



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** on **Monday, 16 March 2015** at **15:30** 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.

06/03/2015

Catherine Knight
Assistant Director - Corporate Services

Agenda

- 1 Minutes**
To approve the Minutes of the meeting held on 26 January 2015 (copy previously circulated)
- 2 Apologies for Absence/Declaration of Substitute Members**
- 3 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
- 4 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
- 5 Written Questions**

To deal with written questions from councillors pursuant to Council Procedure Rule 11.3 (page D8 of the Constitution)

- 6 Treasury Management Report (Page 3)**
To consider the report of the Director of Corporate Services (report no. 41/15)
- 7 Interim Report on the Council's Systems of Internal Control 2014-2015 (page 8)**
To consider the report of the Head of Audit (report no. 42/15)
- 8 Strategic Audit Plan 2015-18 Report (page 16)**
To consider the report of the Head of Audit, Fraud and Procurement (report no 43/15)
- 9 Lewes District Council Grant Claim Report 2013-2014 (page 31)**
To receive the report of the External Auditor (report no. 44/15)
- 10 Lewes DC Audit Plan Year Ending 31 March 2015 (page 41)**
To receive the report of the External Auditor (report number 45/15)
- 11 Lewes DC Planning Letter March 2015 (page 52)**
To consider the report of the External Auditor (report no. 46/15)
- 12 Date of Next Meeting**
To note that the next meeting of the Audits and Standards Committee is scheduled to be held on 22 June 2015 in the Telscombe Room, Southover House, Southover Road, Lewes commencing at 15:30pm

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

Distribution: Councillors I Eiloart (Chair), M P Chartier, S J Gauntlett, J V Harris, I A Nicholson, E E J Russell and C Sugarman

Appointed Substitute Councillor:

Councillor B Allen

(Members of the Committee who are unable to attend this meeting or find a substitute councillor to attend on their behalf should notify Michaela Frost, Committee Officer at michaela.frost@lewes.gov.uk.

Substitutes should at first be sought from the appointed list above. Other councillors may substitute on the Audit and Standards Committee providing they are not a member of the Cabinet)

Agenda Item No: 6

Report No: 41/15

Report Title: Treasury Management

Report To: Audit and Standards Committee **Date:** 16 March 2015

Ward(s) Affected: All

Report By: Alan Osborne, Director of Corporate Services

Contact Officer(s)-

Name(s): Stephen Jump
Post Title(s): Head of Finance
E-mail(s): steve.jump@lewes.gov.uk
Tel No(s): 01273 484468

Purpose of Report:

To present details of recent Treasury Management activity.

Officers Recommendation:

1. To confirm to Cabinet that Treasury Management activity between 1 January and 28 February 2015 has been in accordance with the approved Treasury Strategy for that period.
 2. To note the contents of this report.
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Reasons for Recommendations

- 1 The Council's approved Treasury Strategy Statement requires the Audit and Standards Committee to review details of Treasury transactions and make observations to Cabinet.
- 2 **Treasury Management Activity**
 - 2.1 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.
 - 2.2 The timetable for reporting Treasury Management activity in 2014/2015 and 2015/2016 is shown in the table overleaf. 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
16 March 2015	1 January to 28 February 2015
22 June 2015	1 March to 31 May 2015
28 September 2015	1 June to 31 August 2015
30 November 2015	1 September to 31 October 2015
25 January 2016	1 November to 31 December 2015
14 March 2016	1 January to 29 February 2016

2.3 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 28 February 2015 and identifies the long-term and short-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. The minimum ratings required for deposits made are long term minimum A (Fitch) and short term F1 (Fitch).

All of the deposits met the necessary criteria.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating	Short-term rating
220714	Barclays Bank plc	13 Aug 14	13 Aug 15	365	1,000,000	1.000	A	F1
220914	Nationwide Building Society	01 Sep 14	02 Mar 15	182	1,000,000	0.640	A	F1
222514	Telford and Wrekin Council	06 Feb 15	15 Apr 15	68	3,000,000	0.400	* not applicable	
					5,000,000			

*UK Government body and therefore not subject to credit rating

2.4 Fixed Term Deposits which have matured in the reporting period

The table overleaf shows the fixed term deposits which have matured since 1 January 2015, 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 £10m over this period. Further information is given in paragraph 2.8.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating	Short-term rating
221004	Nationwide Building Society	01 Sep 14	02 Feb 15	154	1,000,000	0.580	A	F1
221614	Cornwall County Council	07 Oct 14	12 Feb 15	128	2,000,000	0.430	** not applicable	
222214	Gloucester City Council	15 Dec 14	02 Jan 15	18	2,000,000	0.450	** not applicable	
222314	Debt Management Office	02 Jan 15	05 Jan 15	3	3,000,000	0.250	** not applicable	
222414	Debt Management Office	15 Jan 15	19 Jan 15	4	2,000,000	0.250	** not applicable	
	Total				10,000,000			

*UK Government body and therefore not subject to credit rating

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 January to 28 February 2015 was 0.72%, above the average bank base rate for the period of 0.50%. Those made during the period averaged 0.39%

2.5 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 £3,156,000 generating interest of approximately £1,500.

	Balance at 28 Feb '15 £'000	Average balance £'000	Average interest rate %
Santander Business Reserve Account	3,000	2,027	0.20
Lloyds Bank Corporate Account	331	1,129	0.50

2.6 Use of Money Market Funds

Details of the amounts held in the two Money Market Fund (MMF) accounts used by the Council are shown overleaf. The approved Investment Strategy allows a maximum investment of £1m in each fund, and at no time was this limit exceeded.

	Balance at 28 Feb '15 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	1,000	822	0.57
Deutsche Managed Sterling Fund	1,000	932	0.55

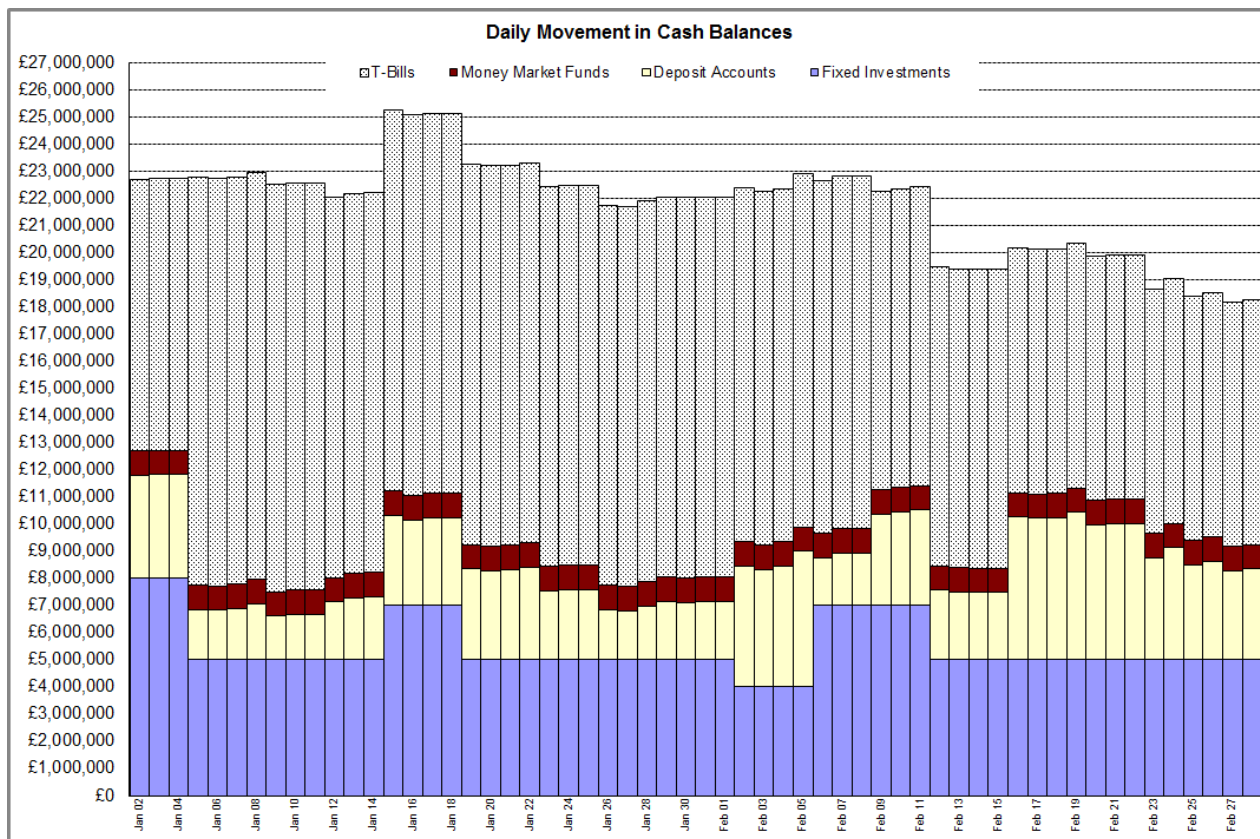
2.7 Purchase of Treasury Bills (T-Bills)

The table below shows the T-Bills held at 28 February 2015 and activity in the period. It is the Council's intention to hold T-Bills until maturity.

		Purchased in period	Purchase date	£'000	Average return %
Held at 28 February 2015					
UK Treasury Bill 0%	30 Mar 15		29 Sep 14	2,000	0.570
UK Treasury Bill 0%	02 Mar 15		01 Dec 14	1,000	0.415
UK Treasury Bill 0%	02 Mar 15		01 Dec 14	1,000	0.419
UK Treasury Bill 0%	02 Mar 15	√	02 Feb 15	1,000	0.320
UK Treasury Bill 0%	02 Mar 15	√	02 Feb 15	3,000	0.300
UK Treasury Bill 0%	02 Mar 15	√	02 Feb 15	1,000	0.310
Matured since last report					
UK Treasury Bill 0%	12 Jan 15		15 Dec 14	1,000	0.348
UK Treasury Bill 0%	02 Feb 15		03 Nov 14	1,000	0.380
UK Treasury Bill 0%	02 Feb 15	√	05 Jan 15	2,000	0.327
UK Treasury Bill 0%	02 Feb 15	√	05 Jan 15	2,000	0.348
UK Treasury Bill 0%	02 Feb 15	√	05 Jan 15	1,000	0.398
UK Treasury Bill 0%	09 Feb 15	√	10 Nov 14	2,000	0.430
UK Treasury Bill 0%	16 Feb 15	√	17 Nov 14	2,000	0.427

2.8 Overall investment position

The chart below summarises the Council's investment position over the period 1 January 2015 to 28 February 2015. It shows the total sums invested each day as either Fixed Term deposits, T-Bills, or amounts held in Deposit accounts or MMF's.



2.9 Borrowing

There has been no change to the Council's long term borrowing in the reporting period, which remains at £56.673m. No temporary borrowing has been undertaken.

2.10 Banking Arrangements

As previously reported, the Council has transferred its day-to-day banking business to Lloyds Bank plc, following the Co-operative Bank's decision to withdraw from the local authority sector. The Council's main account with the Co-operative Bank was closed on 26 February 2015.

Financial Implications

3 All relevant implications are referred to in the above paragraphs.

Sustainability Implications

4 There are no sustainability implications arising from this report.

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 There are no sustainability implications arising from this report

Legal Implications

- 7 None arising from this report.

Background Papers - Treasury Strategy Statement

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

Agenda Item No: 7 **Report No:** 42/15

Report Title: Interim Report on the Council's Systems of Internal Control 2014/15

Report To: Audit and Standards Committee **Date:** 16 March 2015

Ward(s) Affected: All

Report By: Head of Audit, Fraud and Procurement

Contact Officer

Name: David Heath

Post Title: Head of Audit, Fraud and Procurement

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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 eleven months of 2014/15, 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 eleven months of 2014/15 (see Section 3).

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 have applied since 1 April 2013. The Head of Audit, Fraud and Procurement (HAFP) advised the Audit and Standards Committee of the effect of the new standards at its March 2013 meeting.
- 2.2 The PSIAS 2013 specify the requirements for the reporting to the Audit and Standards Committee and senior management by HAFP. These requirements are met via a series of reports, including interim reports to each meeting of the Committee. Each interim report includes a review of the work undertaken by Internal Audit compared to the annual programme, an opinion of HAFP 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 will contain 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.

3 Internal Control Environment at Lewes District Council

- 3.1** The Annual Report on the Council's Systems of Internal Control for 2013/14 included the opinion of HAFP 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 eleven 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 2014/15

- 4.1** This section of the report summarises the work undertaken by Internal Audit during the first eleven months of the year, compared to the annual plan that was agreed by the Audit and Standards Committee in March 2014. Further information on each of the audits completed since the previous meeting of the Committee is given at Appendix A.
- 4.2** Table 1 shows that a total of 630 audit days have been undertaken compared to 596 planned. The variance of 34 days is largely due to the investigation carried out by HAFP (see paragraph 4.13) that was not planned at the start of the year. There has been proportionately more work on procurement issues in recent months but it is estimated that the audit days will remain in excess of the original plan by the year end.
- 4.3** As was anticipated when the Audit Plan 2014/15 was prepared, the ongoing restructuring of the Council has necessitated a review of the annual plan. The significant additional work required for the Benefits subsidy claim (see 4.5) has been another factor in the need to review the plan and reallocate resources. The results of this review were reported to the January 2015 meeting of the Committee.

Table 1: Plan audit days compared to actual audit days for April 2014 to February 2015

Audit Area	Actual audit days for the year 2013/14	Plan audit days for the year 2014/15	Actual audit days to date	Pro rata plan audit days to date
Main Systems	260	285	306	
Central Systems	31	65	23	
Departmental Systems	178	100	58	
Performance and Management Scrutiny	64	40	39	
Computer Audit	11	65	28	
Environmental Audit	65	-	-	
Management Responsibilities/Unplanned Audits	132	98	176	
Total	741	653	630	596

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.

- 4.4** *Main Systems:* The initial work was on completing 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 2013/14. The audit did not identify any significant control issues that

would have an impact on the Council's main accounts. A summary report has been finally issued. The corresponding work for the accounts for 2014/15 is underway.

- 4.5** The initial work on behalf of BDO to test the Council's subsidy claim for Benefits for 2013/14 was completed to plan. The work identified errors in the processing of claims and, at the request of BDO, this required additional testing to determine the extent and impact of the issues noted. During October 2014, BDO checks identified further issues that required additional testing, and this process of further check and testing has been ongoing. As a result, it was not possible to submit the claim by the due date of 30 November 2014. After a series of further checks, BDO issued a letter of qualification on 11 February 2015 that contained agreed estimates of the impacts of the issues noted. The claim for £35.6m was then submitted to DWP. A summary report by Internal Audit on the Benefits subsidy claim work is at the draft report stage. The BDO report on the results of this work is reported separately to this meeting of the Committee.
- 4.6** It has not been necessary to carry out the anticipated work to verify the Council's subsidy claim for NDR. This follows a decision by DCLG and the Audit Commission that there need not be verification of the NDR claim return for 2013/14.
- 4.7** *Central Systems:* An initial outline study for the audit of Business Continuity Planning resulted in a summary report being issued to the Director of Corporate Services; an updated Business Continuity Plan for the Council's services was issued in December 2014. A final report has been issued for the audit of Safeguarding.
- 4.8** *Departmental Systems:* Final reports have been issued for the audits of Cemeteries and Planning and Development Control. An audit of Housing Management is underway. An audit of Building Control and a review of selected aspects of the procedures for the maintenance of Council housing are both at the draft report stage.
- 4.9** *Performance and Management Scrutiny:* A final report was issued for the audit of Ethics. Internal Audit has been performing a quality assurance role for the Regeneration and Enterprise Project Board that is managing four regeneration projects, and for the project to develop the North Street Quarter of Lewes. Internal Audit has examined the internal control aspects of the new service delivery model for Council services, and HAFP is now part of the procurement team for the project.
- 4.10** *Computer Audit:* Internal Audit completed the IT aspects of the testing of the main financial systems, and a report on the audit of IT Security has been finally issued.
- 4.11** *Management Responsibilities/Unplanned Audits:* This category provides resources for the support for the Audit and Standards Committee, liaison with BDO, managing the Follow Up procedures, as well as for special projects or investigations.
- 4.12** Internal Audit has been coordinating the Council's preparations for the 2014/15 NFI data matching exercise which is run by the Audit Commission. The base data was forwarded to the Audit Commission in October 2014 and the reported matches for LDC were received on 29 January 2015. There are 1,526 matches detailed across 49 reports, each report setting out different types of potential frauds among HB claimants, housing tenants, and anyone receiving payment from the Council. The review of the matches has begun, with the initial work being to analyse and assess the matches to weed out those that are the result of error, coincidence or entirely proper activity. A smaller number of matches will be subject to investigation.
- [Page 10 of 55](#)
- 4.13** At the request of the Chief Executive, Internal Audit has investigated the relationship between the Council and Seaford and District Constitutional Club in respect of

possible development opportunities at the site. A final summary report has been issued and was presented to the December 2014 meeting of the Committee.

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 2014/15 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 2014 meeting of the Committee. The second major follow up exercise for 2014/15 is underway.

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 2013/14 were reported to the June 2014 meeting of the Audit and Standards Committee. The results enabled the HAP 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.
- 6.2** Proposals for a revised set of PIs for Internal Audit were agreed at the September 2013 meeting of the Committee. The new PIs formed the framework for the report on Internal Audit Benchmarking that was presented to the December 2013 meeting of the Committee, and the corresponding results for 2013/14 were reported to the September 2014 meeting of the Committee.

7 Combatting Fraud and Corruption

National reporting

- 7.1** The Annual Report on the Council's work to combat Fraud and Corruption 2013/14 was presented to the September 2014 meeting of the Committee. The report advised that the numbers and values of the fraud cases at LDC had been submitted to the Audit Commission as part of the fraud and corruption survey that all Local Authorities are required to complete. The results of the national survey will be published in an Audit Commission annual report on fraud and corruption in local government called 'Protecting the Public Purse.'
- 7.2** The Audit Commission report 'Protecting the Public Purse' for 2012/13 compared performance by differences types of local authority across a range of fraud types. HAFP has been examining the report to determine the scope for possible additional controls or preventative measures where these would be justified. The major outcomes of this study are outlined below.

Local developments

- 7.3** Internal Audit and Housing Services are now represented on the Sussex Tenancy Fraud Forum (TFF). TFF is a body that enables information sharing and joint initiatives with neighbouring authorities in both East and West Sussex to combat the various aspects of tenancy fraud.
- 7.4** There had been some uncertainty over the future of the Benefit Fraud Investigations Team. CMT agreed a business case for the Investigations Team to work as part of Internal Audit from 1 November 2014. The team is now working on the prevention and detection of fraud across additional areas of Council services including tenancy

fraud and business rates (NDR) fraud, and each interim report to the Committee will contain a summary of the team's work (see 7.7 -7.9).

- 7.5** The Investigation Team will maintain its membership 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.
- 7.6** In response to offers of funding from DCLG for counter fraud initiatives, a sub group of six authorities within ESFOG submitted a successful funding bid. DCLG award the group £365,000 for the development of a 'Hub' approach to coordinating new anti-fraud initiatives across East Sussex. The Hub will be managed by officers at Eastbourne BC with input from ESFOG partners, and the initial stages will see a programme of standardised training and planning, and the introduction of a case management system. Work on cases in the separate authorities will take priority until there is a fully coordinated Hub joint exercise.

Investigations Team

- 7.7** Since 1 November 2014, the work on developing the team's approach to counter tenancy fraud has included attendance at the national Tenancy Fraud Conference and obtaining best practice guidance on tenancy fraud from other authorities and private sector organisations. Five suspected cases of tenancy fraud are currently being investigated. Two other cases have been closed as the investigations have established that there has been no tenancy fraud.
- 7.8** The team has continued to receive referrals of suspected fraud in respect of the CT Reduction Scheme (CTRS), and investigation of 50 cases is underway. NDR is the next priority area for the team, based upon some initial research and a small pilot study. Training in counter fraud work for NDR, and subsequently for other key systems, will be coordinated with the Hub.
- 7.9** Internal Audit has in place an agreement with DWP for the future management of cases of HB fraud. The major work on each case will be the responsibility of the national Single Fraud Investigation Service (SFIS) but LDC retains a role in referring cases of suspected HB fraud to SFIS and handling requests for information. A total of 110 cases have been passed to SFIS and 32 information requests have been actioned.

8 Risk Management

- 8.1** Cabinet approved the Risk Management Strategy in September 2003. Since then risk management at the Council has been developed via a series of action plans, with the result that all the elements of the risk management framework set out in the strategy are in place and are maintained at best practice standards.
- 8.2** The 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 the Government's national deficit reduction plan, the Corporate Management Team (CMT) put in place a phased programme to make savings in the Council's budgets. The programme commenced in 2011/12 and has achieved each

of its annual savings targets. The savings target for 2014/15 is £596,000 and this has been achieved, primarily from the first phase of the restructuring programme. The savings target is kept under review (so that it can reflect the latest projections of Government funding, inflation forecasts, etc.) and reported regularly to Cabinet.

8.4 At its meeting in February 2015, the Council agreed a total savings target for the period 2015/16 to 2019/20 of £2,615,000. Of this, £561,000 is to be delivered next year, with plans already in place to deliver (and slightly exceed) that target. The key source of savings will continue to come from structural change rather than incremental change, and the Council has agreed to invest £2.25 million in new technology and consultancy services to help achieve this. At the end of February, the procurement of this technology and support formally commenced and a contract is expected to be in place by October 2015. HAFP has reviewed with CMT the impact on the control environment of the savings achieved so far, and has obtained assurance that there has been no adverse effect on the operation of controls. This exercise will be ongoing while the programme of savings continues.

8.5 The next Annual Report on Risk Management will be presented to Cabinet at its March 2015 meeting. This report will confirm the strategic risks identified by CMT and the action plan for risk management for the year ahead. Once approved by Cabinet, the report will be presented to the June 2015 meeting of the Committee.

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 were responsible in 2013/14. A joint statement by the Chief Finance Officer (Section 151) and Monitoring Officer confirmed that there were no significant governance issues for the Council in 2013/14. Nothing has arisen in the first eleven months of this financial year to change these assessments.

10 Corporate governance

10.1 In January 2015, the HAFP 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 January 2015 meeting of the Committee.

10.2 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 AGS for 2013/14 was reported to the September 2014 meeting of the Committee. The corresponding report for 2014/15 will be presented to the September 2015 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 2013/14 (October 2014) – This report summarises the key issues from the work carried out by BDO during the year. The letter confirms that:

- BDO issued an unqualified true and fair opinion on the financial statements for 2013/14.
- BDO identified three misstatements in relation to revaluations of land and buildings and the accounting for the value of additions to HRA Council dwellings. Appropriate amendments were made to the financial statements. As these corrections relate to capital transactions and valuations there was no impact on the General Fund or HRA balance.
- BDO did not identify any significant deficiencies in internal controls but, working with Internal Audit, BDO observed instances where purchase orders were either in excess of the officer's formal authorisation limits or were placed by officers not on the authorised signatory list. Management has agreed to review and strengthen this control.
- BDO were satisfied that the Council has robust systems and processes to manage financial risks and opportunities effectively and to secure a stable financial position that enables it to continue to operate for the foreseeable future, and BDO therefore issued an unqualified value for money conclusion.
- BDO noted that the Council maintains healthy levels of earmarked reserves and balances, and Members have agreed a policy to use reserves to fund investments and non-recurring expenditure.
- BDO were satisfied that the Annual Governance Statement (AGS) was not inconsistent or misleading with other information they were aware of from the audit of the financial statements and complies with '*Delivering Good Governance in Local Government*' (CIPFA/Solace).
- BDO noted that the Council's Whole of Government Accounts (WGA) submission is below the threshold for audit and they were required only to review the total amounts in the Data Collection Tool for property, plant and equipment and for the net pension liability. BDO reported that the values in the Data Collection Tool were consistent with the audited financial statements.
- The Medium Term Financial Strategy was updated during the year and Members continue to consider options for achieving additional savings, with these likely to arise from the continued organisational development process and Programme Nexus.
- BDO have completed their review of the Housing Pooled Capital Receipts 2013/14 and have no matters to report.
- BDO reported on the results of the most recent grant claims and returns certification report that covered three returns for 2012/13 amounting to £67 million. The Housing Pooled Capital Receipts return and National Non Domestic Rates returns were certified without amendment or qualification. The BDO audit of the Housing and Council Tax Benefits subsidy claim for 2012/13 found a number of errors in processing. Following further discussion and the provision of additional supporting information by the Council, DWP amended its assessment of the impact on the claim and made a deduction of approximately £4,000 from the final settlement.
- When the Annual Audit Letter was issued (late October 2014) the BDO work on the Housing Benefits subsidy claim for 2013/14 was still in progress. The results from this work are now reported separately to this meeting of the Committee.

12 Financial Appraisal

12.1 There are no additional financial implications from this report.

13 Sustainability Implications

Page 14 of 55

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

14 Risk Management Implications

- 14.1** 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.

15 Legal Implications

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

16 Equality Screening

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

17 Background Papers

- 17.1** [Annual Audit Plan 2014/15 that was presented to the Audit and Standards Committee on 17 March 2014.](#)

18 Appendices

- 18.1** There is no Statement of Internal Audit work and key issues (normally Appendix A) for this report.
- 18.2** There is no Log of Significant Outstanding Recommendations (normally Appendix B) for this report.

Agenda Item No: 8

**Report
No: 43/15**

Report Title: Strategic Audit Plan

Report To: Audit and Standards Committee Date: 16 March 2015

Ward(s) Affected: All

Report By: Head of Audit, Fraud and Procurement

Contact Officer

Name: David Heath

Post Title: Head of Audit, Fraud and Procurement

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Purpose of Report:

To present to Councillors the Strategic Audit Plan for the three year period 2015/16 to 2017/18.

Officers Recommendation(s):

- 1** To agree the Annual Audit Plan for 2015/16 (as shown at Appendix 1)
- 2** To agree the three year Strategic Audit Plan for 2015/16 to 2017/18 (as shown at Appendix 2).
- 3** To note that the Annual Audit Plan and Strategic Audit Plan reflect the transfer of the Investigations Team to Internal Audit that took place in November 2014.

Reasons for Recommendations

The remit of the Audit Committee includes a duty to agree an Annual Audit Plan and a three year Strategic Audit Plan, and keep them under review.

Information

1 Background

- 1.1** The Internal Audit function at Lewes operates in accordance with the auditing guidelines published by the Chartered Institute of Public Finance and Accountancy (CIPFA). CIPFA, 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 have applied since 1 April 2013.

- 1.2** The 2013 PSIAS require the Head of Audit, Fraud and Procurement (HAFP) to prepare a strategic statement of how the Internal Audit service will be delivered and developed in accordance with the Internal Audit Charter, and for there to be a risk based plan that sets out the priorities for Internal Audit activity. As previously, the strategic statement and the audit plan are combined into a Strategic Audit Plan that is presented to the Audit and Standards Committee for approval.
- 1.3** The main focus of the planning process is on the first year of the Strategic Audit Plan, which provides the Annual Audit Plan for 2015/16. The Strategic Audit Plan is reviewed each year so that it can reflect the changing risks and priorities for the Council.
- 1.4** From 1 November 2014, the Investigations Team has been part of Internal Audit. CMT approved the retention of the Investigations Team to provide a means to counter fraud across all Council services and activities. The Strategic Audit Plan now reflects the resources and work plans of the Investigations Team.

2 Purpose and Objectives

2.1 In order to comply with the 2013 PSIAS the Strategic Audit Plan is required to:

- Show a plan of Internal Audit engagements that is based on a documented risk assessment, undertaken at least annually.
- State how the Council's framework of governance, risk management and control will be reviewed in order to obtain assurance for the annual audit opinion for the purposes of the Annual Governance Statement (AGS).
- Explain how Internal Audit's resource requirements have been assessed.
- Explain the approach to using other sources of assurance.
- Outline the audit engagements to be carried out, their respective priorities and the resources required.
- Set out the relative allocation of resources between the work to obtain assurance on the internal control framework and any consulting work to provide advice.

3 Aims and Objectives for Internal Audit

- 3.1** Internal Audit at Lewes is an independent, objective assurance and consulting activity designed to add value and improve the Council'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.
- 3.2** 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.

3.3 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).

3.4 The Council's AGS reports on the effectiveness of the framework of governance, risk management and control and is approved by the Audit and Standards Committee at its September meeting. 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.

4 Strategic Planning Assumptions

4.1 In preparing the Strategic Audit Plan, the HAFP has taken account of the adequacy and outcomes of the Council's risk management, corporate governance and other assurance processes. The Strategic Audit Plan has been drawn up on the basis that Internal Audit will:

- Undertake annual testing of the key financial systems, and supplement this work as appropriate with system reviews based upon a detailed gap analysis and risk assessments.
- Undertake annual testing of the Benefits subsidy grant claim on behalf of BDO.
- Examine the main departmental systems at least once in the three year cycle based upon a detailed risk assessment.
- Examine key aspects of the procedures and controls that support Programme Nexus and provide a quality assurance role for Nexus projects on request.
- Carry out a programme of specialist computer audits.
- Undertake follow up work to determine whether agreed recommendations have been implemented.
- Provide advice on corporate management activities such as risk management, corporate governance and performance management and to review their effectiveness within the Council.
- Provide advice to managers on financial and control issues, and the measures to prevent and detect fraud.
- Include an element of contingency to cover assignments that could not have reasonably been foreseen, and to meet management requests for investigations or reviews.

- Carry out a programme of planned and responsive work to investigate suspected cases of fraud across all Council services and activities (except Housing Benefits).

4.2 The strategic planning assumptions no longer include provision for Value for Money (VFM) audits as none has been necessary since the last one was completed in 2010/11. If Internal Audit is asked to carry out VFM work the resources will be taken from the contingency for unplanned work. Internal Audit will also consider VFM issues if they arise during routine audit work.

5 Relationship with BDO

5.1 The Government relies on external auditors to periodically review the work of the Council to make sure it is meeting its statutory obligations and performing well in its services. The Council's external auditors, BDO, and Internal Audit operate in accordance with a joint protocol that ensures an integrated audit approach that makes efficient use of resources and prevents duplication of work. The Strategic Audit Plan reflects this integrated approach, and includes provision for the resources necessary to manage the relationship with BDO.

5.2 From the Managed Audit of 2013/14 Internal Audit has decided the scope and content of the work on the key financial systems that will be required to obtain the necessary assurance for the purposes of the Annual Governance Statement (AGS). This arrangement will continue and, through negotiation, Internal Audit will ensure that the BDO requirements for information on the adequacy of controls will continue to be met (see also paragraphs 7.4 – 7.5).

5.3 During 2014/15, Internal Audit has worked with BDO in carrying out testing of the Benefits subsidy grant claim for the previous year of account, with the increased levels of testing requiring more Internal Audit resources than previously. To ensure that the resources required for these audits remain proportionate, Internal Audit will limit coverage to those parts of the systems that must be verified for the grant claims and the annual system testing, plus any other controls highlighted by risk assessments.

6 Other sources of assurance

6.1 The Council operates a management assurance system, which enables senior officers to confirm the proper operation of internal controls, including compliance with the Constitution, in those services for which they are responsible. This system is a key part of the Council's governance framework, which is reviewed annually by the Head of Audit, Fraud and Procurement. The results of this review and the outputs from the management assurance system are reported in the Annual Governance Statement (AGS). Any Internal Audit work on these areas is accounted for under Performance and Management Review.

Preparation of the Annual Audit Plan and Strategic Audit Plan

7 Review of Key Council Activities

- 7.1** This review is based on information from the Budget Book, the Council Plan, the Council's Risk Register, the Council's Assurance Framework, Council Service Plans, Cabinet reports and other known developments, and BDO's Audit Plans. The following issues are highlighted.

Council Restructuring

- 7.2** At its meeting in June 2013, Cabinet considered the future organisational structure of the Council. In the face of the many drivers for change at both the national and local level, Cabinet decided that the Council should move to a customer focus model. Three Directorates have been established to provide dedicated areas for business strategy, service delivery and corporate support, and steps have been taken to design, build and staff the new structures. This restructuring process is ongoing. Any Internal Audit work related to the development of the Council's new structure and organisation will be accounted for under the NEXUS programme within Performance and Management Review.
- 7.3** Internal Audit will review the Audit Plan for 2015/16 after nine months to assess whether any significant changes are necessary in response to the ongoing restructuring of the Council. A report on the results of the review will be presented to the January 2016 meeting of the Committee.

Key Financial Systems

- 7.4** Internal Audit undertakes the review and testing of the key financial systems every year to provide assurance for the AGS. The work for the 2014/15 exercise is underway. It is assumed that the current list of 13 subjects will be included in the review of key financial systems for the period of the Strategic Audit Plan 2015/18.
- 7.5** To help in the planning and monitoring of the reviews of the key financial systems, the resource requirements are shown against each key system with only the time required for the management and coordination of the overall exercise shown under the heading Managed Audit.

Computer Audit

- 7.6** The Computer Audit coverage includes provision for:
- Internal Audit work on the Implementation of New Systems to enable comment on specifications, procedures and controls and to provide input to the project teams. This heading also provides contingency for unforeseen work specifically on IT issues.
 - The testing of key IT controls as part of the annual work on the key financial systems.

- A combined audit of IT Security and IT Networks. A risk assessment and gap analysis indicated that the separate audit of IT Networks was no longer necessary.
- A new subject of Disaster Recovery is included to enable specific review of this key area of business risk.

General

- 7.7** The Strategic Plan includes a contingency for unforeseen work on non IT issues (Unplanned Work) that enables Internal Audit to be flexible and to adapt its coverage to address changing priorities.
- 7.8** Internal Audit staff, working as auditors, regularly support the Council's procurement processes. This work is accounted for under Procurement Advice within Management Responsibilities. Similarly, Internal Audit staff regularly work in an audit or quality assurance capacity on projects that form part of the NEXUS programme. This work is accounted for under Performance and Management Review.
- 7.9** Internal Audit assesses the risks of fraud and corruption as part of this planning process and, where appropriate, individual audits include review of the internal controls that mitigate these risks. The new organisation of Internal Audit, incorporating the Investigations Team, will enable improved coordination of the work to counter fraud across all Council activities. As part of the development of a methodology to combat the various aspects of housing fraud, the universe of potential audits again includes provision for Internal Audit work on the Right to Buy scheme – this subject was removed in 2005.
- 7.10** Apart from any changes outlined above, the universe of potential audits remains largely unchanged from that in place for 2014/15 and continues to include the priority areas of Health and Safety, and Safeguarding.
- 7.11** There has been consultation with service managers on the content of the Audit Plan for 2015/16. This consultation has identified some operational and development issues that have influenced the placement of the audits in the three year cycle, and the scheduling of the individual audits in the year. The consultation process has also included discussion of specific risk management issues that will influence the focus of audits in the Audit Plan for 2015/16.

8 Application of the Risk Assessment Model

- 8.1** The risk model assesses each activity under six categories: financial materiality, system stability, sensitivity, complexity, inherent risk and the adequacy of internal control. Each category is scored on a scale from 1 to 9, with the greater risks receiving the higher scores. A new category has been added to reflect where departments have raised specific concerns, about business continuity or other significant risks, in their service plans. The total score for all activities determines the

frequency of audit coverage. Audits are assigned to one of three frequency bandings as follows:

- 1 Audited every year
- 2 Audited every other year
- 3 Audited no more than once every three years

8.2 For every Strategic Plan there is an assessment of those very low risk activities that can be left out of the programme of audits (see Appendix 3). For the Strategic Plan 2015/18, this assessment has needed to be more challenging because of the reduced resources of the Internal Audit team (see Section 10) and the need to focus available resources on current priority issues. The low risk activities remain part of the database of potential audits and will be reassessed as part of next year's Strategic Audit Plan.

8.3 Some activities occur every year and are not subject to the Strategic Plan's risk assessment process. These include the work on risk management, corporate governance, and Programme Nexus that are included at Performance and Management Review. There are also ongoing Management Responsibilities such as the support to the Audit and Standards Committee, Follow Up and Liaison with External Audit.

8.4 The assignments within the first year of the Strategic Audit Plan are prioritised, and this forms the basis for the scheduling of audit work. The Annual Audit Plan for 2015/16 at Appendix 1 shows the assignments categorised as High, Medium or Low priority.

9 Investigations Team

9.1 From 1 November 2014, the Investigations Team has been part of Internal Audit within the Audit, Fraud and Procurement Division. This arrangement arose from the government decision to set up a national Single Fraud Investigation Service (SFIS) to manage the investigation of HB fraud. CMT approved the retention of the Investigations Team to provide a means to counter fraud across all Council services and activities. The work of the team is planned in accordance with a programme of development and case management priorities.

9.2 The initial priority has been to develop the understanding of tenancy fraud, build the necessary working relations with Housing Managers, and research best practice in countering tenancy fraud. The next development priority will be to undertake the same learning, research and relationship building for NDR. Thereafter, the team will develop its expertise in other areas of counter fraud activity based on risk assessments.

9.3 Alongside this development work the Investigations Team will investigate reported cases of suspected fraud, initially concentrating on Council Tax Reduction fraud and

tenancy fraud, and then moving onto the detection and investigation of suspected NDR fraud. There also remains a commitment - reinforced by a formal SLA - for the LDC Investigations Team to support the SFIS in the handling of cases of HB fraud that occur in the District.

- 9.4** There are aspects of the work of the Investigations Team that are forecast to remain relatively stable over the period of the Strategic Plan eg the day to day support for the SFIS. Other aspects of the team's work will vary over time as the team develops expertise in new areas (eg NDR fraud) and cyclical external exercises (eg NFI data matching) generate more referrals in some years. For these reasons the time allocated to countering different types of fraud is not constant across the three year period of the Plan (see Table 1).

10 Allocation of Staff Resources

Internal Audit

- 10.1** The current level of staffing (3.25 FTE) has been assumed for the period of the Strategic Audit Plan.
- 10.2** Internal Audit forms part of the Audit, Fraud and Procurement Division that is responsible for a range of activities related to corporate governance, procurement and performance management. The Strategic Audit Plan includes a 75/25 apportionment of the time of the Head of Service between these other activities and internal audit work. When Internal Audit examines one of these other activities as part of the Annual Audit Plan, this work is done entirely independently of the Head of Service who has no role in the audit other than as a client.

Investigations Team

- 10.3** The business case for the retention of the Investigations Team included staffing of the team at 1.5 FTE. This level of staffing has been assumed for the period of the Strategic Audit Plan.

Summary

- 10.4** Table 1 below summaries the resources allocated to the main work areas within Internal Audit and the Investigations Team after making provision for administration, training, leave and sickness.
- 10.5** The column for 2014/15 is the Annual Audit Plan as agreed in March 2014, which is included at the request of the Audit and Standards Committee. At that time, there was no formal plan of the days to be spent on counter fraud work by the Investigations Team in 2014/15.

Table 1: Summary of staff resources for 2015/16 to 2017/18

2014/15	Work Area	2015/16	2016/17	2017/18
Plan Audit Days		Plan Audit Days	Plan Audit Days	Plan Audit Days
	Internal Audit			
285	Main Systems	285	285	285
65	Central Systems	50	60	60
100	Departmental Systems	105	100	100
40	Performance and Management Scrutiny	45	45	45
65	Computer Audit	55	65	55
98	Management Responsibilities/Unplanned Audits	127	122	119
653	Total Internal Audit	667	677	664
	Investigations Team			
	Council Tax Reduction Scheme Fraud	35	35	28
	Data Matching/Other Fraud	7	4	10
	HB Fraud (working with DWP/SFIS)	80	80	80
	NDR Fraud	80	120	120
	Procurement Fraud	5	5	5
	Tenancy Fraud	65	40	40
	Management Responsibilities	30	30	30
Nil	Total Investigations Team	302	314	313
	Total	969	991	977

10.6 The extra days available in 2016/17 are largely due to there being no Easter bank holidays within the year, with the Easter holidays falling in March 2016 and April 2017. The extra days for the Investigation Team in 2017/18 reflect a reduction in the provision for training.

11 Financial Appraisal

11.1 There are no additional financial implications arising 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 planning report.

13 Risk Management Implications

- 13.1** I have completed a risk assessment in accordance with the Council's Risk Management methodology. The following risks and mitigating factors have been identified.
- 13.2** If the Council cannot demonstrate an effective Internal Audit function it will not meet its statutory obligations. The Annual Audit Plan and Strategic Audit Plan, together with the associated monitoring of the plans via the regular reporting to the Audit and Standards Committee, represent key parts of the control framework that helps to ensure the effectiveness of Internal Audit.

14 Legal Implications

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

15 Equality Screening

- 15.1** I have given due regard to equalities issues and, as this is an internal planning report with no key decisions, screening for equalities is not required.

16 Background Papers

None.

17 Appendices

Appendix 1 Annual Audit Plan 2015/16

Appendix 2 Strategic Audit Plan 2015/18

Appendix 3 Low risk areas excluded from the Strategic Audit Plan 2015/18

Appendix 1

LEWES DISTRICT COUNCIL: ANNUAL AUDIT PLAN

Audit Area	2015/ 2016 Days	Priority
Key Financial Systems		
Cash and Bank	10	HIGH
Council Tax	5	HIGH
Council Tax Reduction Scheme	10	HIGH
Expenditure and Creditors	15	HIGH
Fixed Assets	10	HIGH
Grant Claims	160	HIGH
Housing Benefit	10	HIGH
Housing Rents	10	HIGH
Income and Debtors	15	HIGH
Investments and Investment Income	10	HIGH
Main Accounting System	10	HIGH
Managed Audit	5	HIGH
NNDR	5	HIGH
Payroll and Employment Costs	10	HIGH
	285	
Central Systems		
Insurance	10	MEDIUM
Newhaven Business Centre	15	LOW
Project Management	10	LOW
Telephones	15	MEDIUM
	50	
Departmental Systems		
Building Control	5	MEDIUM
Cemeteries	20	LOW
Homelessness and Housing Strategy	20	MEDIUM
Planning and Development Control	20	MEDIUM
Right to Buy	15	LOW
Waste & Recycling Services	25	MEDIUM
	105	
Performance & Management Review		
Review - Programme Nexus	25	MEDIUM
Review - Risk Management/Corporate Governance	20	MEDIUM
	45	
Computer Audit		
Change Control	20	MEDIUM
Disaster Recovery	20	MEDIUM
Implementation of New Systems	10	MEDIUM
IT Managed Audit	5	HIGH
	55	
Management Responsibilities		
Audit and Standards Committee	15	
Audit Planning	10	

Audit Area	2015/ 2016 Days	Priority
Data Matching	5	
Financial Vetting	2	
Follow Up	5	
ESFOG/Hub/Sussex Audit Group	5	
Liaison with External Audit	3	
Procurement Advice	15	
	60	
Unplanned Audits / Investigations		
Unplanned Audits / Investigations Provision	67	
	67	
Internal Audit Total	667	
Investigations Team		
Council Tax Reduction Scheme Fraud Budget	35	
Data Matching/Other Fraud Budget	7	
Housing Benefit Fraud Budget	80	
NDR Fraud Budget	80	
Procurement Fraud Budget	5	
Tenancy Fraud Budget	65	
Fraud Management Responsibilities Budget	30	
Investigations Team Total	302	
Internal Audit and Investigations Team Total	969	

Appendix 2

LEWES DISTRICT COUNCIL: THREE YEAR STRATEGIC AUDIT PLAN

Audit Area	2015/ 2016 Days	2016/ 2017 Days	2017/ 2018 Days	Frequency Years
Key Financial Systems				
Cash and Bank	10	10	10	1
Council Tax	5	5	5	1
Council Tax Reduction Scheme	10	10	10	1
Expenditure and Creditors	15	15	15	1
Fixed Assets	10	10	10	1
Grant Claims	160	160	160	1
Housing Benefit	10	10	10	1
Housing Rents	10	10	10	1
Income and Debtors	15	15	15	1
Investments and Investment Income	10	10	10	1
Main Accounting System	10	10	10	1
Managed Audit	5	5	5	1
NNDR	5	5	5	1
Payroll and Employment Costs	10	10	10	1
	285	285	285	
Central Systems				
Building Maintenance		20		2
Business Continuity Planning		20		2
Communications			10	3
DIP/Records Management			15	3
Health and Safety		20		2
Insurance	10		10	2
Newhaven Business Centre	15			3
Project Management	10			3
Safeguarding			10	3
Telephones	15		15	2
	50	60	60	
Departmental Systems				
Building Control	5		20	2
Cemeteries	20			3
Estates Management		20		3
Homelessness and Housing Strategy	20		20	2
Housing Management		20		2
Housing Repairs		20		2
Members Allowances & Civic Expenses		20		3
Planning and Development Control	20		20	2
Private Sector Housing		20		3
Right to Buy	15		15	3
Waste & Recycling Services	25		25	2
	105	100	100	

Audit Area	2015/ 2016 Days	2016/ 2017 Days	2017/ 2018 Days	Frequency Years
Performance & Management Review				
Review - Programme Nexus	25	25	25	
Review - Risk Management/Corporate Governance	20	20	20	
	45	45	45	
Computer Audit				
Change Control	20		20	2
Computer Software		15		3
Disaster Recovery	20		20	
Implementation of New Systems	10	10	10	1
Internet/Intranet		15		2
IT Security and Networks		20		2
IT Managed Audit	5	5	5	1
	55	65	55	
Management Responsibilities				
Audit and Standards Committee	15	15	15	
Audit Planning	10	10	10	
Data Matching	5	5	5	
Financial Vetting	2	2	2	
Follow Up	5	5	5	
ESFOG/Hub/Sussex Audit Group	5	5	5	
Liaison with External Audit	3	3	3	
Procurement Advice	15	15	15	
	60	60	60	
Unplanned Audits / Investigations				
Unplanned Audits / Investigations Provision	67	62	59	
	67	62	59	
Internal Audit Total	667	677	664	
Investigations Team				
Council Tax Reduction Scheme Fraud Budget	35	35	28	
Data Matching/Other Fraud Budget	7	4	10	
Housing Benefit Fraud Budget	80	80	80	
NDR Fraud Budget	80	120	120	
Procurement Fraud Budget	5	5	5	
Tenancy Fraud Budget	65	40	40	
Fraud Management Responsibilities Budget	30	30	30	
Investigations Team Total	302	314	313	
Internal Audit and Investigations Team Total	969	991	977	

Notes

The Frequency Indicator shows the frequency with which audits should be carried out as identified by the risk analysis:

- 1 Every year
- 2 Every other year
- 3 No more than once every three years

Appendix 3

LOW RISK ACTIVITIES EXCLUDED FROM THE STRATEGIC AUDIT PLAN 2015/18

The activities excluded from the Strategic Audit Plan 2015/18 are:

Car Loans (Audited 2003/4)
Clean and Green Team (Audited 2010/11)
Coastal Protection (Audited 2004/05)
Electoral Registration and Elections (Audited 2013/14)
Environmental Health- Health (Audited 2012/13)
Equalities (Audited 2011/12)
Land Charges (Audited 2012/13)
Licensing (Audited 2012/13)
Partnerships (Audited 2012/13)
Personnel, Recruitment and Training (Audited 2000/01)
Pollution Control (Audited 2011/12)
Records Management Legal Compliance (Audited 2010/11)
Service Charges (Audited 2004/05)
VAT (Audited 2003/04)

Notes

A full risk assessment has been carried out for all items in the audit universe, and this has informed the decisions for the activities listed above.

LEWES DISTRICT COUNCIL

GRANT CLAIMS AND RETURNS CERTIFICATION

Year ended 31 March 2014

CONTENTS

INTRODUCTION 1

KEY FINDINGS..... 2

APPENDIX I: STATUS OF 2012/13 RECOMMENDATIONS..... 6

APPENDIX II: 2013/14 ACTION PLAN 7

INTRODUCTION

THE PURPOSE OF THIS REPORT

This report summarises the issues arising from the certification of grant claims and returns for the financial year ended 31 March 14

We undertake grant claim and return certification as an agent of the Audit Commission, in accordance with the Certification Instructions (CI) issued by them after consultation with the relevant grant paying body. Our work is undertaken in accordance with the Statement of Responsibilities issued by the Audit Commission.

After completion of the tests contained within the CI the grant claim or return can be certified with or without amendment or, where the correct figure cannot be determined, may be qualified as a result of the testing completed. Sample sizes used in the work on the housing benefit subsidy return and the methodology for the certification of all grant claims are prescribed by the Audit Commission.

A summary of the fees charged for certification work for the year ended 31 March 2014 is shown to the right.

Appendix I of this report (page 6) shows the Council's progress against the action plan included in our 2012/13 Grant Claims and Returns Certification report (presented to Audit and Standards Committee on 17 March 2014).

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance provided during the course of our certification work.

FEES	PLANNED SCALE FEE (£)	OUTTURN FEE (£)
Housing benefit subsidy	10,959	TBA *
Pooling of housing capital receipts	747	747
TOTAL FEES	11,706	TBA *

* To be advised - we are in the process of agreeing the final fee with management and the Audit Commission

The outturn fee will be higher than the planned scale fee due to the significant additional work required on the housing benefits subsidy claim. Our audit work found errors in administering benefit and calculating subsidy entitlement in 2013/14, which required additional work to be completed by the Council and BDO. In total, 377 benefit cases were reviewed by the Council (including the initial sample of 60 cases) and, in turn, we reviewed this work to ensure we could rely on it. The audited claim was submitted to the Department of Work and Pensions (DWP) on 11 February 2015, over two months after the departmental deadline. The claim was qualified across all benefit subsidy expenditure types.

As a result of our qualification letter, the DWP may ask the Council to undertake further work before finalising the final amount payable for the 2013/14 financial year.

KEY FINDINGS

Summary of high level findings

CLAIM OR RETURN	VALUE (£)	QUALIFIED?	AMENDED?
Housing benefit subsidy	35,590,116	Yes	No
Pooled housing capital receipts	1,922,879	No	No

The housing benefit subsidy claim was certified with an extensive qualification letter. A final decision on the amount of subsidy to be paid to the Council for 2013/14 is awaited.

Detailed Findings

Below are details of each grant claim and return subject to certification by us for the financial year to 31 March 2014. Where our work identified issues which resulted in either an amendment or a qualification (or both), further information is provided. An action plan in respect of these matters is included at Appendix II of this report on page 7.

Housing benefit subsidy	Findings and impact on claim
<p>Local authorities responsible for managing housing benefit schemes are able to claim subsidies towards the cost of these benefits from central government. The final value of subsidy to be claimed by the Council for the financial year is submitted to central government on form MPF720A, which is subject to certification.</p> <p>Our work on this claim includes verifying that the Council is using the correct version of its benefits software and that this software has been updated with the correct parameters. We also agree the entries in the claim to underlying records and test a sample of cases from each benefit type to confirm that benefit has been awarded in accordance with the relevant legislation and is shown in the correct cell on form MPF720A. The methodology and sample sizes are prescribed by the Audit Commission and the Department for Work and Pensions. We have no discretion over how this methodology is applied.</p>	<p>In line with the requirements of the grant paying department (the Department for Work and Pensions - the 'DWP') our work on the return has included:</p> <ul style="list-style-type: none"> a review of the control environment surrounding the preparation of the claim form; and detailed testing of a sample of cases (20 for each benefit type), to assess the accuracy of the information included in the claim. <p>As in prior years, internal audit has undertaken detailed testing of the initial required sample of benefit cases. The audit of 60 individual claimant files highlighted a number of errors made in administering benefit and calculating subsidy entitlement. The errors mainly involved the incorrect recording of information (such as the amount of claimant income, type and size of property, composition of household, and classification of overpayments).</p> <p>Where errors are not isolated, the Audit Commission requires that an additional sample of 40 cases should be selected for each identified error and reviewed for similar error attributes. The additional work was completed primarily by internal audit, with some assistance from external audit, and reviewed 300 additional cases covering all aspects of the claim. A further 17 cases were reviewed on specific areas of the claim. In total, 377 cases were reviewed by the Council.</p> <p>The Audit Commission requires auditors to re-perform a sample of the additional work</p>

undertaken by the Council to ensure conclusions have been satisfactorily recorded. We completed this review and we agreed with the Council's findings.

Our audit certificate was qualified and we estimated the effect of the errors identified on the Council's entitlement to subsidy based on our extrapolation of audit test results. Our letter covered all of the benefit types awarded by the Council, as summarised below:

Non-HRA Rent Rebates:

- One case (value £438) where the Local Housing Allowance (LHA) rate used in the calculation of the benefit expenditure for self-contained accommodation was below that allowed under the regulations
- Six cases (combined value £3,015) where the 'LHA' rate used in the calculation of the benefit expenditure for board and lodging or self-contained accommodation was below that allowed under the regulations.
- Three cases (combined value £9,133) where the Council had incorrectly classified expenditure relating to HRA properties as non-HRA rent rebates
- One case (value £207) where expenditure on self-contained accommodation had been incorrectly classified as board and lodging
- Eight cases (combined value £130) where the Council had not made a deduction for meals in respect of all members of the household in board and lodging or self-contained accommodation, resulting in overpayment of benefit

HRA Rent Rebates:

- One case (value £940) where an incorrect rate of severe disability premium had been applied, resulting in overpayment of benefit
- One case (value £9) where an overpayment was identified and stopped prior to payment, but the Council did not remove the overpayment amount from the 2013/14 subsidy claim form

Rent Allowances:

- Eight cases (gross combined value £522) where the LHA rate used in the calculation of benefit entitlement had not been updated at 1 April 2013 as required by regulations, resulting in both overpayments and underpayments of benefit.
- Five cases (gross combined value £1,099) where changes to child tax credit income notified to the authority by DWP had been incorrectly actioned, resulting in both overpayments and underpayments of benefit.
- Seven cases (combined value £593) where the Council had either requested or applied a Rent Officer Determination on an incorrect date, resulting in overpayment

of benefit in one case.

- Ten cases (gross combined value £865) where the Council had incorrectly input the claimant's level of earned income into the benefit system, resulting in both overpayments and underpayments of benefit.

Given the extent of errors found in both the initial sample and the additional testing completed, it is recommended the Council completes a review of the processes for administering benefit to ensure the accuracy of data recorded in the benefits system.

Although the Council's procedures to adjust subsidy for uncashed payments identified in the current year or from prior years are unchanged from previous years, we no longer consider these to be effective. Our audit tested two returned payments received in 2013/14 and neither was correctly adjusted for subsidy purposes. In addition, the prior year uncashed payments figure of £3,388 included in the 2013/14 claim was overstated by £2,942. As a consequence, we were unable to give any assurance over the treatment of uncashed payments for subsidy purposes.

We have discussed the additional costs of the audit with officers and requested that the Audit Commission determine an additional fee for the audit of the housing benefits claim. We will provide the Audit and Standards Committee with details of the final fee in due course.

To assist in improving the timeliness of completing our audit work, BDO will agree a timetable with the Council at least two months in advance of the commencement of the Subsidy Claim Audit.

Pooling of housing capital receipts return

Local authorities are required to pay a portion of any housing capital receipt they receive into a national pool administered by central government. The Council is required to submit quarterly returns notifying central government of the value of capital receipts received. The information in these returns is subject to certification on an annual basis.

Findings and impact on return

The certification of the Pooling of housing capital receipts return was completed satisfactorily and the claim was submitted as unqualified and without amendment.

APPENDICES

APPENDIX I: STATUS OF 2012/13 RECOMMENDATIONS

RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING	PROGRESS
Housing Benefit The Council should ensure it completes ongoing reviews of the quality of work of benefit operatives and the accuracy of data recorded within the benefit system.	High	The Council continues to undertake review of claims to ensure accuracy of assessment. The level has been maintained in 2013/14 and complete reviews of claims processed in some categories have been undertaken.	Head of Revenues and Benefits	31 March 2014	We have noted a number of further errors as part of the 2013/14 audit and have raised a recommendation in Appendix II.

APPENDIX II: 2013/14 ACTION PLAN

HOUSING BENEFIT SUBSIDY					
CONCLUSIONS FROM WORK	RECOMMENDATIONS	PRIORITY	MANAGEMENT RESPONSE	RESPONSIBILITY	TIMING
Our audit found errors in the administration of benefit involving non-HRA rent rebates, HRA rent rebates and rent allowances.	The Council should complete a review of the processes for administering benefit to ensure the accuracy of data recorded in the benefits system.	High	The Council had already recognised the issues in the administration of HB in 2013/14 and early 2014/15 and a review of the management and control structures was carried out in the summer of 2014. The results were significant changes in the management arrangements in Revs and Bens in August 2014. The belief is that the HB results in the second half of 2014/15 will show material improvements from those that are the subject of this BDO report. No further action is proposed at this time.	Head of Customer Services	Completed
	To assist in improving the timeliness of completing our audit work, BDO will agree a timetable with the Council at least two months in advance of the commencement of the Subsidy Claim Audit.	High	Agreed. The Council welcomes this proposal which will assist both the Council and BDO in planning and completing the audit on a timely basis	Head of Customer Services/BDO	March 2015
Our audit identified deficiencies in the Council's systems and controls around the identification of uncashed payments, and the writing back of these within the subsidy form.	The Council should review its systems and processes for the identification of uncashed payments and ensuring that these are correctly accounted for.	High	The Council should review its systems and processes for the identification of uncashed payments and ensuring that these are correctly accounted for. Suggested response: Agreed. The Council will work with BDO to identify and put in place systems and processes which alleviate the weaknesses that BDO have identified.	Head of Customer Services/BDO	March 2015

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the company and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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LEWES DISTRICT COUNCIL

AUDIT PLAN TO THE AUDIT AND STANDARDS COMMITTEE
Audit for the year ending 31 March 2015

March 2015

CONTENTS

EXECUTIVE SUMMARY 1

SCOPE OF THE AUDIT 3

RISK ASSESSMENT 6

AUDIT TIMETABLE..... 8

EXECUTIVE SUMMARY

We are pleased to present our Audit Plan for the year ending 31 March 2015. This plan summarises the work that we propose to undertake in respect of our audit of Lewes District Council for the 2014/15 financial year.

Significant Risks

Our audit is designed to respond to significant risks and identify where we intend to focus our resources in providing our opinion on the financial statements and our value for money conclusion. Summarised below are the significant risks that impact on our audit of which we are currently aware:

FINANCIAL STATEMENTS	SUMMARY OF SIGNIFICANT RISKS
Management override	Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk including by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.
Revenue recognition	Auditing standards presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the stated accounting policies or from an inappropriate use of estimates in calculating revenue.
Accounting for non-current assets	<p>The Council has recently implemented a new system for accounting for non-current assets (known as 'RAM'), which will be fully implemented for the first time during 2014/15. Accounting for non-current assets is a particularly complex area within local government, and there is an elevated level of inherent risk associated with any change to systems and processes.</p> <p>Our audit of non-current assets last year identified errors in accounting for the de-recognition of components of council dwellings being replaced and in the removal of accumulated depreciation balances upon revaluation of Property, Plant and Equipment. There is a risk errors continue to be made in these areas.</p>

FINANCIAL STATEMENTS (CONTINUED)	SUMMARY OF SIGNIFICANT RISKS
Related party transactions	The Council is putting in place a process for the collection and review of annual declarations from Members and senior officers in respect of outside interests. While the Council does maintain a register of interests, controls are being strengthened to ensure it is accurate and up to date. There is a risk that related party transactions may not be identified and adequately disclosed while new processes are being established.
USE OF RESOURCES	SUMMARY OF SIGNIFICANT RISKS
Financial resilience	Delivering the savings required by the Medium Term Financial Strategy and maintaining financial resilience in the light of reduced Government funding, demographic changes and the risks and uncertainties identified for the future delivery of services present risks to the continuing financial resilience of the Council.

Fees

Our Planning Letter for the 2014/15 year highlighted the fee for the audit was expected to be £60,990. The proposed audit fee for the year has increased to £61,890 plus VAT, which is the scale fee set by the Audit Commission. The fee is £900 higher because auditors no longer undertake certification work on the national non domestic rates return, following the introduction of new arrangements for collecting and distributing business rates, and further audit work is now required in this area as part of the financial statements audit.

The proposed fee for the certification of claims and returns is £9,530 plus VAT, which is the scale fee published by the Audit Commission. However, the 2013/14 certification fee has not yet been finalised, we will discuss with officers whether the certification scale fee for 2014/15 should be adjusted.

Key outputs

The key reports, opinions and conclusions from the audit will be:

REPORT	DATE
Report on any significant deficiencies in internal controls, if required, based on the results of our interim audit visit	June 2015
Final report to those charged with governance	September 2015
Independent auditor's report including: <ul style="list-style-type: none">• Opinion on the financial statements• Value for money conclusion• Certificate	By 30 September 2015
Assurance statement on the Whole of Government Accounts return	By 2 October 2015
Summary of findings from the audit in the Annual Audit Letter	October 2015
Report on the results of our grant claims and returns certification work	February 2016

SCOPE OF THE AUDIT

Purpose of the audit plan

The purpose of this audit plan is to:

- Ensure that there is mutual understanding of the respective responsibilities relating to the audit
- Provide you with an overview of the planned scope of the audit for the year ending 31 March 2015
- Ensure that the areas of potential significant risk of material misstatement which we have identified are consistent with the areas which you perceive to be the key areas and to promote effective two-way communication between us.

We will also provide a report to management and those charged with governance on the findings of the audit which will focus on the significant matters arising from the audit of the Council regarding internal control, financial governance and reporting and accounting arrangements. We aim to provide management with clear recommendations that will add value to the Council.

Code audit

The scope of the audit is determined by the Audit Commission's Code of Audit Practice for Local Government (2010) (the 'Code'), which covers two areas: providing an opinion on the financial statements, and reviewing the arrangements for securing economy, efficiency and effectiveness in the use of resources (value for money conclusion).

Respective responsibilities

Our responsibilities, as auditors, in relation to the audit of the financial statements and other Audit Commission requirements are set out below. The audit of the financial statements does not relieve you of your responsibilities which are outlined in the Statement of Responsibilities of Auditors and Audited Bodies (2010) available from the Audit Commission's website.

Auditing Standards require auditors to communicate relevant matters relating to the audit to those charged with governance. Relevant matters include issues on auditor independence, audit planning information and findings from the audit.

We will communicate matters of governance interest that have come to our attention as a result of the performance of the audit. Communication may take the form of

discussions or, where appropriate, be in writing. The audit is not designed to identify all matters that may be relevant to you.

Our contacts for communications will be the Chief Finance Officer (the Director of Corporate Services), the Head of Finance (who is the Deputy Chief Finance Officer) and the Audit and Standards Committee. When communicating with the Audit and Standards Committee we will consider all individuals representing those charged with governance as informed and our responsibilities for communicating relevant matters will be discharged.

Financial statements

At the conclusion of the financial statements audit we give our opinion on the financial statements, including whether:

- they give a true and fair view of the financial position at the year end and the expenditure and income for the year
- they have been prepared properly in accordance with relevant legislation and applicable accounting standards

We also provide an opinion on whether the information given in the Explanatory Foreword is consistent with the financial statements.

We report by exception if we are unable to satisfy ourselves that the Annual Governance Statement is not inconsistent with our knowledge.

As part of our audit we obtain an understanding of the Council's system of internal control sufficient to plan the audit. We assess the adequacy of the design of specific controls that respond to significant risks of material misstatement and evaluate whether those controls have been implemented. Where we intend to place reliance on particular controls for the purposes of our audit, we will carry out procedures to test the operating effectiveness of those controls and use the results of those procedures to determine the nature, timing and extent of further audit procedures to be performed.

In order to achieve an efficient and cost effective audit, we aim to work closely with Internal Audit to minimise duplication and the overall level of audit resource input.

We have planned the audit on the basis that we will be able to place full reliance on the work of Internal Audit where they intend to provide assurance over key controls within the financial systems.

We will communicate to management any deficiencies in internal control identified during the audit. Where those deficiencies are significant, we will also communicate to those charged with governance.

Misstatements due to fraud

The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect fraud and corrupt practices lies with management and the Audit and Standards Committee.

We have a responsibility to consider specifically the potential risk of material misstatement of your financial statements as a result of fraud and error, including the risk of fraudulent financial reporting. We have discussed possible risk of material misstatement arising from fraud with officers including the Chief Finance Officer, the Head of Finance and the Head of Audit and Performance.

We will write to the Chairman of the Audit and Standards Committee to request confirmation of how the Committee oversees management processes to identify and respond to the risk of fraud, and whether there is knowledge of any actual, suspected or alleged frauds affecting the Council other than those reported by management.

Please let us know if there are any other actual, suspected or alleged instances of fraud of which you are aware.

For all fraud risks, and for any actual frauds that have been identified and we have been informed of, we will consider the possible impact on your financial statements and our audit programme.

Materiality and triviality

Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. In carrying out our work we will apply an appropriate level of materiality and as such the audit cannot be relied upon to identify all potential or actual misstatements.

For planning purposes, we have set materiality at £1.1 million (2% of budgeted gross expenditure in the Comprehensive Income and Expenditure Statement excluding non-recurrent expenditure).

For reporting purposes, we consider misstatements of less than £22,000 to be trivial, unless the misstatement is indicative of fraud. We are required to bring to your attention unadjusted audit differences that are more than trivial that the Audit and Standards Committee are required to consider and we will request that you correct them.

Use of resources

The Code requires auditors to issue a conclusion on whether the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

This is based on the following two reporting criteria:

- The organisation has proper arrangements in place for securing financial resilience; the organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness; the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We will plan a programme of use of resources audit work based upon our risk assessment.

Whole of Government Accounts

Local authorities are required to prepare information to allow HM Treasury to prepare consolidated Whole of Government Accounts (WGA) based on the statutory financial statements.

The WGA return is audited in accordance with Audit Commission specified procedures. We provide an assurance report to the National Audit Office to confirm that the WGA return is consistent with the audited financial statements and that it is properly prepared.

Certification of grant claims and returns

As an agent of the Audit Commission we will undertake a review of grant claims and returns in accordance with the certification instruction issued by the Audit Commission. We express a conclusion as to whether the claim or return: is in accordance with the underlying records (claims and returns above the minimum level and below the threshold); or is fairly stated and in accordance with the relevant terms and conditions (claims and returns over the threshold).

Engagement partner

Robert Grant is the engagement partner and is the person in the firm who is responsible for the audit engagement and its performance and for the report that will be issued on behalf of the firm.

We aim to provide a high quality of service to you at all times. If, for any reason or at any time, you would like to discuss how we might improve the service, or if you are in any way dissatisfied, please contact Robert Grant in the first instance. Alternatively you may wish to contact our Managing Partner, Simon Michaels. 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 Audit Commission’s complaints handling procedure is detailed in their leaflet “How to complain: What to do if you want to complain about the Audit Commission or its appointed auditors”, which is available on their website <http://www.audit-commission.gov.uk/about-us/contact-us/complaints>

Local Audit and Accountability Act 2014

The Act received Royal Assent on 30 January 2014. The Act makes it possible for the Audit Commission to close, in line with Government expectations, on 31 March 2015.

There will be a new framework for local public audit, due to start after the Audit Commission’s current contracts with audit suppliers end in 2016/17, or potentially in 2019/20 if all the contracts are extended. A transitional body will oversee the contracts in the intervening period. The transitional body is the Public Sector Audit Appointments Limited and is an independent, private company created by the Local Government Association.

Several of the Audit Commission’s functions will continue after its closure. The Local Audit and Accountability Act gave the Comptroller and Auditor General a duty to prepare and issue Codes of Audit Practice and guidance to auditors; and a power to carry out examinations into the economy, efficiency and effectiveness with which relevant authorities have used their resources.

The Act also provides for the Audit Commission’s data matching powers, and therefore the National Fraud Initiative, to transfer to the Cabinet Office. The government has announced that the Commission’s counter-fraud function will transfer to a new public sector ‘Counter Fraud Centre’ to be established by the Chartered Institute of Public Finance and Accountancy.

Independence and objectivity

We are required to communicate to those charged with governance, at least annually, all relationships that may bear on the firm’s independence and the objectivity of the audit engagement partner and audit staff.

In relation to the audit of the financial statements for Lewes District Council for the financial year ending 31 March 2015, we are able to confirm that the Audit Commission’s requirements in relation to independence and objectivity have been complied with and we are not aware of any relationships that would affect our independence. Should this change we will update you accordingly.

RISK ASSESSMENT

We are committed to targeting work to where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. The determination of significant risks is a matter for auditors' professional judgement.

For each of the significant risks identified, we consider the arrangements put in place to mitigate the risk and plan our work accordingly.

If you consider there to be other significant risks of material misstatement in the financial statements or, arrangements for securing economy, efficiency and effectiveness in the use of resources, whether due to fraud or error, please let us know. Summarised below are the significant audit risks that impact on our audit of which we are currently aware.

FINANCIAL STATEMENTS SIGNIFICANT AUDIT RISKS			
RISK	RISK DETAIL	ACCOUNTS AREA AND ASSERTIONS	AUDIT RESPONSE
MANAGEMENT OVERRIDE	Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.	Financial statement level risk across all account headings and assertions.	We will carry out audit procedures to review significant journals and other adjustments in preparing the financial statements, review the reasonableness of assumptions used by management when including accounting estimates, and obtain an understanding of unusual transactions.
REVENUE RECOGNITION	Auditing standards presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the stated accounting policies or from an inappropriate use of estimates in calculating revenue.	Existence, completeness and accuracy of NNDR income, housing rent income, car parking income, and sundry income.	We will substantively test a sample of income received and debtor accruals to ensure that accounting policies have been correctly applied in determining the point of recognition of income.
ACCOUNTING FOR NON-CURRENT ASSETS	The Council has recently implemented a new system for accounting for non-current assets (RAM), which will be fully utilised for the first time during 2014/15. Accounting for non-current assets is a particularly complex area within local government, and there is an elevated level of inherent risk associated with any change to systems and processes. Our audit of non-current assets last year identified errors in accounting for the de-recognition of components of council dwellings being replaced and in the removal of accumulated depreciation balances upon revaluation of Property, Plant and Equipment. There is a risk errors continue to be made in these areas.	All assertions relating to non-current assets, including property, plant and equipment, intangibles, heritage assets and investment properties.	We will carry out focussed audit procedures on all year-end balances and movements relating to non-current assets. We will also look at the processes and controls surrounding the migration of data to the new fixed asset system, and the controls put in place by the Council to ensure that the information produced by the system is complete and accurate.

FINANCIAL STATEMENTS SIGNIFICANT AUDIT RISKS (CONTINUED)			
RISK	RISK DETAIL	ACCOUNTS AREA AND ASSERTIONS	AUDIT RESPONSE
RELATED PARTY TRANSACTIONS (RPT)	The Council is putting in place a process for the collection and review of annual declarations from Members and senior officers in respect of outside interests. While the Council does maintain a register of interests, controls are being strengthened to ensure it is accurate and up to date. There is a risk that related party transactions may not be identified and adequately disclosed while new processes are being established.	Completeness, accuracy and presentation of related party transactions.	<p>As part of our audit we will carry out focussed substantive procedures on related party transactions, including detailed reviews of Council and Committee minutes, the Council's register of interests, inquiries of management, use of third-party data sources (such as Companies House and Charity Commission searches), and agreement of related party transactions disclosed by the Council back to supporting documentation.</p> <p>We will also review the arrangements established by the Council to ensure the completeness, accuracy and presentation of RPT disclosures by Members and compliance with the requirements of the Cipfa Code of Practice.</p>
USE OF RESOURCES SIGNIFICANT RISKS			
RISK	RISK DETAIL	AUDIT RESPONSE	
FINANCIAL RESILIENCE	Delivering the savings required by the Medium Term Financial Strategy and maintaining financial resilience in the light of reduced Government funding, demographic changes and the risks and uncertainties identified for the future delivery of services present risks to the continuing financial resilience of the Council.	We will review the Council's Medium Term Financial Strategy to assess the reasonableness of the assumptions therein, and how the Council is addressing financial pressures.	

AUDIT TIMETABLE

The timetable for key reports, opinions and conclusions from the audit will be:

OUTPUT	DATES
FINANCIAL STATEMENTS	
Review of internal controls	April 2015
Final audit visit	July - August 2015
Audit report covering: <ul style="list-style-type: none"> • 'True and fair' opinion on the financial statements • Information in the Statement of Accounts being consistent with auditor's knowledge • Annual governance statement is prepared in accordance with guidance and not inconsistent with auditor's knowledge 	Clearance meeting to be held late August 2015 Audit Report to be issued by 30 September 2015
Opinion on the Whole of Government Accounts return.	By 2 October 2015
USE OF RESOURCES	
Review of economy, efficiency and effectiveness	January - August 2015
Value for money conclusion	By 30 September 2015
GRANTS	
Audit of grant claims and returns	July to November 2015
REPORTING	
Report on any significant deficiencies in control (if required)	June 2015
Final report to those charged with governance	September 2015
Annual Audit Letter	October 2015

We will agree specific dates for our visits with officers in advance of each part of our programme, and we will work closely with officers during the year to ensure that all key deadlines are met. We will also meet regularly with senior officers to discuss progress on the audit and obtain an update on relevant issues.

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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LEWES DISTRICT COUNCIL

PLANNING LETTER AND PROPOSED FEE

Year ending 31 March 2016

March 2015

PROPOSED FEES

Scope of the audit

We are required to report to you our proposed fees and programme of work for the 2015/16 financial year. The proposed fee is based on the consultation undertaken by the Audit Commission in October 2014. Although the Commission will close on 31 March 2015, the Department for Communities and Local Government (CLG) has asked the Commission to set fees for principal bodies before it closes. The existing Code of Audit Practice will be replaced by a new Code of Audit Practice to be issued by the National Audit Office, currently being consulted on. In setting fees, the Commission has assumed that there is little change to the scope of the work required to be undertaken by auditors. The new Code audit fee is expected to cover:

- Audit of the financial statements
- Value for money conclusion
- Whole of Government Accounts return.

There is a separate proposed fee for the certification of returns on behalf of Government departments.

Indicative fees

The proposed fee is based on the consultation undertaken by the Audit Commission in October 2014. Although the Commission will close on 31 March 2015, the Department for Communities and Local Government (CLG) has asked the Commission to set fees for principal bodies before it closes. The Audit Commission will confirm the final 2015/16 work programme and scale fees in late March. The indicative fee does not include any time required to investigate questions or objections from members of the public. Should any arise, time spent dealing with questions and objections will be billed separately. Where possible we will provide an estimate of the likely time required to respond to the matters before starting the work.

From 1 April 2015, Public Sector Audit Appointments Limited (PSAA) will oversee the Commission's contracts through to the end of 2017. It will also be responsible for setting

fees in the future. If we need to propose any amendments to the audit fee during the course of the audit or where our assessment of risk and complexity are significantly different from those reflected in the proposed fee, we will first discuss this with the Head of Finance and seek approval from the PSAA for a proposed variation of fee. 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.

Fees

AUDIT AREA	PROPOSED FEE 2015/16 (£)	PROPOSED FEE 2014/15 (£)	ACTUAL AUDIT FEE 2013/14
Code audit fee	46,418	61,890	60,990
Certification fee	⁽²⁾ 7,148	⁽²⁾ 9,530	⁽¹⁾ TBC
Total audit fees	53,566	71,420	TBC

- (1) The audit of the housing benefit subsidy claim was completed in February 2015. An additional fee is being discussed with officers. We will write to the Chairman of the Audit and Standards Committee with the outcome.
- (2) The 2013/14 certification fee has not yet been finalised, we will discuss with officers whether the scale fee for future years should be adjusted.

The Commission has consulted on rebasing the Code audit fee from 2014/15 and reviewed the additional work that we are required to undertake following the withdrawal of the audit requirement to certify Non Domestic Rate income. From 2014/15, we have therefore increased the Code audit fee by £900 which is now included in the current published indicative scale fees.

The Commission completed a further audit procurement exercise in April 2014 which has enabled it to further reduce fees for the two years 2015/16 and 2016/17. The Government may wish to extend these contracts to lock in the reduced fees for a further three years. This has allowed the Commission to reduce fees by 25%, resulting in combined Code and certification fee savings of £17,854 for the Council.

AUDIT ARRANGEMENTS

Planned outputs

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

REPORT	DATE
Detailed audit plan	January 2016
Report on any significant deficiencies in internal controls, if required, based on the results of our interim audit visit	May 2016
Final report to those charged with governance	September 2016
Independent auditor's report including: <ul style="list-style-type: none"> Opinion on the financial statements Value for money conclusion 	September 2016
Whole of Government Accounts assurance statement and report to the NAO	October 2016
Summary of findings from the audit in the annual audit letter	October 2016
Grant claims and returns certification report	December 2016

Audit team

The key members of the audit team will be:

Engagement Lead - Robert Grant

email: robert.grant@bdo.co.uk

Tel: 0207 893 2895

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

Engagement Manager - Jody Etherington

email: jody.etherington@bdo.co.uk

Tel: 0207 893 2767

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

Audit Senior - Lucy Ballard

email: lucy.ballard@bdo.co.uk

Tel: 0207 893 2767

Sam will lead the on-site work for the interim and final accounts audits.

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 Robert Grant in the first instance. Alternatively, you may wish to contact our Managing Partner, Simon Michaels. 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 Audit Commission's complaints handling procedure is detailed in their leaflet "How to complain: What to do if you want to complain about the Audit Commission or its appointed auditors", which is available on their website <http://www.audit-commission.gov.uk/about-us/contact-us/complaints>

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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