

Wednesday, 9 March 2016  
at 6.00 pm



# Audit and Governance Committee

Present:-

**Members:** Councillor Swansborough (Chairman) Councillors Sabri, Choudhury, Di Cara, Dow, Holt, Smart and Taylor

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## **22 Minutes of the meeting held on 2 December 2015.**

The minutes of the meeting held on 2 December 2015 were submitted and approved and the Chairman was authorised to sign them as a correct record.

## **23 Declarations of Disclosable Pecuniary Interests (DPIs) by members as required under Section 31 of the Localism Act and of other interests as required by the Code of Conduct.**

None were declared.

## **24 Urgent items of business.**

Councillor Smart requested that an item relating to the budget process be added to the agenda and this was agreed by the Committee. The item was placed at the end of the agenda.

## **25 Planning Report 2015/16.**

The Committee considered the planning report of BDO relating to the audit for the year ending 31 March 2016. The report highlighted and explained the key issues which BDO believed were relevant to the audit of the financial statements and use of resources of the authority for the year ending 31 March 2016.

Detailed in the report were BDO's engagement timetable, audit scope and objectives, authority materiality, overall audit strategy, key audit risks and other matters, BDO's independence and proposed fees in relation to last year.

Ms Janine Combrinck representing BDO was in attendance to present the report and respond to questions.

The Committee discussed BDO's proposed set materiality of 2% of gross expenditure, which equated to £2 million. Any financial errors discovered during the audit above this standard level set by BDO would need to be amended by the Council in its financial statements in order to keep a clean audit opinion. It was clarified that BDO did look at errors below this level as part of their audit process, which would be part of the report considered

by the Audit and Governance Committee. The Financial Services Manager added that in previous years any errors identified during BDO's audit, regardless of their materiality level, had been amended in the accounts accordingly.

It was proposed by Councillor Smart and seconded by Councillor Sabri that BDO report back to the Committee relating to the impact on their audit if the materiality level was set at £1 million. This was agreed unanimously by the Committee. Ms Combrinck stated that the official report would be considered at the September 2016 meeting. Any information related to this issue prior to the meeting would be circulated to the Committee.

In response to a question from the Committee relating to control of Welbeing, the Financial Services Manager clarified that treasury management advisors were currently being consulted on whether this fell under the group accounting rules. If it was considered to fall under these rules, the accounts would be grouped accordingly.

Ms Combrinck detailed the narrative reporting risk, which would require the Council to replace their Explanatory Foreword in the financial statements with a 'Narrative Report'. This would require the Council to include additional information not previously included.

The Committee queried the reconciliations between the figures contained in the 'Narrative Report' and the accounts. The Financial Services Manager responded that there was a note to the accounts that attempted to complete this reconciliation and added that there was an upcoming change in the accounting code that altered the way income and expenditure was reported and that specific reconciliation note. This would allow the Council to produce its income and expenditure accounts in accordance with its management structure and provide a clearer link. Although not a statutory requirement until 2016/17, the Committee was advised that once the accounts were closed in June 2016, a revised income and expenditure account would be produced and brought to the September 2016 meeting with the Statement of Accounts to provide the requested reconciliation. A draft copy of this would be circulated to the Committee prior to the meeting.

Ms Combrinck added that the note to the accounts, referenced by the Financial Services Manager was audited by BDO and should provide the reconciliation between the management accounts and statement accounts. This would be highlighted at the September 2016 meeting.

The Committee was advised that the proposed fee for 2015/16 totalled £67,781, which was significantly lower than last year's fee but covered the same amount of audit work.

In response to a question from the Committee regarding the statutory engagement team rotation, detailed in the report, Ms Combrinck responded that whilst in theory a project manager's involvement with the audit process could cover up to 10 years, this was highly unlikely in practice. The Committee was advised that after 3 years the market would open and the Council would be able to select their next auditors.

**RESOLVED: (Unanimous)** (1) That BDO report back to the September 2016 meeting of the Audit and Governance Committee, relating to the impact on their audit of setting the materiality level of gross expenditure at £1 million.

(2) That the report be noted.

## **26 Internal Audit Report to 31st December 2015.**

The Committee considered the report of the Internal Audit Manager regarding a summary of the activities of Internal Audit for the third quarter of the financial year 2015/16.

A list of all final audit reports issued from 1 April to 31 December 2015 and the level of assurance attained were detailed in the report. The Committee was advised that during this quarter, one report on procurement had been issued with an assurance level of inadequate and this was detailed in appendix B.

Audit work carried out to date against the audit plan was set out in appendix A. Main points from the appendix were summarised in the report.

Further information on reports issued in final during the year with an assurance level below excellent was set out in Appendix B, with any issues highlighted in the reviews which informed the assurance level given. The Committee was reassured that this status was the assurance level given at the time the final report was issued and did not reflect recommendations that had been addressed.

A brief explanation for a number of outstanding high and medium priority recommendations from audits, reasons why they had not been implemented along with the month when the next follow up date was due was set out in appendix C. The Internal Audit Manager advised that at this stage follow up reviews had been paused so that annual audits could be undertaken. Since the report had been published, follow ups had been completed for Conferences and Group Travel (1 high and 1 medium recommendation outstanding), Licences (Entertainment and Taxi), (4 high and 2 medium recommendations outstanding) and Leasing and Licensing (1 high and 1 medium recommendation outstanding).

The Committee discussed IT inadequacies, detailed in appendix B, that was raised at the last meeting. The Internal Audit Manager reiterated that work was ongoing on creating a joint Disaster Recovery Plan and Business Continuity Plan with Lewes District Council, where each authority would host each other's IT system.

The Committee remained concerned about the IT inadequacies. It was proposed by Councillor Swansborough and seconded by Councillor Holt that the Council's Head of IT (Eastbourne and Lewes) be invited to the next meeting of the Committee to talk through the work ongoing with the joint Disaster Recovery Plan and Business Continuity Plan with Lewes District Council. This was unanimously supported by the Committee.

Events remained the only audit detailed in appendix D as an outstanding high risk. The Senior Head of Tourism and Enterprise had provided

comments at the bottom of the appendix. Appendix D was designated as confidential to reduce the risk of opportunities to commit fraud. The Internal Audit Manager had proposed not to continue following up the recommendations, made when the report was issued in April 2014, considering the robustness of the approach to address the issues and that a full audit of the area would be conducted at a later date. The Committee requested that Events remain as an outstanding audit.

Work undertaken by the Corporate Fraud team was detailed in the report. Appendix E outlined the work and savings acquired by the team.

Work undertaken by the East Sussex Counter Fraud Hub and its performance figures was detailed in the report. The projected savings for the Hub in 2015/16 was detailed in Appendix F and also included the actual savings for the first three quarters of the year.

An update on the Single Fraud Investigation Service was outlined in the report.

**RESOLVED: (Unanimous)** (1) That the Council's Head of IT (Eastbourne and Lewes) be invited to attend the next meeting of the Audit and Governance Committee, regarding the Council's joint Disaster Recovery Plan and Business Continuity Plan.

(2) That the report be noted.

## **27 Draft Internal Audit Plan for 2016/17.**

The Committee considered the report of the Internal Audit Manager regarding the draft internal audit plan for 2016/2017.

The internal audit plan for each year began with a calculation of the number of audit days available. Twelve "managed" audits were required to be undertaken this year to satisfy the external auditors and these were detailed in the report.

In addition to the core audits, days were also set aside for verifying the Benefits Subsidy Claim, special investigations, follow ups, advice and National Fraud Initiative activity. The days necessary to carry out this work was calculated and taken from the auditor time available. The remaining figure was the days available to carry out other audits specifically for the Council. Appendix A detailed these calculations.

A risk assessment was carried out on all areas listed in the "Audit Universe" in order for the annual internal audit plan to be produced. The "Audit Universe" was a list of all the areas and systems across the Council which could be audited. The completed risk assessment, included at appendix B to the report had been arranged by the level of risk and by the date the last audit review was undertaken.

The draft plan had been submitted to Corporate Management Team (CMT) on the 9 February 2016. CMT had proposed adding a review of Prevent and Protect, in conjunction with Lewes District Council.

At the time of the report, Lewes District Council had planned to carry out a review of the use of agency staff and consultants. The Committee was advised that this was now being undertaken by the Head of Human Resources. This had now been replaced in the plan with a cross authority review of the Leisure Trust, with 5 days being marked down in both authorities' plans.

The proposed plan was included at appendix C to the report.

The Committee was advised that given the shared services agreement with Lewes District Council, it was likely that the audit plan for 2017/18 would be a joint one with Lewes.

The Committee discussed the days available to undertake the audits, taking into account staffing levels. The Internal Audit Manager clarified that of the 859 days available, 522 were spent carrying out the audits. Working in partnership with Lewes District Council would increase resilience to cope with the volume of work and staff absences.

The Committee was advised that in terms of resource assurances, the Council's Section 151 Officer had a statutory responsibility to ensure that the Council's internal audit function was sufficiently resourced to meet the requirements of the Council. BDO were also required to be satisfied with the resources in order to give a clean audit opinion.

The Committee discussed whether the audit plan should focus more on the high risk areas but acknowledged the risk of neglecting low risks areas. The Internal Audit Manager stated the audit plan was a balancing act in order to give an overview of the whole authority.

The Committee suggested that key performance indicators be set for the low risk areas identified, for managers to report back and raise any issues, instead of internal audit using resources to undertake a full audit. The Internal Audit Manager responded that this could be considered.

The Committee commented on the high risk area of Procurement (purchasing and contracts) and the information detailed in appendix B of the Internal Audit Report to 31<sup>st</sup> December 2015, relating to no contracts being put in place for 65 suppliers with annual expenditure and there being no up to date contracts database. The Internal Audit Manager clarified that a contracts database was in the process of being constructed and implemented.

**RESOLVED: (Unanimous)** That the proposed internal audit plan for 2016/17 be adopted.

## **28 Budget Process.**

Councillor Smart commented on the role of the Audit and Governance Committee in terms of scrutinising and monitoring the budget process. The Financial Services Manager advised that she would be circulating the Committee's terms of reference and responsibilities, set out in the Council's constitution, in addition to guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) and slides from a previous member training session.

The Senior Head of Corporate Development and Governance clarified the remit of the Audit and Governance Committee which was the operation of the Council's constitution and processes that govern how it conducts its financial affairs. This did not include operational activities such as the construction of a budget, which was a responsibility of the Cabinet and required ratification by Full Council. The budget was also open to scrutiny and monitoring by the Scrutiny Committee, who received quarterly financial performance reports.

Councillor Smart proposed that it be confirmed that the independent scrutiny and examination of the council's budget process, procedures and practices fall within the terms of reference of the Audit and Governance Committee. The Senior Head of Corporate Development and Governance advised it was not within the Committee's remit to determine the content of its constitutional responsibilities.

Given the different interpretations of the committee's terms of reference, it was agreed that the matter be discussed further between the Chairman and Councillor Smart outside of the meeting.

**NOTED.**

The meeting closed at 7.24 pm

**Councillor Swansborough**  
**(Chairman)**