrowing</b>			
Underlying need to borrow (CFR) at year end	£75.049 million	£77.042 million	-
Internal borrowing at year end	£18.376 million	£20.369 million	-
New external long-term borrowing in year	None anticipated	None undertaken	✓
Debt rescheduling in year	Review options but not anticipated	Options kept under review, none undertaken	✓
Interest payments on external borrowing	£1.730 million	£1.728 million	✓
<b>Investments</b>			
Minimum counterparty credit ratings for investments of up to 6 months	Long-term A- (does not apply to Government and other local authorities which have the highest ratings)	At least Long-term A	✓
Interest receipts from external investments	£0.104m	£0.119	✓
<b>Appointment of Investment Consultants</b>			
Independent Treasury Adviser to be retained	Arlingclose to be retained as Treasury Adviser	Arlingclose retained as Treasury Adviser	✓

Key Element	Target in Strategy	Actual Performance	
<b>Reporting and Training</b>			
Reports to be made to Audit and Standards Committee and Cabinet	Every meeting	Every regular meeting.	✓
Briefing sessions for Councillors and Staff	Treasury Adviser to provide	Staff training October 2016	-

- 2.2 For those who are looking for more than this overall confirmation that all treasury management and investment activity in 2016/2017 has been carried out in accordance with the Council's agreed Strategy, the remainder of this report explores each of the key elements in more depth. Appendix A gives details of the final position on each of the Prudential Indicators, and Appendix B explores the Economic Background to the year's activity. A Glossary appears at the end of the document to explain technical terms which could not be avoided when writing this report.

### 3. Detailed Analysis – Borrowing

- 3.1 Other than for temporary cash flow purposes, local authorities are only allowed to borrow to finance capital expenditure (eg the purchase of property, vehicles or equipment which will last for more than one year, or the improvement of such assets). The Government limits the amount borrowed by local authorities for housing purposes only by specifying 'debt caps'. This Council's underlying debt cap has been fixed at £72.931m. In 2014/2015 local authorities were able to bid for an increase in the housing debt cap in order to enable specific projects. A bid from this Council was successful and the debt cap has been increased to £75.248m to match expenditure incurred in building new houses on 7 specified former garage sites.
- 3.2 In accounting terms, the underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR) while usable reserves and working capital are the underlying resources available for investment below their underlying levels, known as internal borrowing, and this remained the Strategy for 2016/2017.
- 3.3 The CFR is, in simple terms, the amount of capital expenditure which has been incurred by the Council but which has not yet been paid for (by using, for example, grants, capital receipts, reserves or revenue income) and in the meantime is covered by internal or external borrowing. 'External borrowing' is where loans are raised from the Public Works Loans Board (PWLb) or banks. Alternatively it is possible to 'internally borrow' the significant levels of cash which has been set aside in Balances and Reserves and which would otherwise need to be invested with banks or other counterparties.
- 3.4 As noted above, the level of CFR increases each year by the amount of unfinanced capital expenditure and is reduced by the amount that the Council sets aside for the repayment of borrowing. The original CFR projection for 2016/2017, the revised position reported at the time of producing the Treasury Strategy 2017/2018 (February 2017) and the final position for the year are shown in the table below. The variation between the revised and

final position reflects the changing profile of capital spend across financial years, and the set aside of £2m in capital receipts for debt repayment which had not been anticipated in February 2017.

	2016/17 Original £m	2016/17 Revised £m	2016/17 Outturn £m
Opening CFR	70.893	71.531	71.531
Capital expenditure in year	17.471	24.855	19.160
Less financed	(11.469)	(14.506)	(10.448)
Less amount set aside for debt repayment	(1.846)	(1.289)	(3.201)
<b>Closing CFR</b>	<b>75.049</b>	<b>80.591</b>	<b>77.042</b>

- 3.5 The overall CFR can be split between the General Fund and Housing Revenue Account as follows:

CFR Component	2016/17 Revised £m	2016/17 Outturn £m
General Fund	14.810	11.709
Housing Revenue Account	65.781	65.333
<b>Total</b>	<b>80.591</b>	<b>77.042</b>

- 3.6 The following table compares the CFR with the amount that the Council holds in balances and reserves as well as working capital (day to day cash movements as well as grants, developer contributions and capital receipts held pending use).

	31/3/17 Revised £m	31/3/17 Outturn £m
(a) Capital Financing Requirement	80.591	77.042
(b) Actual external long-term borrowing	(56.673)	(56.673)
(c) Use of Balances and Reserves and working capital as alternative to borrowing (a)–(b)	23.918	20.369

- 3.7 The Council's long-term loan portfolio at 31 March 2017 was:

Lender	Interest	Amount £m	Rate %	Maturity
PWLB	Fixed	4.00	2.70	01/03/2024
PWLB	Fixed	5.00	3.30	01/03/2032
PWLB	Fixed	2.00	3.05	01/09/2027
PWLB	Fixed	2.00	2.76	01/09/2024
PWLB	Fixed	4.00	2.97	01/09/2026
PWLB	Fixed	5.00	3.28	01/09/2031
PWLB	Fixed	4.00	2.63	01/09/2023
PWLB	Fixed	5.00	3.44	01/03/2037
PWLB	Fixed	6.67	3.50	01/03/2042
PWLB	Fixed	5.00	3.43	01/09/2036
PWLB	Variable	5.00	0.62	28/03/2022
PWLB	Fixed	4.00	3.01	01/03/2027
	Sub-total	51.67		
Barclays	Fixed	5.00	4.50	06/04/2054
	Total	56.67		

- 3.8 In the table above the Barclays loan was taken out in April 2004 with a term of 50 years. The original loan agreement with Barclays enabled the bank to increase the interest rate of the loan on a specified date every four years, although the Council could, in that event, repay the loan without penalty. In June 2016 the bank decided to permanently waive its right to vary the interest rate on this loan, which was effectively fixed at the rate of interest applicable at that time, 4.5%.
- 3.9 Total interest paid on external long-term borrowing in the year was £1.728m, which was consistent with the revised budget for the year. No new long-term borrowing was undertaken. The Council remained eligible to access the Government's 'Certainty Rate' allowing the Council to borrow, had it been appropriate to do so, at a reduction of 0.20% on the Standard Rate.
- 3.10 Through the year, officers, supported by Arlingclose, monitored opportunities for the rescheduling of external loans and the possibility of repayment utilising cash balances that would otherwise be invested. No beneficial rescheduling opportunities were identified and the loan portfolio remained unchanged through the year.
- 3.11 As determined by the Council, two separate Loans Pools operated in 2016/2017, for the General Fund and HRA respectively. At 31 March 2017 the balance on internal loans from the General Fund to the HRA was £8.660m, a net increase of £1.408m compared with the previous year (which comprised new lending of £2.215m as funding for the construction of new homes offset by a repayment of £0.807m). Interest was charged on internal borrowing at 1.33% (equivalent to a one-year maturity loan from the PWLB at the start of the financial year).
- 3.12 For cash flow purposes, temporary borrowing with a value of £4m was undertaken at the end of the financial year. This was in the form of a single

fixed term loan covering the period 28 March to 11 April 2017 at an interest rate of 0.5%.

#### **4. Detailed Analysis - Investments**

4.1 The Council held an average of £21.6m as cash during the year. This comprised working cash balances, capital receipts, earmarked reserves and developer contributions held pending use.

4.2 The Council's general policy objective is to invest its surplus funds prudently. Throughout 2016/2017, the Council's investment priorities continued to be:

***highest priority*** - security of the invested capital;  
***followed by*** - liquidity of the invested capital;  
***finally*** - an optimum yield commensurate with security and liquidity.

4.3 All of the Council's investments were managed in-house. Security of capital was maintained by following the counterparty policy set out in the Investment Strategy for 2016/2017. Investments during the year included:

- Fixed Term Deposits with the Debt Management Office (total £116.75 million – 44 occasions)
- Fixed Term Deposits with other Local Authorities (total £14.00 million – 7 occasions)
- Fixed Term Deposits with UK Banks/Building Societies (total £27.00 million – 16 occasions)
- Investments in Money Market Funds (MMFs) (average balance held in year £5.49 million)
- United Kingdom Treasury Bills (total £20.09 million – 18 occasions)
- Tradable Investments - Floating Rate Notes, Certificates of Deposit, Bonds (total 6.78 million – 5 occasions)
- Deposit accounts with UK Banks (average balance held in year £0.73 million)
- Overnight deposits with the Council's banker, Lloyds Bank (average balance held in year £0.99 million)

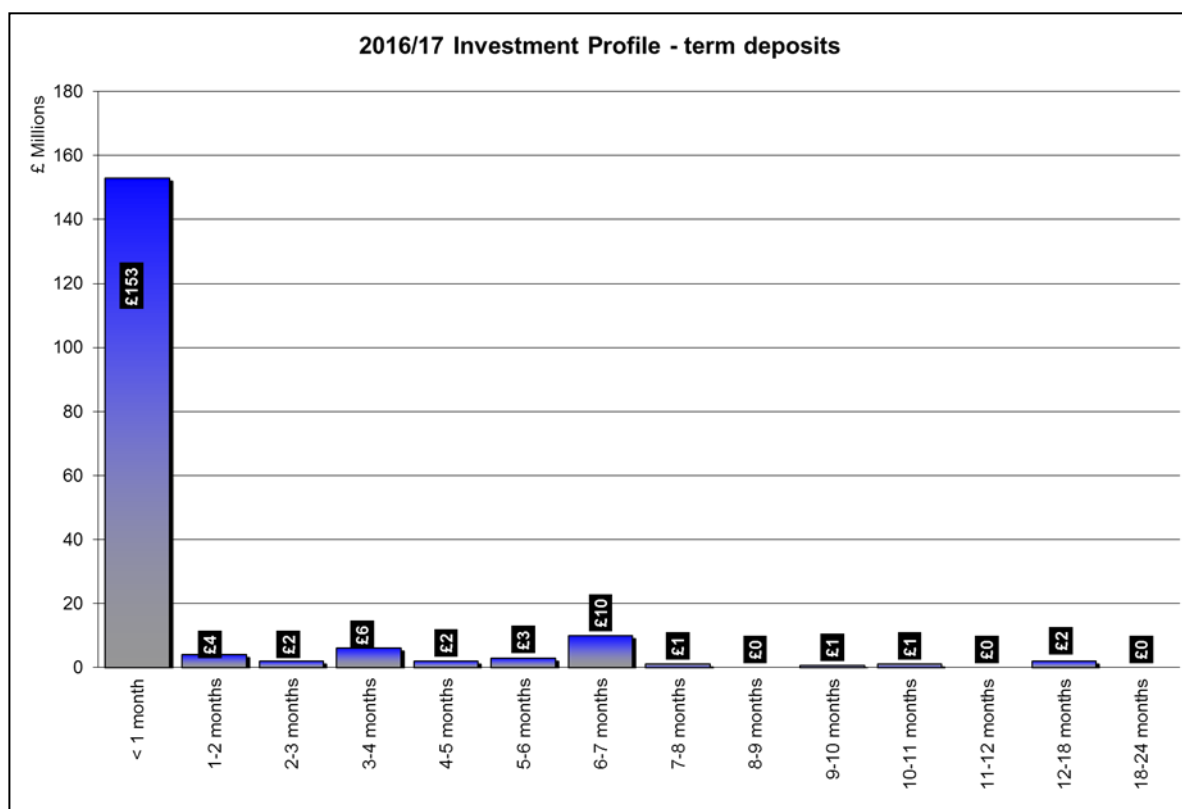
4.4 Counterparty credit quality was assessed and monitored with reference to credit ratings (a minimum long-term counterparty rating of A across all three rating agencies Fitch, Standard and Poors, and Moody's applied); credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price.

4.5 In keeping with Government guidance on investments, the Council maintained a sufficient level of liquidity through the use of MMFs, overnight deposits and deposit accounts, the average balance held being £7.21 million.

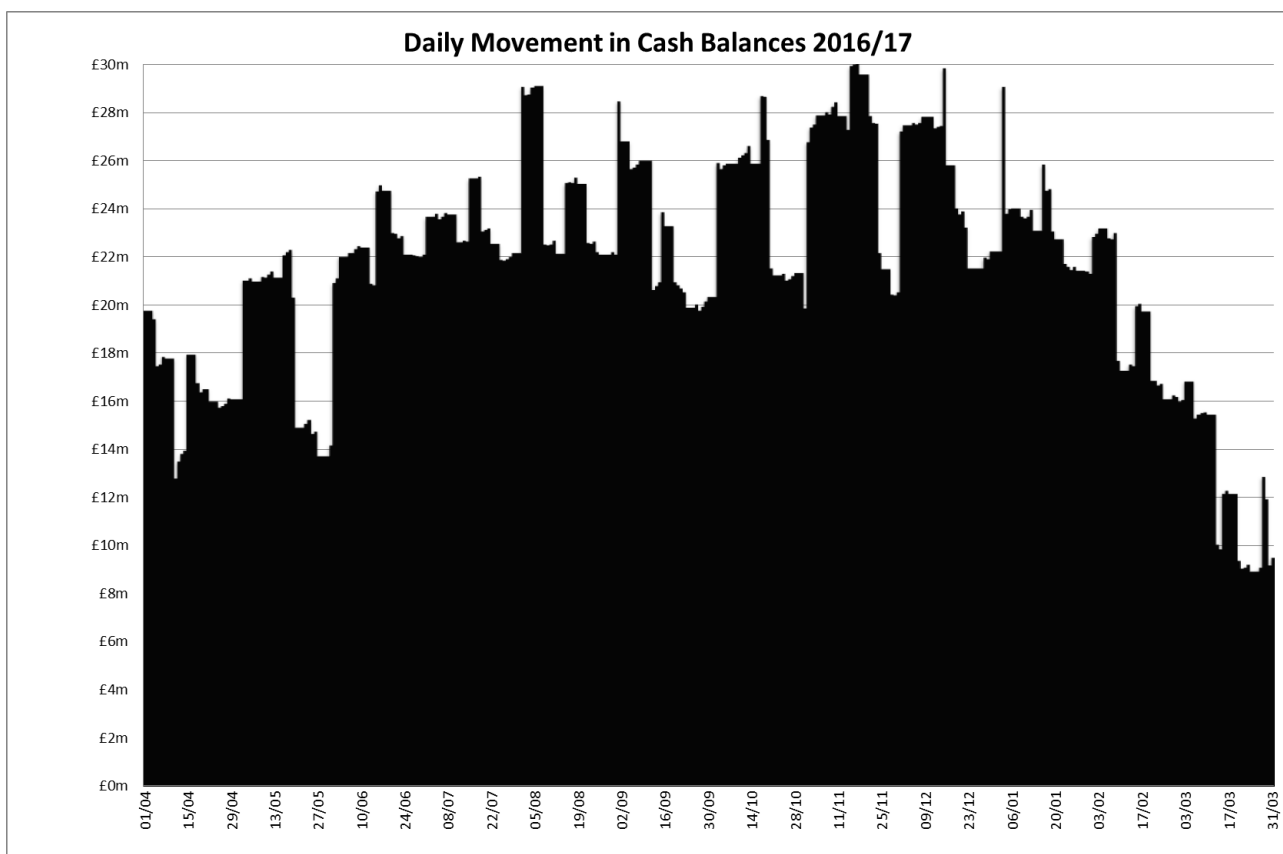
4.6 The Council sought to optimise returns commensurate with its objectives of security and liquidity. The Treasury Management Strategy anticipated an increase in the UK Bank Rate of 0.25% in the third quarter of 2016. However

the UK economic outlook changed significantly on 23 June 2016. The surprise result of the referendum on EU membership and the subsequent political turmoil prompted a sharp decline in household, business and investor sentiment. The repercussions of this plunge in sentiment on economic growth were judged by the Bank of England to be severe, and resulted in a cut in Bank Rate to 0.25%.

- 4.7 A full list of term deposits made in the year is given at Appendix C. All investments were made with UK institutions, and no new deposits were made for periods in excess of one year. The chart below gives an analysis of aggregate fixed term deposits by duration.



- 4.8 The next chart shows how the total amount invested varied from day to day over the course of the year. The movement largely reflects the cycle of grant, council tax and business rate receipts and precept payments made.



4.9 Interest generated from investments in the year was £0.119 million, well above the total budget for investment income, £0.104 million. This favourable position arose as a result of higher than anticipated levels of cash being held pending expenditure on capital programme projects, etc.

4.10 The average rate of return from investments at the end of each quarter in 2016/2017 is shown in the table below, along with comparative benchmark information, the 7-day LIBID rate.

Average rate of investments at:	Lewes District Council	7 day LIBID
30 June 2016	0.51%	0.45%
30 September 2016	0.48%	0.37%
31 December 2016	0.44%	0.32%
31 March 2017	0.43%	0.30%

## 5. Counterparty Update

5.1 Various indicators of credit risk reacted negatively to the result of the referendum on the UK's membership of the European Union. UK bank credit default swaps saw a modest rise but bank share prices fell sharply, on average by 20%, with UK-focused banks experiencing the largest falls. Non-UK bank share prices were not immune, although the fall in their share prices was less pronounced.



5.2 Fitch and Standard & Poor's downgraded the UK's sovereign rating to AA. Fitch, S&P and Moody's have a negative outlook on the UK. Moody's has a negative outlook on those banks and building societies that it perceives to be exposed to a more challenging operating environment arising from the 'leave' outcome.

5.3 None of the banks on the Council's lending list failed the stress tests conducted by the European Banking Authority in July and by the Bank of England in November, the latter being designed with more challenging stress scenarios, although Royal Bank of Scotland was one of the weaker banks in both tests. The tests were based on banks' financials as at 31st December 2015, 11 months out of date for most. As part of its creditworthiness research and advice, Arlingclose regularly undertakes analysis of relevant ratios - "total loss absorbing capacity" (TLAC) or "minimum requirement for eligible liabilities" (MREL) - to determine whether there would be a bail-in of senior investors, such as local authority unsecured investments, in a stressed scenario.

## **6. Compliance with Prudential Indicators**

The Council can confirm that it has complied with its Prudential Indicators for 2016/2017. A detailed review of each of the Prudential Indicators is at Appendix A.

## **7. Investment Consultants**

In June 2012 Arlingclose had been reappointed as the Council's treasury management adviser, for a four year term with the Council having the option to extend for a further year. The Council exercised its option to extend, which will now come to an end on 30 June 2017. A joint procurement exercise covering all of the East Sussex district and borough councils took place in early 2017, the result of which enables the Council to enter into a new agreement with Arlingclose from July 2017. In 2016/2017, Arlingclose was the primary source of information, advice and assistance relating to investment activity, with individual investment decisions being made by the Council.

## **8. Reporting and Training**

8.1 The Deputy Chief Executive reported the details of treasury management activity to each regular meeting of the Audit and Standards Committee and Cabinet held in 2016/2017. A mid-term summary report was issued in November 2016.

8.2 The training needs of the Council's treasury management staff were reviewed as part of the annual corporate staff appraisal/training needs assessment process for all Council employees. Members of staff attended Arlingclose workshops alongside colleagues from other local authorities during 2016/2017.

- 8.3 In May 2016, Arlingclose met with all Council officers with a role in treasury management both to explain developments within the sector, as well as review the Council's own investment and debt portfolios.
- 8.4 The Treasury Strategy had anticipated that Arlingclose would hold a local briefing session for all councillors tasked with treasury management responsibility, including scrutiny of the the treasury management function. It did not prove practicable for this session to take place, and the next councillor briefing is now expected to take place in autumn 2017.

## Appendix A – Prudential Indicators 2016/2017

### 1. Background:

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators. Some of the Prudential Indicators relate directly to the Council's Capital Programme These Indicators are also included below for completeness of reporting.

### 2. Net Borrowing and the Capital Financing Requirement

2.1 This is a key indicator of prudence. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the local authority should ensure that the net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

2.2 The Deputy Chief Executive reports that the Council has had no difficulty meeting this requirement in 2016/2017, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the budget for 2017/2018.

### 3. Estimates of Capital Expenditure (direct link to Capital Programme)

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax and in the case of the HRA, housing rent levels.

No.	Capital Expenditure	2016/17 Original £m	2016/17 Revised £m	2016/17 Actual £m
1a	Non-HRA	8.731	14.102	6.093
1b	HRA	8.740	9.717	13.146
	<b>Total</b>	<b>17.471</b>	<b>23.819</b>	<b>19.239</b>

### 4. Ratio of Financing Costs to Net Revenue Stream (direct link to Capital Programme)

4.1 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs.

4.2 The ratio is based on costs net of investment income. Where investment income exceeds interest payments, the indicator is negative.

No.	Ratio of Financing Costs to Net Revenue Stream	2016/17 Original %	2016/17 Revised %	2016/17 Actual %
2a	Non-HRA	1.64	1.61	1.88
2b	HRA	15.71	15.70	15.02

## 5. Capital Financing Requirement

- 5.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. The calculation of the CFR is taken from the amounts held in the Balance Sheet relating to capital expenditure and its financing.

No	Capital Financing Requirement	2016/17 Original £m	2016/17 Revised £m	2016/17 Actual £m
3a	Non-HRA	10.067	13.858	11.709
3b	HRA	64.982	65.722	65.333
	<b>Total CFR</b>	<b>75.049</b>	<b>79.580</b>	<b>77.042</b>

- 5.2 The year-on-year change in the CFR is set out below.

Capital Financing Requirement	2016/17 Original £m	2016/17 Revised £m	2016/17 Actual £m
<b>Balance B/F</b>	70.893	71.531	71.531
Capital expenditure financed from borrowing	6.002	11.236	8.712
Revenue provision for Debt Redemption.	-1.846	-3.190	-3.201
<b>Balance C/F</b>	<b>75.049</b>	<b>79.580</b>	<b>77.042</b>

## 6. Actual External Debt

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit (see 8 below).

No.	Actual External Debt as at 31/03/2017	Revised £m	Actual £m
4a	Borrowing	56.673	56.673
4b	Other Long-term Liabilities	0.080	0.281
4c	<b>Total</b>	<b>56.753</b>	<b>56.954</b>

## 7. Incremental Impact of Capital Investment Decisions Stream (direct link to Capital Programme)

This is an indicator of affordability that shows the impact of capital investment decisions on Council Tax and Housing Rent levels. The incremental impact is calculated by comparing the total revenue budget requirement of the current approved capital programme with an equivalent calculation of the revenue budget requirement arising from the proposed capital programme.

No.	Incremental Impact of Capital Investment Decisions	2016/17 Original £	2016/17 Revised £	2016/17 Actual £
5a	Increase in Band D Council Tax	127.19	167.97	111.29
5b	Increase in Average Weekly Housing Rents	1.31	1.21	0.69

The increase in Band D council tax/average weekly rents reflects the funding of the capital programme: for example, new borrowing increases interest payable, and funding from reserves utilises resources which could have otherwise been used to fund revenue expenditure. The actual indicators are less than the revised as a result of significant capital projects being deferred from 2016/2017 into 2017/2018.

## 8. Authorised Limit and Operational Boundary for External Debt

- 8.1 The Council has an integrated treasury management strategy and manages its treasury position in accordance with its approved strategy and practice. Overall borrowing will therefore arise as a consequence of all the financial transactions of the Council and not just those arising from capital spending reflected in the CFR.
- 8.2 The **Authorised Limit** sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities). This Prudential Indicator separately identifies borrowing from other long term liabilities such as finance leases.
- 8.3 The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.
- 8.4 The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit). The 2016/2017 Actual values shown below are the maximum levels of borrowing, including temporary borrowing, experienced at any time during the year.

No.	Authorised Limit for External Debt	2016/17 Original £m	2016/17 Revised £m	2016/17 Actual £m
6a	Borrowing	76.00	81.00	60.67
6b	Other Long-term Liabilities	0.50	0.50	0.28
6c	<b>Total</b>	<b>76.50</b>	<b>81.50</b>	<b>60.95</b>

- 8.5 The **Operational Boundary** links directly to the Council's estimates of the CFR and estimates of other cashflow requirements. This indicator is based

on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

- 8.6 The Deputy Chief Executive has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next meeting of the Cabinet. The 2016/2017 Actual values shown below are the maximum levels of borrowing, including temporary borrowing, experienced at any time during the year.

No.	Operational Boundary for External Debt	2016/17 Original £m	2016/17 Revised £m	2016/17 Actual £m
7a	Borrowing	70.50	75.50	60.67
7b	Other Long-term Liabilities	0.50	0.50	0.28
7c	<b>Total</b>	<b>71.00</b>	<b>76.00</b>	<b>60.95</b>

## 9. Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Council has adopted best practice.

No.	Adoption of the CIPFA Code of Practice in Treasury Management
8	The Council approved the adoption of the CIPFA Treasury Management Code in 2002. Following revisions to the Code published in December 2009, reconfirmed its adoption of the Code in February 2010.

## 10. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

- 10.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on net principal outstanding sums ie fixed rate debt net of fixed rate investments.
- 10.2 The upper limit for variable rate exposure has been set to ensure that the Council is not exposed to interest rate rises which could adversely impact on the revenue budget.

No.		2016/17 Original £m	2016/17 Revised £m	2016/17 Actual £m
9	<b>Upper Limit for Fixed Interest Rate Exposure</b>	76.50	81.50	51.67
10	<b>Upper Limit for Variable Interest Rate Exposure</b>	(27.5)	(27.5)	(25.1)

- 10.3 The limits above provide the necessary flexibility within which decisions will be made for drawing down new loans on a fixed or variable rate basis; the decisions will ultimately be determined by expectations of anticipated interest rate movements as set out in the Council's Treasury Management Strategy.

- 10.4 Because the Council's investments are substantially in excess of its variable rate borrowing, the Upper Limit for Variable Interest Rate exposure is shown as a negative figure.

## 11. Maturity Structure of Fixed Rate borrowing

- 11.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.
- 11.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate. The maturity of borrowing is determined by reference to the earliest date on which the lender can require payment.

No.	Maturity structure of fixed rate borrowing	Lower Limit %	Upper Limit %	Actual %
11a	under 12 months	0	70	0
11b	12 months and within 24 months	0	70	0
11c	24 months and within 5 years	0	75	0
11d	5 years and within 10 years	0	75	35
11e	10 years and above	0	100	65

## 12. Upper Limit for total principal sums invested over 364 days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested. No investments of more than 364 days were made during 2016/17.

No.	Upper Limit for total principal sums invested over 364 days	2016/17 Original %	2016/17 Revised %	2016/17 Actual %
12	Upper limit	50	50	0

## 13. HRA Limit on Indebtedness

This indicator is associated with self-financing for housing. It indicates the residual capacity to borrow for housing purposes, while remaining within the overall HRA Debt Cap specified by the Government.

No	Capital Financing Requirement	2016/17 Original £m	2016/17 Revised £m	2016/17 Actual £m
13a	HRA CFR	64.982	65.722	65.333
13b	HRA Debt Cap	75.248	75.248	75.248
	Difference	10.266	9.526	9.915



## Appendix B – Economic Background explained by Arlingclose

Politically, 2016/17 was an extraordinary twelve month period which defied expectations when the UK voted to leave the European Union and Donald Trump was elected the 45th President of the USA. Uncertainty over the outcome of the US presidential election, the UK's future relationship with the EU and the slowdown witnessed in the Chinese economy in early 2016 all resulted in significant market volatility during the year. Article 50 of the Lisbon Treaty, which sets in motion the 2-year exit period from the EU, was triggered on 29th March 2017.

UK inflation had been subdued in the first half of 2016 as a consequence of weak global price pressures, past movements in sterling and restrained domestic price growth. However the sharp fall in the Sterling exchange rate following the referendum had an impact on import prices which, together with rising energy prices, resulted in CPI rising from 0.3% year/year in April 2016 to 2.3% year/year in March 2017.

In addition to the political fallout, the referendum's outcome also prompted a decline in household, business and investor sentiment. The repercussions on economic growth were judged by the Bank of England to be sufficiently severe to prompt its Monetary Policy Committee (MPC) to cut the Bank Rate to 0.25% in August and embark on further gilt and corporate bond purchases as well as provide cheap funding for banks via the Term Funding Scheme to maintain the supply of credit to the economy.

Despite growth forecasts being downgraded, economic activity was fairly buoyant and GDP grew 0.6%, 0.5% and 0.7% in the second, third and fourth calendar quarters of 2016. The labour market also proved resilient, with the ILO unemployment rate dropping to 4.7% in February, its lowest level in 11 years.

Following a strengthening labour market, in moves that were largely anticipated, the US Federal Reserve increased rates at its meetings in December 2016 and March 2017, taking the target range for official interest rates to between 0.75% and 1.00%.

**Financial markets:** Following the referendum result, gilt yields fell sharply across the maturity spectrum on the view that Bank Rate would remain extremely low for the foreseeable future. After September there was a reversal in longer-dated gilt yields which moved higher, largely due to the MPC revising its earlier forecast that Bank Rate would be dropping to near 0% by the end of 2016. The yield on the 10-year gilt rose from 0.75% at the end of September to 1.24% at the end of December, almost back at pre-referendum levels of 1.37% on 23rd June. 20- and 50-year gilt yields also rose in Q3 2017 to 1.76% and 1.70% respectively, however in Q4 yields remained flat at around 1.62% and 1.58% respectively.

After recovering from an initial sharp drop in Q2, equity markets rallied, although displaying some volatility at the beginning of November following the US presidential election result. The FTSE-100 and FTSE All Share indices closed at 7342 and 3996 respectively on 31st March, both up 18% over the year. Commercial property values fell around 5% after the referendum, but had mostly recovered by the end of March.

Money market rates for overnight and one week periods remained low since Bank Rate was cut in August. 1- and 3-month LIBID rates averaged 0.36% and 0.47% respectively during 2016-17. Rates for 6- and 12-months increased between August and November, only to gradually fall back to August levels in March, they averaged 0.6% and 0.79% respectively during 2016-17.

## Appendix C – List of Term Deposits made and/or maturing in 2016/2017

Ref	Counterparty	From	To	Days	Principal	Int
228115	Nationwide Building Society	18 Feb 16	18 Aug 16	182	1,000,000	0.71%
228315	Eastbourne Borough Council	24 Mar 16	1 Jun 16	69	2,000,000	0.50%
228415	Stafford Borough Council	24 Mar 16	1 Apr 16	8	2,000,000	0.50%
228516	Debt Management Office	1 Apr 16	5 Apr 16	4	5,000,000	0.25%
228616	Debt Management Office	5 Apr 16	11 Apr 16	6	3,500,000	0.25%
228716	Thurrock Borough Council	27 May 16	28 Nov 16	185	3,000,000	0.50%
228816	Debt Management Office	15 Apr 16	18 Apr 16	3	3,000,000	0.25%
228916	Debt Management Office	18 Apr 16	25 Apr 16	7	2,000,000	0.25%
229016	Debt Management Office	3 May 16	9 May 16	6	4,000,000	0.25%
229116	Debt Management Office	9 May 16	19 May 16	10	2,250,000	0.25%
229216	Debt Management Office	16 May 16	20 May 16	4	2,000,000	0.25%
229316	Debt Management Office	18 May 16	20 May 16	2	1,000,000	0.25%
229416	Debt Management Office	1 Jun 16	2 Jun 16	1	3,500,000	0.25%
229516	Debt Management Office	1 Jun 16	6 Jun 16	5	4,000,000	0.25%
229616	Debt Management Office	6 Jun 16	13 Jun 16	7	5,000,000	0.25%
229716	Nationwide Building Society	6 Jun 16	6 Dec 16	183	1,000,000	0.71%
229816	Thurrock Borough Council	1 Jul 16	5 Oct 16	96	1,750,000	0.46%
229916	Coventry Building Society	10 Jun 16	1 Jul 16	21	2,000,000	0.40%
230016	Debt Management Office	13 Jun 16	20 Jun 16	7	3,000,000	0.25%
230116	Debt Management Office	15 Jun 16	20 Jun 16	5	3,000,000	0.25%
230216	Coventry Building Society	18 Jul 16	25 Jul 16	7	2,000,000	0.35%
230316	Debt Management Office	18 Jul 16	19 Jul 16	1	2,000,000	0.25%
230416	Debt Management Office	18 Jul 16	25 Jul 16	7	1,000,000	0.25%
230516	Coventry Building Society	25 Jul 16	1 Aug 16	7	2,000,000	0.35%
230616	Debt Management Office	1 Aug 16	8 Aug 16	7	5,500,000	0.25%
230716	Coventry Building Society	1 Aug 16	8 Aug 16	7	2,000,000	0.35%
230816	Debt Management Office	15 Aug 16	22 Aug 16	7	3,000,000	0.15%
230916	Nationwide Building Society	18 Aug 16	20 Feb 17	186	1,000,000	0.40%
231016	Debt Management Office	1 Sep 16	5 Sep 16	4	2,000,000	0.15%
231116	Debt Management Office	1 Sep 16	12 Sep 16	11	2,000,000	0.15%
231216	Debt Management Office	15 Sep 16	19 Sep 16	4	3,000,000	0.15%
231316	Thurrock Borough Council	5 Oct 16	4 Jan 17	91	1,750,000	0.25%
231416	Coventry Building Society	3 Oct 16	10 Oct 16	7	2,000,000	0.19%
231516	Coventry Building Society	10 Oct 16	24 Oct 16	14	2,000,000	0.20%
231616	Debt Management Office	10 Oct 16	20 Oct 16	10	3,000,000	0.15%
231716	Thurrock Borough Council	21 Oct 16	23 Jan 17	94	500,000	0.25%
231816	Debt Management Office	17 Oct 16	20 Oct 16	3	3,000,000	0.15%
231916	Coventry Building Society	24 Oct 16	31 Oct 16	7	1,000,000	0.19%
232016	Thurrock Borough Council	28 Nov 16	30 May 17	183	3,000,000	0.35%
232116	Coventry Building Society	1 Nov 16	15 Nov 16	14	2,000,000	0.20%
232216	Debt Management Office	1 Nov 16	7 Nov 16	6	2,000,000	0.15%
232316	Debt Management Office	2 Nov 16	7 Nov 16	5	1,000,000	0.15%
232416	Debt Management Office	7 Nov 16	14 Nov 16	7	3,500,000	0.15%
232516	Debt Management Office	8 Nov 16	14 Nov 16	6	2,000,000	0.15%
232616	Debt Management Office	14 Nov 16	21 Nov 16	7	4,000,000	0.15%
232716	Debt Management Office	15 Nov 16	24 Nov 16	9	1,500,000	0.15%
232816	Coventry Building Society	15 Nov 16	22 Nov 16	7	2,000,000	0.19%
232916	Debt Management Office	21 Nov 16	24 Nov 16	3	3,000,000	0.15%
233016	Debt Management Office	22 Nov 16	24 Nov 16	2	1,000,000	0.15%
233116	Debt Management Office	1 Dec 16	9 Dec 16	8	3,000,000	0.15%
233216	Coventry Building Society	1 Dec 16	15 Dec 16	14	2,000,000	0.20%
233316	Debt Management Office	6 Dec 16	13 Dec 16	7	1,000,000	0.15%
233416	Debt Management Office	9 Dec 16	16 Dec 16	7	3,000,000	0.15%
233516	Nationwide Building Society	13 Dec 16	13 Jun 17	182	1,000,000	0.42%
233616	Coventry Building Society	15 Dec 16	16 Jan 17	32	2,000,000	0.22%
233716	Debt Management Office	15 Dec 16	19 Dec 16	4	1,000,000	0.15%
233816	Debt Management Office	15 Dec 16	22 Dec 16	7	2,000,000	0.15%
233916	Debt Management Office	3 Jan 17	4 Jan 17	1	3,000,000	0.15%
234016	Debt Management Office	3 Jan 17	9 Jan 17	6	2,500,000	0.15%
234116	Debt Management Office	3 Jan 17	13 Jan 17	10	2,000,000	0.15%
234216	Debt Management Office	9 Jan 17	19 Jan 17	10	2,000,000	0.15%
234316	Debt Management Office	16 Jan 17	9 Feb 17	24	4,000,000	0.15%
234416	Coventry Building Society	17 Jan 17	17 Feb 17	31	2,000,000	0.22%
234516	Debt Management Office	15 Feb 17	1 Mar 17	14	2,000,000	0.15%
234616	Debt Management Office	17 Feb 17	20 Feb 17	3	2,000,000	0.15%
234716	Debt Management Office	3 Mar 17	6 Mar 17	3	1,000,000	0.10%
234816	Debt Management Office	10 Mar 17	13 Mar 17	3	4,500,000	0.10%

## Glossary of Terms

Affordable Borrowing Limit	Each local authority is required by statute to determine and keep under review how much money it can afford to borrow. The Prudential Code (see below) sets out how affordability is to be measured.
Base Rate	The main interest rate in the economy, set by the Bank Of England, upon which others rates are based.
Bonds	Debt instruments issued by government, multinational companies, banks and multilateral development banks. Interest is paid by the issuer to the bond holder at regular pre-agreed periods. The repayment date of the principal is also set at the outset.
Capital Expenditure	Spending on the purchase, major repair, or improvement of assets eg buildings and vehicles
Capital Financing Requirement (CFR)	Calculated in accordance with government regulations, the CFR represents the amount of Capital Expenditure that it has incurred over the years and which has not yet been funded from capital receipts, grants or other forms of income. It represents the Council's underlying need to borrow.
Chartered Institute of Public Finance and Accountancy (CIPFA)	CIPFA is one of the leading professional accountancy bodies in the UK and the only one that specialises in the public services. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government.
Counterparty	Organisation with which the Council makes an investment
Credit Default Swaps	CDS are a financial instrument for swapping the risk of debt default and are effectively an insurance premium. Local authorities do not trade in CDS but trends in CDS prices can be monitored as an indicator of relative confidence about the credit risk of counterparties.
Credit Rating	A credit rating is an independent assessment of the credit quality of an institution made by an organisation known as a rating agency. The rating agencies take many factors into consideration when forming their view of the likelihood that an institution will default on their obligations, including the institution's willingness and ability to repay. The ratings awarded typically cover the short term outlook, the long term outlook, as well as an assessment of the extent to which the parent

	company or the state will honour any obligations. At present, the three main agencies providing credit rating services are Fitch Ratings, Moody's and Standard and Poor's.
Fixed Deposits	Loans to institutions which are for a fixed period at a fixed rate of interest
Gilts	These are issued by the UK government in order to finance public expenditure. Gilts are generally issued for set periods and pay a fixed rate of interest. During the life of a gilt it will be traded at price decided in the market.
Housing Revenue Account (HRA)	There is a statutory requirement for local authorities to account separately for expenditure incurred and income received in respect of the dwellings that they own and manage.
Lenders' Option Borrower's Option (LOBO)	A long term loan with a fixed interest rate. On pre-determined dates (eg every five years) the lender can propose or impose a new fixed rate for the remaining term of the loan and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan.
LIBID	The rate of interest at which first-class banks in London will bid for deposit funds
Minimum Revenue Provision (MRP)	The minimum amount which must be charged to an authority's revenue account each year and set aside as provision for the repayment of debt.
Operational boundary	This is the most likely, prudent view of the level of gross external indebtedness. A temporary breach of the operational boundary is not significant.
Prudential Code/Prudential Indicators	The level of capital expenditure by local authorities is not rationed by central government. Instead the level is set by local authorities, providing it is within the limits of affordability and prudence they set themselves. The Prudential Code sets out the indicators to be used and the factors to be taken into account when setting these limits
Public Works Loan Board (PWLb)	A central government agency which provides long- and medium-term loans to local authorities at interest rates only slightly higher than those at which the Government itself can borrow.
Treasury Management Strategy Statement (TMSS)	Approved each year, this document sets out the strategy that the Council will follow in respect of investments and financing both in the forthcoming financial year and the following two years.
Treasury Bills (T-Bills)	These are issued by the UK Government as part of the Debt Management Office's cash management operations. They do not pay interest but are issued at a discount and are redeemed at par. T-Bills have up to 12 months maturity when first issued.