



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 **Yarrow Room, Lewes Town Hall, High Street, Lewes** on **Monday, 28 September 2015** at **10:00** which you are requested to attend.

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

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

05/10/2015

Catherine Knight
Assistant Director - Corporate Services

Agenda

- 1 Minutes**
To confirm and sign the Minutes of the Meeting dated 22 June 2015 (copy previously circulated).
- 2 Apologies for Absence**
- 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 from Councillors**

To deal with written questions which councillors may wish to put to the Chair of the Council, a Lead Councillor on the Cabinet or the Chair of any committee or sub-committee in accordance with Council Procedure Rule 11 (if any).

- 6 Interim Report on the Council's Systems of Internal Control 2014/15 (page 4)**
To receive the Report of the Head of Audit, Fraud and Procurement (Report no 125/115 herewith)
- 7 Annual Governance Statement 2015 (page 17)**
To consider the Report of the Head of Audit, Fraud and Procurement (Report no 126/115 herewith)
- 8 Internal Audit Benchmarking 2014/15 (page 29)**
To receive the Report of the Head of Audit, Fraud and Procurement (Report no 127/115 herewith)
- 9 Annual Report of the Council's work to combat Fraud and Corruption 2014/15 (page 34)**
To receive the Report of the Head of Audit, Fraud and Procurement (report no 128/115 herewith)
- 10 Treasury Management (page 40)**
To receive the Report of the Director of Corporate Services (Report no 129/115 herewith)
- 11 Statement of Accounts 2014/15 (page 46)**
To consider the Report of the Director of Corporate Services (Report no 130/115 herewith)
- 12 Date of Next Meeting**
To note that the next meeting of the Audit and Standards Committee is scheduled to be held on 30 November 2015, in the Telscombe Room, Southover House, Southover Road, Lewes commencing at 10am

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

Distribution: Councillors M Chartier (Chair), N Enever, I Linington, A Loraine, R Robertson, B Giles, A Rowell

(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 or Ruby Brittle, at michaela.frost@lewes.gov.uk or ruby.brittle@lewes.gov.uk)

Agenda Item No: 6 **Report No:** 125/115

Report Title: Interim Report on the Council's Systems of Internal Control 2015/16

Report To: Audit and Standards Committee **Date:** 28 September 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

E-mail: David.Heath@lewes.gov.uk

Tel no: 01273 484157

Purpose of Report:

To inform Councillors on the adequacy and effectiveness of the Council's systems of internal control during the first five months of 2015/16, 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 five months of 2015/16 (as shown in Section 3).
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Reasons for Recommendations

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

Information

2 Background

- 2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) has, with the other governing bodies that set auditing standards for the various parts of the public sector, adopted a common set of Public Sector Internal Audit Standards (PSIAS) that apply from 1 April 2013. The 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 2014/15 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 five 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 2015/16

4.1 This section of the report summarises the work undertaken by Internal Audit during the first five months of the year, compared to the annual plan that was presented to the Audit and Standards Committee in March 2015. 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 278 audit days have been undertaken compared to 275 planned. The variance of three days is not significant at this stage.

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

Audit Area	Actual audit days for the year 2014/15	Plan audit days for the year 2015/16	Actual audit days to date	Pro rata plan audit days to date
Main Systems	336	285	158	
Central Systems	25	50	16	
Departmental Systems	79	105	47	
Performance and Management Scrutiny	39	45	14	
Computer Audit	28	55	1	
Management Responsibilities/Unplanned Audits	176	127	42	
Total	683	667	278	275

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.

4.3 From 1 January 2016, the Principal Audit Manager (PAM) will be taking flexible retirement. This will mean that his working days per week will reduce from five to three, resulting in a reduction of 20 planned audit days in the period up to the end of March 2016. The full year effect will be a reduction of 81 planned audit days in 2016/17. Discussions have been held with the Internal Audit Manager at Eastbourne BC who has agreed to work for the Council for the equivalent of one day per week, with the time spent on specific audit projects. HAFP and PAM will put in place revised oversight arrangements to ensure that there will be minimal impact from the reductions in Audit Manager days. This joint working will deliver

progress on shared services between the two councils, and will generate a saving of approximately £8,400 per annum.

- 4.4 Main Systems:** The testing of the major financial systems has been completed. The results provide 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 2014/15. A final report has been issued.
- 4.5** The summary report on the work to test the Council's subsidy claims for Benefits for 2013/14 has been finally issued. The priority work to test the Council's subsidy claims for Benefits for 2014/15 has been underway since late June 2015. Initial results have been passed to BDO for evaluation, and the need for additional testing in some areas has been identified.
- 4.6 Central Systems:** Final reports have been issued for the audits of Ethics and Building Control. The audit of Health and Safety from the 2014/15 programme is at the draft report stage, and the audit of Insurance is at the draft report stage.
- 4.7 Departmental Systems:** The initial work on the audit of Housing Management from the 2014/15 programme is completed, and feedback has been given to service managers; the second part of the audit will take place when Scheme Manager vacancies have been filled permanently. The final report from the audit of Trade Waste has been issued.
- 4.8 Performance and Management Scrutiny:** As part of planned work on Programme Nexus, the PAM was part of the officer group that has been evaluating the tenders for the systems comprising the New Service Delivery Model (NSDM). HAFP has been regularly involved as a member of the procurement team for the project.
- 4.9 Computer Audit:** Internal Audit completed the IT aspects of the testing of the main financial systems.
- 4.10 Management Responsibilities/Unplanned Audits:** This category provides resources for activities such as support for the Audit and Standards Committee, managing the Fraud Investigation Team, liaison with BDO, managing the Follow Up procedures, as well as for special projects or investigations.
- 4.11** Internal Audit has been coordinating the Council's response to the 2014/15 NFI data matching exercise. The base data was forwarded to the Audit Commission in October 2014 and the first reported matches for LDC were received on 29 January 2015. Further matches have been received, and there are now 1,568 matches detailed across 56 reports. Each report sets out different types of potential frauds among HB claimants, housing tenants, and anyone receiving payments or discounts from the Council. Council departments have nominated officers to investigate matches in their service area, and their initial work has been to analyse and assess the matches to weed out those that are the result of error, coincidence or entirely proper activity - 670 matches have been actioned, the majority related to payment procedures, with no instances of fraud so far identified. Any suspected cases of fraud would be passed to the Fraud Investigation Team.
- 4.12** Internal Audit and the Fraud Investigation Team have been working with departments to examine the controls over the Right to Buy (RTB) procedures, with the aim of improving the safeguarding of the RTB process to prevent possible RTB fraud. This is

unplanned work arising from guidance on a range of RTB frauds that have occurred in other authorities.

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 2015/16 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 2015 meeting of the Committee.

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

- 6.1** The results of the Internal Audit quality reviews, customer satisfaction surveys and PIs for 2015/16 were reported to the June 2015 meeting of the Audit and Standards Committee. The results enabled the HAFP 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 form the framework for the reporting on Internal Audit Benchmarking, and the results for 2014/15 are reported separately to this meeting of the Committee.

7 Combatting Fraud and Corruption

Annual Report on the Council's work to combat Fraud and Corruption 2014/15

- 7.1** The Annual Report on the Council's work to combat Fraud and Corruption 2014/15 is presented separately to this meeting of the Committee. Some of the issues outlined below are also covered in the Annual Report.
- 7.2** It should be noted that the reported statistics on fraud cases for 2014/15 and 2015/16 overlap in some areas because cases that began in the first year have been completed or closed in the second year.

Local developments

- 7.3** There had been some uncertainty over the future of the Benefit Fraud Investigation Team. CMT agreed a business case for the Investigation Team to work as part of Internal Audit from 1 November 2014 and from that date the team has been working on the prevention and detection of fraud across additional areas of Council services including tenancy fraud and business rates (NDR) fraud. Each interim report to the Committee contains a summary of the team's work (see 7.7 -7.9).
- 7.4** The Investigation Team will maintain its memberships of the East Sussex Fraud Officers Group (ESFOG) and the Sussex Tenancy Fraud Forum (TFF), bodies that enable information sharing and joint initiatives with neighbouring authorities on a wide range of counter fraud work.
- 7.5** A sub group of six authorities within ESFOG, including LDC, is developing a 'Hub' approach to coordinating new anti-fraud initiatives across East Sussex and Brighton. The Hub is managed by officers at Eastbourne BC with input from

ESFOG partners, and the initial stages have seen a programme of standardised training and planning, and trials of case management systems.

- 7.6** Work on cases in the separate Hub authorities will continue to take priority, but increasingly activities are being coordinated to help in the development of joint approaches to common issues. For example, LDC has been leading on aspects of tenancy fraud; Eastbourne BC is leading on Right to Buy (RTB) fraud; LDC is developing the approach to business rate fraud on industrial estates, and Eastbourne BC is leading on business rates in the charity sector. Successful developments are shared with Hub partners via ESFOG.

LDC Investigation Team

- 7.7** During 2015/16, the team's work on countering tenancy fraud has focused on developing the case referral arrangements with officers in Housing Services, advising on controls over housing applications, and investigating the reported cases of suspected fraud. Six suspected cases of tenancy fraud are currently being investigated. One abandoned property has been returned to the housing stock as a result of successful investigations. One further case of abandonment was proven but the tenant declared an intention to return and was allowed to keep the property. Dealing fully with cases of property abandonment is a key part of the work to return unused properties to the housing stock, although abandonment is not strictly fraud under the Prevention of Social Housing Fraud Act 2013.
- 7.8** Internal Audit has in place an agreement with DWP for the management of cases of HB fraud. The team works with local DWP officers to help ensure efficient operation of the processes covered by the agreement. The major work on each HB 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 69 HB cases have been passed to SFIS since April 2015, and 36 information requests have been actioned. This liaison work with DWP/SFIS currently takes up, on average, 20 – 25% of the team's time, and therefore HB cases have continued to represent a significant activity for the team.
- 7.9** LDC retains responsibility for dealing with the cases of suspected CT Reduction Scheme (CTRS) fraud that are often linked to HB cases, and administering the penalties for CTRS cases that are not subject to prosecution. There are currently 49 cases of suspected CTRS fraud under review, with seven cases having been proven and penalties administered.
- 7.10** NDR fraud is the current priority area for the team and, in early June 2015, the team attended training on counter fraud work for NDR in an exercise organised by the Hub. The team has been working with LDC officers in the Revenues team to set up a method to target areas of possible non-payment of business rates. Visits to an industrial estate in Lewes District have identified nine business premises not recorded on NDR and therefore not paying business rates – the results have been passed to the local team of the Valuation Office Agency (VOA) for assessment. Further visits to other industrial estates are scheduled.

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 including £596,000 in 2014/15. The savings target for 2015/16 is £561,000, and will mainly derive from the structural changes in the Organisational Development programme and from the introduction of a 2% vacancy savings target. In delivering these savings, a budget will be retained to cover future changes in the back office service arrangements and to enhance the joint working initiative with Eastbourne Borough Council which will then deliver further savings in future years.
- 8.4** The system of management assurance (see Section 9) has confirmed the operation of controls and the absence of significant control issues during the period of the savings programme so far. HAFP will monitor the impact on the control environment of the Council's restructuring, and will liaise with managers who are working to ensure that the control environment keeps pace with these changes. This comment is reflected in the Annual Governance Statement (AGS) that is presented separately to this meeting of the Committee (see Section 10).
- 8.5** The Annual Report on Risk Management was presented to Cabinet at its March 2015 meeting. This report confirmed the strategic risks identified by CMT and the action plan for risk management for the year ahead.

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 2014/15. 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 2014/15 and there has been nothing in the first five months of the financial year to change these assessments.

10 Corporate governance

- 10.1** In January 2015, 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 2014/15 is reported separately to this meeting of the Committee.

11 External assurance

11.1 The Government relies on external auditors to periodically review the work of the Council to make sure it is meeting its statutory obligations and performing well in its services. The results of these external reviews have helped inform the opinion on the internal control environment. The recent results are summarised below.

11.2 Annual Audit Letter for 2013/14 (October 2014) – This report summarises the key issues from the work carried out by BDO during the year, and was presented to the December 2014 meeting of the Committee. The key issues were:

- 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.

11.3 Grant Claims and Returns Certification for year ended 31 March 2014 (March 2015). The report was presented to the March 2015 meeting of the Committee. The key points were:

- The audit found errors in the administration of benefits involving non-HRA rent rebates, HRA rent rebates and rent allowances. The Council had already recognised the issues in the administration of benefits, and a review of the management and control structures was carried out in the summer of 2014. The Council believes that the results for the second half of 2014/15 will show material improvements from those that were the subject of the BDO report.
- The 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 will work with BDO to identify and put in place systems and processes that alleviate the weaknesses identified.
- As a result of the errors found in administering benefits, BDO qualified the claim across all benefit expenditure types. The additional work required to be completed by the Council and BDO meant that the audited claim was submitted to DWP two months after the deadline date.
- BDO and the Council will agree a timetable for completing the work on the next subsidy claim to assist both parties in planning and completing the audit on a timely basis.
- The certification of the returns for the Pooling of Housing Capital Receipts was completed satisfactorily, and the claim was submitted as unqualified and without amendment.

12 Financial Appraisal

12.1 There are no additional financial implications from this report.

13 Sustainability Implications

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

[Strategic Audit Plan 2015 to 2018](#)

18 Appendices

18.1 Appendix A: Statement of Internal Audit work and key issues.

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

APPENDIX A

Statement of Internal Audit work and key issues

Audit report: Benefit Subsidy Claim 2013/14

Date of final issue: 24 August 2015

Main points:

Internal Audit carried out the annual testing of the Benefits subsidy claim for 2013/14. This testing was undertaken in liaison with the external auditors BDO, who were working on behalf of the Audit Commission and the Department of Work and Pensions (DWP).

The overall value of the subsidy claim for 2013/14 was approximately £35.6 million (2012/13 – £43.1 million), across more than 7,700 individual claims (2012/13 - 17,400). The decrease is as a result of approximately 9,800 Council Tax Benefit cases being included in the previous year's subsidy claim, and which are no longer part of the claim as they are now within the local Council Tax Reduction Scheme (CTRS).

The testing was conducted in accordance with BDO instructions, using workbooks supplied by the Audit Commission, and was subject to compliance checks by BDO staff. Managers in Revenues and Benefits examined the cases highlighted by the testing, described the handling of each case and provided answers to Internal Audit queries. This report summarises the outcome of the joint Internal Audit/BDO exercise to verify the HB subsidy claim. The report contains no recommendations.

Initial testing and review

The Internal Audit testing work on the 2013/14 HB subsidy claim was planned and scheduled in accordance with the previous arrangements agreed with BDO managers. The initial testing of 60 individual claims highlighted a number of errors in administering benefit and calculating subsidy entitlement. The issues mainly involved the incorrect recording of information such as the claimant's income, type and size of property, composition of household, and classification of overpayments. Where errors cannot be considered isolated, the Audit Commission requires that additional samples of 40 cases are selected and reviewed for similar error attributes.

During the planning of this additional work the BDO manager left the company, and another BDO manager was assigned to complete the audit of the subsidy claim. This break in continuity, plus the range of claim errors and issues that needed to be examined, delayed the testing programme. In order to ensure a satisfactory outcome to the exercise, Internal Audit agreed to all requests for the additional testing required to assess the impact of the errors noted.

During the period October 2014 to January 2015, Internal Audit and BDO reviewed a total of 377 benefit cases (including the initial sample of 60 cases). This significant extra testing, and the detailed review of the test results by BDO staff, delayed completion of the audit and submission of the claim. BDO submitted the audited claim, qualified across all benefit subsidy expenditure types, on 11 February 2015.

Reported results and subsequent actions

In its report to the Audit and Standards Committee on 16 March 2015, BDO recommended that the Council should review the processes for administering benefits to ensure that accuracy of recorded data. The Council's response was that it had already recognised the issues in the administration of HB in 2013/14 and early 2014/15, and had carried out a review of the management and control structures in the summer of 2014. The results were significant changes in the management arrangements in Revenues and Benefits in August 2014. No further action was proposed.

In response to the BDO comments in respect of uncashed payments, the Council agreed to work with BDO in a review its processes for identifying and accounting these transactions. Internal Audit can confirm that the Council has adopted the processes recommended by BDO for the preparation of the subsidy claim for 2014/15.

To assist in improving the timeliness of completing its work, BDO proposed that it would agree a timetable for the subsidy claim audit at least two months in advance of starting the work. Internal Audit and the BDO manager met on 15 June 2015 to agree an outline timetable and review the joint working methods. In accordance with the agreed approach, Internal Audit began its work on the 2014/15 subsidy claim on 16 June 2015.

Final outcomes

The Department of Work and Pensions (DWP) considered the audited claim for 2013/14 and the associated letter of qualification. On 19 May 2015, DWP advised that the claim was acceptable to the Department, with no outstanding issues and, at £35,597,523, included a small adjustment of £7,407 in the Council's favour.

Audit report: Key Financial Systems 2014/15

Date of final issue: 27 August 2015

Overall opinion:

The audit has confirmed that procedures and controls within the Council's key financial systems are operating to a reasonable standard in most respects. The audit has not identified any significant control issues that will have an impact on the Council's main accounts. In a small number of cases the controls over ordering and the receiving of goods and services have not operated as intended, or are not operated consistently across the Council. Similarly, the Council's rules covering the authorisation of payroll transactions and the reimbursement of the costs of official travel have not been applied in all cases.

These issues reflect a situation in which lists of authorised signatories and the operation of other controls appear unable to keep pace with changes in staffing and officers' responsibilities. These issues are not considered likely to have a material effect on the integrity of the main accounts, but the issues should be addressed either by the correct operation of the planned controls or by the operation of other

compensatory controls that are put in place.

This review, which supplements the other work of Internal Audit, enables the Head of Audit, Fraud and Procurement to form an opinion on the Council's control environment for the purposes of the Annual Governance Statement (AGS). BDO uses the results of this review to gain assurance about the systems operated by the Council and the effectiveness of the controls that are applied.

Audit report: Trade Waste

Date of final issue: 7 September 2015

Overall opinion

From the audit work carried out during this review Internal Audit has obtained partial assurance that there is a sound system of internal control covering trade waste. Controls are in place and to an extent there is reasonable compliance. For example, regular collections of Trade Waste are made from almost 800 customers and the service earned a net surplus of over £200,000 in 2014/15. The charges set achieve a reasonable financial return, and service debtors are effectively followed up. However, there are gaps in the control processes which weaken the system. These control issues are not necessarily significant at the moment, but they need to be addressed in order to provide the right conditions to enable the Council to grow the Trade Waste business in future.

Main points:

Duty of care in the transfer of waste

The Council is collecting waste from a large proportion of its Trade Waste customers without there being a valid Waste Transfer Note (WTN) in place. This is in contravention of the Council's duty of care under the Environmental Protection Act 1990. The likelihood of the Environment Agency taking action against the Council is slight, unless there were to be an accident or incident involving waste from a customer for which there is no valid WTN. It will be necessary to have in place effective procedures for the issue and follow up of WTNs ahead of the Council seeking to grow the business into other sectors.

Customer records and charges

Currently, there is not an integrated system for managing the service records and accounts for Trade Waste customers. The present arrangements are based on separate systems in Waste and Recycling and Finance and, in the absence of adequate reconciliation checks, these systems do not currently show the same number of customers for the Trade Waste service. It is not possible to consider new IT applications ahead of the decision on the major New Service Delivery Model (NSDM). Therefore, it will be necessary to devise an interim solution to the issues noted.

Performance reporting and monitoring

Internal Audit has been unable to identify performance monitoring in respect of the Trade Waste service. Also, current and proposed financial reporting arrangements do not/will not provide a detailed analysis of Trade Waste income and expenditure that can be used to monitor financial performance on a regular basis. Internal Audit

believes that it will be difficult to make judgements about the future direction, scope and structure of the service without detailed information of this kind.

Marketing of the Trade Waste service

Currently there is no active marketing of the Trade Waste service, and the service collects waste from less than 25% of the registered businesses in the District. The Council has identified the growth potential of the service, and consideration is being given to the viability of possible commercial operations in this sector. In the interim, there would appear to be scope to grow the Trade Waste service within the District if that can be done efficiently and economically, and without adversely affecting the future plans for commercial operations.

Recycling of Trade Waste

Currently, the Trade Waste service receives no financial benefit from the sales of the recyclates that it collects. If the Trade Waste service is planned to grow, and perhaps move into the collection of other recyclates (eg glass), then consideration needs to be given to the service receiving some financial credit for the sales.

Market comparisons

Given the very competitive nature of the Commercial Trade Waste business, and the Council's desire to grow the business, it is important that pricing decisions take account of the charges levied by the Council's major competitors.

Agenda Item No: 7 **Report No:** 126/115
Report Title: Annual Governance Statement 2015
Report To: Audit and Standards Committee **Date:** 28 September 2015
Ward(s) Affected: All
Report By: Head of Audit, Fraud and Procurement
Contact Officer(s): David Heath
Head of Audit, Fraud and Procurement
David.Heath@lewes.gov.uk
01273 484157

Purpose of Report:

To seek Councillors' approval of the draft Annual Governance Statement 2015

Officer's Recommendation(s):

- 1 To approve the draft Annual Governance Statement 2015 (shown at Appendix A).
-

Reasons for Recommendations

- 1 To meet the Council's legal requirement to produce an Annual Governance Statement.

Information

2 Background

- 2.1** Lewes District Council is required to prepare an Annual Governance Statement (AGS) each year in accordance with the statutory requirement set out in the Accounts and Audit Regulations, the most recent reference being regulation 4(3) of the Accounts and Audit Regulations 2011. The AGS covers the whole control framework of the Council rather than those controls which simply have a financial aspect.
- 2.2** The Chartered Institute of Public Finance and Accountancy/Society of Local Authority Chief Executives (CIPFA/SOLACE) in their report, Delivering Good Governance in Local Government (2007), issued guidance on the form and content of the AGS. This guidance has been followed in compiling the statement.
- 2.3** The AGS is presented to this meeting as CIPFA best practice recommends that it should be approved at the same time as the Statement of Accounts. The Accounts and Audit Regulations require that

the AGS is included with the Statement of Accounts. Accordingly the AGS is inserted after the Independent Auditor's report at the end of the Statement of Accounts.

3 Form and content of the Annual Governance Statement

3.1 The CIPFA/SOLACE framework recommends that the following information be included:

- **Scope of responsibility:** An acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating the system of internal control).
- **The purpose of the governance framework:** An indication of the level of assurance that the systems and processes that comprise the authority's governance arrangements can provide.
- **The governance framework:** A brief description of the key elements of the governance framework including reference to group activities where those activities are significant.
- **The review of effectiveness:** A brief description of the process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements including some comment on the role of:
 - (i) the Authority
 - (ii) the Executive (the Cabinet)
 - (iii) the Audit and Standards Committee/Scrutiny Committee/risk function
 - (iv) Internal Audit
 - (v) other explicit review/assurance mechanisms
- **Significant governance issues:** An outline of the actions taken or proposed to deal with significant governance issues, including an agreed action plan.

4 Assurance and the Annual Governance Statement

4.1 Best practice recommends that a system of management assurance is in place to underpin the AGS. The Council's assurance framework was adopted in 2006 and is subject to regular review by the Head of Audit, Fraud and Procurement, most recently in May 2015. With reference to the assurance framework the Director of Corporate Services, Assistant Director of Corporate Services and the Head of Audit, Fraud and Procurement draft the AGS. The AGS is then approved by the Audit and Standards Committee at the same time as the Statement of Accounts, and is then signed off by the Leader of the Council and Chief Executive.

4.2 The Code of Practice on Local Authority Accounting 2012/13 requires that a specific statement is included in AGS on whether or not the

Council's financial arrangements conform with the CIPFA requirements for the Role of the Chief Financial Officer in Local Government (2010).

5 Financial Appraisal

5.1 There are no additional financial implications arising from this report.

6 Legal Implications

6.1 None other than those identified in the body of the report.

7 Risk Management Implications

7.1 Failure to produce an AGS and maintain proper assurance arrangements to support its production can reduce the likelihood of the Council meeting its objectives and attract criticism from the Council's stakeholders and the Council's external auditor. The Audit and Standards Committee review of the AGS significantly reduces these risks.

8 Sustainability Implications

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

9 Equality Screening

9.1 I have given due regard to equalities issues and, as this is an internal monitoring report, screening for equalities is not required.

10 Background Papers

10.1 Lewes District Council Local Code of Corporate Governance (Updated December 2014) <http://www.lewes.gov.uk/council/3748.asp>

11 Appendices

11.1 Appendix A: Draft Annual Governance Statement 2015.

DRAFT ANNUAL GOVERNANCE STATEMENT 2015

Scope of responsibility

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions which includes arrangements for the management of risk.

The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the Chartered Institute of Public Finance/Society of Local Authority Chief Executives (CIPFA/SOLACE) Framework, Delivering Good Governance in Local Government. A copy of the Code is on our website at <http://www.lewes.gov.uk/council/3748.asp> or can be obtained from the Head of Audit, Fraud and Procurement, Southover House, Southover Road, Lewes, East Sussex BN7 1AB. This Annual Governance Statement explains how the Council has complied with the Code and also meets the requirements of regulation 4(3) of the Accounts and Audit Regulations 2011.

The purpose of the Governance Framework

The Governance Framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled, and the activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Governance Framework has been in place at the Council for the year ended 31 March 2015 and up to the date of approval of the Statement of Accounts.

THE GOVERNANCE FRAMEWORK

The key elements of the systems and processes that comprise the Council's governance arrangements are described below.

The Council sets out its vision, priorities, projects and planned performance in the Council Plan. Underpinning this is a number of key strategies, programmes, service delivery and project plans which provide detailed commitments in terms of the Council's services and activities. The Medium Term Finance Strategy looks ahead five years and sets out how the Council aims to balance its resources to meet statutory responsibilities and national and local priorities.

The Council Plan is approved each year by Cabinet and Full Council. The Council's Governance Framework is drawn together in the local Code of Corporate Governance which meets national standards.

Following organisational changes in 2014/15, the Council has reviewed its Performance Management Framework to reflect new business planning and performance management arrangements. Performance and project management is supported by the corporate software system (Covalent). The Council has a Data Quality Policy and Strategy aimed at ensuring performance information and other data is valid, accurate, complete, timely and relevant. Progress and performance information is reported to Corporate Management Team, Scrutiny Committee, and Cabinet each quarter. In addition, during 2014/15, new monthly service level performance monitoring arrangements were introduced. Progress on key transformation projects (which form part of the Nexus Programme) is closely monitored by the Nexus Board. The quality of services is reviewed through regular consultation with, and feedback from, service users in the form of survey research, comments and complaints.

The Council's Constitution establishes clear arrangements for decision making and the delegation of powers to Councillors and officers. It defines and documents the roles and responsibilities of the Council, Cabinet and Committees (including the Audit and Standards Committee and the Scrutiny Committee) as well as the roles and responsibilities of Councillors and senior officers. The Council has adopted the Leader and Cabinet Model in accordance with the Local Government Act 2000 as amended by the Localism Act 2011. The Council's Scrutiny Committee oversees the independent review of performance and decisions of Cabinet and other activities and functions of the Council. This is achieved through its regular meetings, appointed Scrutiny Panels and the Call In procedure.

Communication between Councillors and officers is governed by the Protocol on Member/Officer Relations which was updated at the July 2015 meeting of Full Council. There is also a Councillor Protocol for Procurement.

The Audit and Standards Committee role includes promoting and maintaining high standards of conduct of Councillors. In July 2012 the Council revised its Code of Conduct for Councillors and the procedures for dealing with complaints about the conduct of Councillors in accordance with the provisions contained in the Localism Act 2011.

Standards of behaviour and conduct of Councillors and officers are governed by Member and Officer Codes of Conduct, the Anti-Fraud and Corruption Strategy, Whistle Blowing Policy, Anti Bribery Policy, Disciplinary and Grievance procedures and the Dignity at Work Policy. A Core Values and Behaviours Statement was agreed in April 2013, following extensive consultation with staff. These guidance documents and procedures are the subject of training/awareness raising for staff

and Councillors and are made available via the Council's intranet. The Council adopted a Competency Framework in January 2014 and is now part of the performance management and appraisal systems.

The Council has an established framework for financial governance based on Contract and Financial Procedure Rules, with sound budgeting systems, clear budget guidance for managers and regular reporting of financial performance to Councillors and officers.

The Council's risk management framework is outlined in its Risk Management Strategy, and it is fully established and embedded within the Council. There are robust systems for identifying and evaluating risk in the decision making and service planning processes. Strategic risks are updated and reported to Cabinet annually and operational risks are reviewed as part of service planning. Key staff are trained in the assessment, management and monitoring of risk. Risk assessment and management is an integral part of key Council projects.

As part of its Corporate Governance arrangements the Council has established an Audit and Standards Committee that is responsible, amongst other things, for keeping under review the probity and effectiveness of internal controls and the effectiveness of management arrangements to ensure legal and regulatory compliance. The Committee conforms to the best practice identified in CIPFA's "Audit Committees – Practical Guidance for Local Authorities", and reports to the Cabinet on the effectiveness of internal controls within the Council.

The Council has a documented Assurance Framework that sets out the sources of assurance within the Council's governance environment and provides the evidence to support the Annual Governance Statement.

The Council has an Internal Audit Section that is an independent, objective assurance and consulting function. It helps the Council achieve its objectives by bringing a systematic and disciplined approach to evaluating the effectiveness of risk management, control and governance processes. The Section operates in accordance with the auditing guidelines in the Public Sector Internal Auditing Standards (PSIAS), which were approved for use at the Council by the March 2013 meeting of the Audit and Standards Committee. The Head of Audit, Fraud and Procurement undertakes an annual review of the Internal Audit function against these standards.

The Council has a strong counter fraud culture that is supported by Councillors and officers. The Fraud Investigations Team works closely with officers in other departments to prevent, detect and investigate fraud, particularly in the areas of housing tenancy fraud, Council Tax fraud and business rate fraud. The outcome of this work informs the opinion on the internal control environment. The Council works closely with the national Single Fraud Investigation Service (SFIS) in the DWP to ensure an effective response to cases of Benefit fraud.

The Council's Constitution sets out the roles of the Monitoring Officer and Chief Finance Officer (Section 151) - at Lewes District Council these roles are fulfilled by the Assistant Director of Corporate Services and the Director of Corporate Services respectively. These roles include responsibility for ensuring that agreed procedures

are followed and that applicable statutes, regulations and relevant statements of good practice are complied with.

The Council has a corporate complaints procedure with supporting systems to record, monitor, investigate and report complaints. Information on complaints is monitored by service managers and high level information is reported to Cabinet through the quarterly performance report.

A Councillors' induction programme takes place every four years after a District Council Election. Individual Councillors' training needs are reviewed annually and specialist training on specific areas of activity are organised by officers as required e.g. IT, planning and scrutiny matters. Each year all Council committees are invited to identify training needs/issues arising from their work programme. Training needs for each member of staff are assessed as part of the annual appraisal process.

The Council has a variety of communication channels with local residents and other stakeholders. In addition the Council actively engages with different sections of the community through focus groups, user groups, partnership meetings and networks. The Council's Consultation and Communication strategies set out the approach and specific consultations are planned and agreed in an annual programme.

The Council has put in place guidance for partnership working and has identified a small number of strategic partnerships which require more robust governance arrangements, including an annual review by lead officers. Good governance in partnerships is also reflected in the Council's Local Code of Corporate Governance.

The Council has a Project Management Framework that contains a set of principles and procedures for the planning, control and delivery of projects. The Council has developed a set of clear and consistent project documents and associated tools which have been the subject of consultation and training amongst senior officers.

The Council has a Business Continuity Plan (BCP), and will continue to develop its processes and safeguards in this area.

Review of effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of senior officers within the Council who have responsibility for the governance environment, the annual report of the Head of Audit, Fraud and Procurement, and also the work of external auditors and other review agencies and inspectorates as outlined below.

The Head of Audit, Fraud and Procurement reports regularly to the Audit and Standards Committee on the work of Internal Audit, on governance and internal control, and provides an annual report on the systems of internal control which includes an opinion on the internal control environment. For 2014/15, the overall standards of internal control were satisfactory. Whilst recommendations have been made to improve management controls, there were no instances in which internal control issues created significant risks for the Council. This was reported to Cabinet at its September 2015 meeting.

In March 2008 the Audit Committee approved the local Code of Corporate Governance. The local Code is reviewed annually by the Head of Audit, Fraud and Procurement and senior officers taking into account the requirements of the CIPFA/SOLACE Framework, Delivering Good Governance in Local Government. The Code was reviewed in December 2014 and it was concluded that the Council continues to have satisfactory arrangements in place for corporate governance. The Code will next be reviewed in December 2015.

The Council has undergone some significant organisational change during 2014/15. It has embarked on a Transformation Programme which will see a number of far reaching developments. This programme has brought about changes in organisational structures, staffing and the way services are delivered. It is overseen by Corporate Management Team and Councillors. Managers are working to ensure that the control environment keeps pace with these changes.

The year end Performance Report for 2014/15 was considered by both the Scrutiny Committee and Cabinet in June 2015 providing a high level summary of progress and performance. The Council's Strategic Plan and service priorities for 2014/15 were determined as part of a review of portfolio responsibility following the Annual Council Meeting in May 2014. These were communicated via the website and internally through LDC News, the Corporate Briefing and Infolink. The newly established Business Strategy and Performance Team is responsible for overseeing the Council's business planning, project management and performance management arrangements to ensure efficient and effective delivery of the Transformation Programme and improvement targets over the short to medium term.

Cabinet received the Annual Report on Risk Management at its March 2015 meeting. The Audit and Standards Committee receives updates on risk management at every meeting. The reports during 2014/15 noted that most risks are mitigated by the effective operation of controls or other measures. Whilst there are some risks that are outside the Council's control, such as a major incident, flu pandemic, a downturn in the national economy or a major change in government policy or legislation, the Council has sound planning and response measures to mitigate the impact of such events and continues to monitor risks and the effectiveness of controls.

The Scrutiny Committee has met eight times since April 2014. At its January 2015 meeting it received the 2015/16 Revenue Budgets and Capital Programme so that it could make recommendations to Cabinet with regard to the budget setting process. Cabinet considered these recommendations at its February 2015 meeting.

In May 2015 there was a District Election and a subsequent new intake of Councillors. Full induction training was provided in June 2015. Officers tailored the training to pick up issues that had arisen in the previous municipal year. Training sessions were held at different times so that all Councillors would be able to attend.

The Council's Business Continuity Plan (BCP) was updated in September 2014. There is a risk that a loss of IT services would mean that the priorities for restoration of services that are set out in the BCP may not be achieved in all circumstances. This risk is partially mitigated through preventative measures, and more effective mitigation is gradually being put in place with the significant upgrading of the

Council's IT infrastructure and with the introduction of IT shared services with Eastbourne Borough Council.

As part of the Council's internal assurance framework the Council's Corporate Management Team have confirmed the proper operation of internal controls including compliance with the Constitution in those service areas for which they are responsible. In addition they have confirmed that there are no cases reported under the Council's Whistleblowing Policy. A joint annual statement by the Monitoring Officer and Chief Finance Officer (Section 151) has confirmed that there were no significant governance issues for the Council in 2014/15.

Under the Code of Practice for Local Authority Accounting 2012/13 the Council is required to confirm that its financial management arrangements conform with governance requirements of the CIPFA Statement on the Role of the Chief Finance Officer (2010). The Council's arrangements conform with the requirements of the Statement and this has been confirmed by the Director of Corporate Services (Section 151).

In the first half of 2014/15, the Fraud Investigations Team dealt with cases of Benefits fraud until that role was transferred to DWP/SFIS. Since November 2014, the Team has successfully investigated cases of housing tenancy and Council Tax fraud, and has identified for action a number of premises that are not paying the correct business rates. Summaries of the cases investigated and the outcomes were included in the Annual Report on the Council's work to combat Fraud and Corruption for 2014/15, which was presented to the Audit and Standards Committee in September 2015.

There have been no cases where the Audit and Standards Committee has found a District Councillor to be in breach of the Council's Code of Conduct.

During April 2014, the Chief Executive commissioned an independent investigation by the then Head of Audit and Performance. The aim of the investigation was to determine whether in the course of one particular property project officers and Councillors had acted in accordance with their roles and responsibilities as set out in the Council's Constitution. As reported to the Audit and Standards Committee at its December 2014 meeting the investigation found no breaches of the Council's Code of Conduct by Councillors. However, the investigation highlighted the need for both Councillors and officers to clearly understand how development proposals of this type should be handled and how relationships with developers should be managed. The programme of major regeneration projects which is underway has required Councillors and officers to work in ways not previously envisaged, and the report identified that further guidance and training was required to address this. Such guidance and training has since been provided.

A review of the Council's strategic partnerships was undertaken and the results of this work were reported to the Audit and Standards Committee in June 2013. In February 2015 Cabinet agreed service level agreements (SLA's) for three strategic partnerships with voluntary and community associations. These have enhanced monitoring and governance arrangements of these partnerships to which the Council has awarded funding. The guidance for partnership working is also subject to review to take account of the changing nature of the partnerships that the Council is involved in and is due to be completed by the end of 2015.

Customer complaints and compliments continue to be monitored as part of monthly performance monitoring and management arrangements for the Service Delivery Directorate.

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 reviews by the Council's external auditor, BDO, have helped inform the opinion on the internal control environment. The recent results are summarised below.

Annual Audit Letter for 2013/14 (October 2014) – This report summarises the key issues from the work carried out by BDO during the year, and was presented to the December 2014 meeting of the Committee. The key issues were:

- 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.

1.1 Grant Claims and Returns Certification for year ended 31 March 2014 (March 2015). The report was presented to the March 2015 meeting of the Committee. The key points were:

- The audit found errors in the administration of benefits involving non-HRA rent rebates, HRA rent rebates and rent allowances. The Council had already recognised the issues in the administration of benefits, and a review of the management and control structures was carried out in the summer of 2014. The Council believes that the results for the second half of 2014/15 will show material improvements from those that were the subject of the BDO report.
- The 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 will work with BDO to identify and put in place systems and processes that alleviate the weaknesses identified.
- As a result of the errors found in administering benefits, BDO qualified the claim across all benefit expenditure types. The additional work required to be completed by the Council and BDO meant that the audited claim was submitted to DWP two months after the deadline date.
- BDO and the Council will agree a timetable for completing the work on the next subsidy claim to assist both parties in planning and completing the audit on a timely basis.
- The certification of the returns for the Pooling of Housing Capital Receipts was completed satisfactorily, and the claim was submitted as unqualified and without amendment.

Audit Plan 2014/15 (March 2015) – The letter set out the scope of the audit work for the review of the financial year 2014/15, the fees, a risk assessment and key outputs. This was presented to the Audit and Standards Committee at its March 2015 meeting.

Significant governance issues

We have been advised by the Audit and Standards Committee on the implications of the result of the review of the effectiveness of the Governance Framework.

There are no significant governance issues to report for the year ended 31 March 2015 and up to the date of approval of the Statement of Accounts.

Councillor Rob Blackman,
Leader of the Council.

Jenny Rowlands,
Chief Executive.

Agenda Item No: 8 **Report No:** 127/115
Report Title: Internal Audit Benchmarking 2014/15
Report To: Audit and Standards Committee **Date:** 28 September 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
E-mail: David.Heath@lewes.gov.uk
Tel no: 01273 484157

Purpose of Report:

To inform Councillors of the comparative performance of internal audit departments in local authorities in Sussex for 2014/15.

Officers Recommendation(s):

- 1 To note the benchmarking results from the participating authorities in Sussex, and the conclusion that the internal audit function at LDC is adequately resourced and is achieving satisfactory standards of output and efficiency (see Section 3).
-

Reasons for Recommendations

- 1 The remit of the Audit Committee includes a duty to review whether the internal audit function is adequately resourced and is able to discharge its function effectively.

Information

2 Background

- 2.1 The Audit and Standards Committee agreed revised Performance Indicators (PIs) for Internal Audit at its meeting on September 2013, and the continuation of two separate performance reports being presented to the Committee. The second of these reports is the annual benchmarking exercise with other internal audit departments in Sussex.
- 2.2 The Internal Audit Section at Lewes is a member of the Sussex Audit Group (SAG), which was established to enable internal audit functions within public bodies in East and West Sussex to share best practice. SAG has conducted a benchmarking exercise to compare internal audit performance across a range

of PIs and other measures. The latest available information is for the financial year 2014/15.

3 SAG Benchmarking Study 2014/15

3.1 SAG comprises 14 internal audit functions from local authorities. Not all the members take part in the benchmarking studies, and the results from the following seven members were included in the exercise for 2014/15.

Lewes DC
Arun DC
Eastbourne BC
Hastings BC
Horsham DC
Rother DC
West Sussex CC

3.2 With seven authorities providing a response there is sufficient information for comparative purposes. Member authorities provide the information on the understanding that the results for specific authorities will not be separately identified.

3.3 As agreed by the Audit and Standards Committee in September 2013, the performance measures for LDC Internal Audit now comprise 17 PIs. The results from the SAG benchmarking exercise include 13 PIs that are directly comparable with the LDC results. The remainder of the benchmarking exercise covers issues such as the staffing and organisation of internal audit that are not covered by the LDC PIs.

3.4 The LDC PIs and the SAG benchmarking results for 2014/15 are given in the table at Appendix A, together with the Lewes results for 2013/14.

3.5 The key results from the benchmarking study are:

- The Internal Audit staff at LDC are among the most experienced, which is reflected in the third highest employee costs.
- The cost per chargeable day (£280.75) at LDC was the second lowest and below the average for the group as a whole because the LDC Internal Audit Section generates the second highest number of productive days (683).
- LDC Internal Audit Section has the second lowest number of days (178) and the second lowest proportion (21%) of time for non audit activities.
- The cost of providing the audit service at LDC is £191,750, a reduction of £8,417 (4.2%) from the 2013/14 exercise.
- LDC has the lowest fees for external audit, reflecting the strong internal control environment and the work done by Internal Audit at LDC to support BDO.

3.6 The conclusion that can be drawn from the benchmarking study is that the Internal Audit function at LDC is adequately resourced and is achieving satisfactory standards of output and efficiency. This conclusion is supported by comments in recent BDO Management Letters and the results of other assessments. For example, the BDO Annual Governance Report for 2014/15 includes the comment that BDO are able to place reliance on the work of Internal Audit.

3.7 Approved staffing for LDC Internal Audit is 3.2 FTE. The Staffing FTE results for 2014/15 (3.38 FTE) reflect the additional time spent on internal audit activity by the Head of Audit, Fraud and Procurement (HAFP) in the year. The unplanned work by HAFP on the investigation of the relationship between the Council and Seaford and District Constitutional Club has added to the effective staffing of Internal Audit, increased the number of chargeable days, and increased staffing costs.

3.8 For 2014/15, it is evident that different accounting practices were applied by the separate authorities in assessing the overhead recharges (for IT, accommodation, and other costs) that are appropriate to internal audit. The recharges range from – nil (Authority F) to £72,600 (Authority A). LDC recharges were £27,200. These practices are distorting the results of the benchmarking study, and will be the subject of discussions within SAG. The recharge costs for all authorities in the study, together with the direct staff cost per chargeable day excluding recharges and other costs, are given in the memorandum entries at Appendix A.

4 Financial Appraisal

4.1 There are no additional financial implications arising from this report.

5 Risk Management Implications

5.1 I have completed the Risk Management questionnaire and this report does not require a full risk assessment because the issues covered by the recommendations are not significant in terms of risk.

6 Legal Implications

6.1 There are no legal implications arising from this report.

7 Sustainability Implications

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

8 Equality Screening

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

9 Background Papers

9.1 [Annual Report on Internal Audit Performance and Effectiveness 2014/15.](#)

9.2 [Strategic Audit Plan 2014/17.](#)

10 Appendices

A Sussex Audit Group (SAG) Benchmarking Results 2014/15.

Appendix A

Sussex Audit Group (SAG) Benchmarking Results 2014/15

Authority/Indicator	A	B	C	D	E	F	LDC	LDC 2013/14
Input of resources								
1. Staffing FTE	2.85	3.60	2.70	3.60	2.80	9.00	3.38	3.80
2. Employee costs	£118,368	£127,115	£132,152	£178,410	£109,295	£625,000	£164,592	167,539
3. Total costs	£191,011	£162,447	£169,391	£181,431	£139,654	£625,000	£191,750	£200,167
4. Cost per chargeable day	£390.62	£309.72	£293.06	£274.90	£323.50	£411.45	£280.75	£270.13
Productivity and Efficiency								
5. Number of core systems audits carried out in the year	9	12	3	9	10	10	14	14
6. Number of days spent on core systems audits	60	129	100	168	185	95	336	260
7. Number of audits/reviews in original plan	30	38	10	38	27	61	33	48
8. % of original plan carried out	77%	74%	100%	97%	100%	102%	88%	79%
9. Number of audits/reviews in revised plan	25	28	10	37	27	N/A	39	59
10. % of revised plan carried out (*)	64%	100%	100%	97%	100%	N/A	90%	83%
11. Number of chargeable days	489	525	578	660	432	1519	683	741
12. Number of non chargeable days	250	379	127	259	300	1038	178	225

Authority/Indicator	A	B	C	D	E	F	LDC	LDC 2013/14
13. % of draft reports issued within 15 days of the end of the audit.	N/A	N/A	N/A	N/A	N/A	N/A	90%	100%
Compliance with professional standards								
14. Positive opinion from BDO review of Internal Audit as per the Management Letter	N/A	N/A	N/A	N/A	N/A	N/A	TBC	Positive opinion
15. Total external audit fees	£88,123	£101,436	£73,682	£83,304	£91,440	£156,816	£71,420	£72,872
Outcomes and degree of influence of the service								
16. % of recommendations implemented (*)	N/A	N/A	N/A	N/A	N/A	N/A	67%	61%
17. All comments from client satisfaction questionnaires in Categories 1 (Very Good), 2 (Good) or 3 (Satisfactory).	N/A	N/A	N/A	N/A	N/A	N/A	100%	100%

Memorandum

Costs of recharges (rounded)	£72,600	£35,300	£37,200	£3,000	£30,400	Nil	£27,200	£32,600
Cost per chargeable day (direct staff costs - excluding recharges and other costs)	£242.06	£242.35	£228.64	£270.32	£253.00	£411.45	£240.98	£226.10

Agenda Item No: 9 **Report No:** 128/115

Report Title: Annual Report on the Council's work to combat Fraud and Corruption 2014/15

Report To: Audit and Standards Committee **Date:** 28 September 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

E-mail: David.Heath@lewes.gov.uk

Tel no: 01273 484157

Purpose of Report:

To inform Councillors on the adequacy and effectiveness of the Council's systems to combat fraud and corruption during 2014/15.

Officers Recommendation(s):

- 1 To receive the report, and note the control measures that are in place to maintain a strong anti-fraud and corruption culture (see Section 3).
 - 2 To note the structures within the Council that counter fraud and corruption, particularly the new arrangements for preventing, detecting and investigating fraud across a range of Council services and activities (see Section 4).
 - 3 To note the Council's involvement in national, regional and local counter fraud networks (Section 5).
 - 4 To note the results of the Council's counter fraud activity during 2014/15 (Section 6).
 - 5 To reaffirm the Council's zero tolerance to fraud and corruption.
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Reasons for Recommendations

- 1 The remit of the Audit and Standards Committee includes the duties to keep under review the probity and effectiveness of internal controls, and to monitor Council policies on Anti-Fraud and Corruption and Whistleblowing.

Information

2 Background

- 2.1** In simple terms, fraud is obtaining a financial or other gain by means of deception, dishonesty or theft. Similarly, corruption is the dishonest exercise of official duties or position on order to achieve financial or other gain, for example the receiving of gifts, rewards or favours from the misuse of information or influence.

2.2 The Council has a zero tolerance of fraud and corruption. The Council expects that Councillors and staff will act with honesty and integrity in all aspects of their official duties, and that individual and organisations with which it comes into contact will act in the same way when dealing the Council.

3 Strategies and policies to counter fraud and corruption

3.1 The Council has established a framework of appropriate strategies and policies in order to maintain a strong anti fraud and corruption culture. These include an Anti-Fraud and Corruption Strategy, Anti – Money Laundering Policy, Anti - Bribery Policy, and Councillor and Officer Codes of Conduct. These strategies and policies are regularly reviewed and updated where appropriate.

3.2 The Council remains alert to the risk of fraud and corruption, and has in place a network of systems and procedures to protect its assets and services against these risks. The Council is committed to ensuring that the systems and procedures work properly and include effective internal control arrangements. Many of the controls are there specifically to prevent loss or fraud - they have been designed to help deter fraud and to give warning of possible fraudulent activity.

3.3 The effectiveness of the controls is independently monitored by Internal Audit, and the Head of Audit, Fraud and Procurement (HAFP) provides regular reports to the Audit and Standards Committee on the internal control environment. HAFP reported to the June 2015 meeting of the Audit and Standards Committee that the overall standards of internal control were satisfactory during 2014/15.

4 Structures within the Council to counter fraud and corruption

Internal Audit

4.1 Internal Audit assesses the risk of fraud and corruption every year as part of its annual and strategic planning processes covering the Council's key systems. Internal Audit has until recently provided the main resource for the investigation of alleged cases of corporate fraud and corruption.

4.2 There were no reported cases of corruption during 2014/15.

Fraud Investigation Team

4.3 Until 2014, the Fraud Investigation Team had focused solely on benefits fraud, and had undertaken a range of pro-active anti-fraud work. In the early months of 2014/15 there was uncertainty over the future of the team as it was due to become part of the national Single Fraud Investigation Service (SFIS) within the Department for Work and Pensions (DWP). In order to retain a strong anti-fraud service at the Council CMT approved the team becoming part of the Audit, Fraud and Procurement (AFP) Division from 1 November 2014.

4.4 The Fraud Investigation Team has provided resources for the prevention and detection of fraud across additional areas of Council services including tenancy fraud, and business rates fraud. The placement of the team within Internal Audit has enabled a greater degree of coordination of counter fraud work, and has created more opportunities to encourage and focus efforts in the areas of potential risk. This has been particularly marked in the relationship with Housing Services where officers from both departments work together on joint initiatives. In recent months, Housing

Services have allocated a part time post to the role of tenancy audit, which involves a rolling programme of checks on the validity of tenancies and the identity of people living in Council properties. Similar arrangements are being put in place with the NDR team in Customer Services, to enable targeted checks and joint site visits to help identify business premises that are not paying the correct business rates.

- 4.5 The Fraud Investigation Team continues to work with colleagues in the Benefits Team in Customer Services to counter benefit fraud, but this is now in the context of a formal Service Level Agreement (SLA) with DWP for the joint management HB fraud cases. The major work on each HB case is the responsibility of SFIS. LDC retains a role in referring cases of suspected HB fraud to SFIS and handling requests for information, dealing with the cases of suspected CT Reduction Scheme (CTRS) fraud that are often linked to HB cases, and administering the penalties for cases that are not subject to prosecution. The LDC teams work with local DWP officers to help ensure efficient operation of the processes covered by the agreement.
- 4.6 Under Financial Procedure Rules, the Chair of the Audit and Standards Committee is informed of the outcome of investigation into significant cases of fraud and corruption. Each meeting of the Committee receives a summary report on the work of the Fraud Investigation Team.
- 4.7 Both Internal Audit (3.2 FTE) and the Fraud Investigation Team (1.6 FTE) are fully staffed, and comprise experienced and trained officers. The Fraud Investigation Team and Principle Audit Manager (PAM) have joined colleagues in neighbouring authorities to undergo training in new areas of counter fraud work (see 5.5 and 5.6).

5 Council involvement in national, regional and local counter fraud networks

National Fraud Initiative (NFI) data matching

- 5.1 The Council takes an active role in the National Fraud Initiative (NFI) data matching exercises that, until recently, were managed by the Audit Commission. From 1 April 2015, responsibility for current and future exercises rests with the Cabinet Office.
- 5.2 Internal Audit has been coordinating the Council's response to the 2014/15 NFI data matching exercise. The base data was forwarded to the Audit Commission in October 2014 and the first reported matches for LDC were received on 29 January 2015. Each report sets out different types of potential frauds among HB claimants, housing tenants, and anyone receiving payments or discounts from the Council.
- 5.3 Further matches have been received since then, and there are now 1,568 matches detailed across 56 reports. Council departments have nominated officers to investigate matches in their service area, and their initial work has been to analyse and assess the matches to weed out those that are the result of error, coincidence or entirely proper activity - 670 matches have been actioned with no instances of fraud so far identified. Any suspected cases of fraud would be passed to the Fraud Investigation Team.

National Anti-Fraud Network (NAFN)

- 5.4 The Council is signed up the National Anti-Fraud Network (NAFN). NAFN provides regular bulletins on current issues and initiatives, as well as the ability to obtain confidential information for use in fraud investigations. There are strict controls over access to this information.

Sussex counter fraud networks

- 5.5** The Investigation Team is a member of the East Sussex Fraud Officers Group (ESFOG), a body that enables information sharing and joint initiatives with neighbouring authorities on a wide range of counter fraud work. In response to offers of funding from DCLG for counter fraud initiatives, a sub group of six authorities within ESFOG, including LDC, submitted a successful funding bid for the development of a 'Hub' approach to coordinating new anti-fraud initiatives across East Sussex.
- 5.6** The Hub is managed by officers at Eastbourne BC in accordance with the corporate governance arrangements of that authority, with input from ESFOG partners as appropriate. The initial priorities for the Hub have been a programme of standardised training and planning, the testing of case management and data sharing systems, and a pilot scheme (at Eastbourne BC) for a tenancy management application. Current projects include a coordinated approach to publicity for Hub activities, and Hub partners developing counter fraud techniques in specific areas.
- 5.7** All the above developments have been funded from the DCLG grant, which will also support other counter fraud activities in partner authorities. For example, Eastbourne BC and LDC will be seeking funding for publicity material for their separate campaigns to counter housing tenancy fraud.
- 5.8** LDC has joined the Sussex Tenancy Fraud Forum (TFF) to enable information sharing and joint initiatives with neighbouring authorities in both East and West Sussex. Through TFF, Internal Audit and the Fraud Investigation Team are part of a national information sharing network for tenancy fraud.
- 5.9** The Head of Audit, Fraud and Procurement is currently the Chair of the Sussex Audit Group (SAG). The group comprises all Heads of Audit across Sussex, and circulates intelligence on current fraud issues and shares good practice in counter fraud activities. A sub committee of SAG provides the governance oversight for Hub activities.

6 Reported cases of fraud in 2014/15

- 6.1** The work of the Council's Fraud Investigation Team during 2014/15 is summarised as follows.

Housing Benefit fraud

- 6.2** The Benefit Fraud Investigation Team proved eight cases of Housing Benefit and Council Tax Benefit fraud prior to 1 November 2014, with a total value of approximately £40,000. The cases were identified as a result of data matches from the previous NFI exercise, or were reported by Council staff, members of the public, and staff at DWP and other agencies. Five cases were prepared for prosecution, and three cases were the subject of administrative penalties.
- 6.3** In the lead up to the transfer to Internal Audit, the case load for the Fraud Investigation Team was 83 live cases of mainly benefits fraud. The team worked closely with DWP on preparations for the smooth migration of 35 of the more significant outstanding cases and the arrangements for information sharing as per the SLA. After the 1 November 2014 transfer, a total of 83 HB cases were passed to SFIS via the SLA procedures, and 34 information requests were actioned.

Council Tax Reduction Scheme (CTRS) fraud

- 6.4** LDC retains responsibility for dealing with the cases of suspected CT Reduction Scheme (CTRS) fraud that are often linked to HB cases, and administering the penalties for CTRS cases that are not subject to prosecution. A total of 115 cases of suspected CTRS fraud were referred to the team, and assessed, during 2014/15. Most of the cases were of relatively low value overpayments, and were closed without a formal investigation. There were 30 live cases of suspected CTRS fraud under review at the end of March 2015, and these were actioned in the early months of 2015/16.

Housing Tenancy fraud

- 6.5** Since November 2014, the work on developing the team's approach to counter tenancy fraud included attendance at the national Tenancy Fraud Conference, obtaining best practice guidance from other authorities, and establishing referral arrangements with officers in LDC Housing Services.
- 6.6** A total of 13 suspected cases of tenancy fraud were referred to the team, and eight of these cases were still underway at the end of March 2015. Four of the cases were closed as the investigations had established that there had been no fraud. One property was returned to the Council's housing stock after the team had proved abandonment by the tenant. One of the cases still underway in March 2015 resulted in the return of an abandoned property in the early months of 2015/16. Dealing fully with these cases of property abandonment is a key part of the work to return unused properties to the housing stock, although abandonment is not strictly fraud under the Prevention of Social Housing Fraud Act 2013.

Business Rate fraud

- 6.7** NDR has been the planned priority area for the team, based upon some initial research and a small pilot study in 2014. No work was done on this subject in 2014/15, with significant activity scheduled for the early months of 2015/16. In early June 2015 the team attended training on counter fraud work for NDR in an exercise organised by the Hub. The team has been working with officers in the LDC Revenues team to set up a method to target areas of possible non-payment of business rates.

Council tax - Single Person Discounts (SPDs)

- 6.8** The Council has joined with other local authorities in East Sussex to employ a private sector company (Northgate) to check on the status of Single Person Discounts (SPDs) claimed by residents against their Council Tax liability. During 2014/15, this process identified 242 confirmed cases of SPDs to which the liable person was not entitled, with a total increase in Council Tax collections of approximately £79,500 in 2014/15. The SPD were removed without the need to prove fraud. The cost of the Northgate service was approximately £4,500.

7 Financial Appraisal

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

8 Risk Management Implications

- 8.1** If the Council does not operate an effective internal control environment, including an appropriate framework of strategies, policies, systems and procedures to counter fraud and corruption, there will be reduced assurance that there are adequate means to prevent, detect and investigate irregularities and protect public funds. Without adequate measures in these areas the Council is at risk of damage to its reputation for honesty, integrity and effective management.

9 Sustainability Implications

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

10 Equality Screening

- 10.1** This report is for information only and involves no key decisions. Therefore, screening for equality impacts is not required. However, if Internal Audit note equalities issues during their work these will be raised with the Equality Officer to ensure that appropriate equality impact screening is carried out.

11 Background Papers

- 11.1** None.

12 Appendices

- 12.1** None.

Agenda Item No: 10 **Report No:** 129/115
Report Title: Treasury Management
Report To: Audit and Standards Committee **Date:** 28 September 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 484043

Purpose of Report:

To present details of recent Treasury Management activity.

Officers Recommendation:

1. To confirm to Cabinet that Treasury Management activity between 1 June and 31 August 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 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
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 31 August 2015 and identifies the long-term credit rating of each counterparty at the date of investment. It is important to note that credit ratings are only one of the criteria that are taken into account when determining whether a potential counterparty is suitable. The minimum rating required for deposits made are long term minimum A (Fitch). All of the deposits met the necessary criteria.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
224615	Nationwide Building Society	8 Jul 15	8 Oct 15	92	1,000,000	0.500	A
225115	Coventry Building Society	3 Aug 15	3 Dec 15	122	2,000,000	0.500	A
225615	Nationwide Building Society	10 Aug 15	10 Feb 16	184	1,000,000	0.660	A
226115	Debt Management Office	28 Aug 15	7 Sep 15	10	1,500,000	0.250	N/A
					<u>5,500,000</u>		

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 June 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 £56.75m over this period. Further information is given in paragraph 2.8.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
223815	Debt Management Office	1 Jun 15	8 Jun 15	7	2,500,000	0.250	*
223915	Debt Management Office	3 Jun 15	9 Jun 15	6	1,000,000	0.250	*
224015	Debt Management Office	8 Jun 15	22 Jun 15	14	3,000,000	0.250	*
224115	Debt Management Office	15 Jun 15	22 Jun 15	7	3,000,000	0.250	*
224215	Debt Management Office	22 Jun 15	25 Jun 15	3	1,000,000	0.250	*
224415	Plymouth City Council	30 Jun 15	1 Jul 15	1	2,000,000	0.350	*
224315	Debt Management Office	25 Jun 15	2 Jul 15	7	1,750,000	0.250	*
222915	Nationwide Building Society	8 Apr 15	8 Jul 15	91	1,000,000	0.500	A
224515	Debt Management Office	2 Jul 15	13 Jul 15	11	3,000,000	0.250	*
224715	Debt Management Office	13 Jul 15	20 Jul 15	7	2,000,000	0.250	*
224815	Debt Management Office	15 Jul 15	21 Jul 15	6	4,000,000	0.250	*
224915	Debt Management Office	21 Jul 15	27 Jul 15	6	3,000,000	0.250	*
223215	Nationwide Building Society	6 May 15	6 Aug 15	92	1,000,000	0.500	A
225015	Debt Management Office	27 Jul 15	7 Aug 15	11	3,000,000	0.250	*
225215	Debt Management Office	3 Aug 15	7 Aug 15	4	2,000,000	0.250	*
225315	Debt Management Office	3 Aug 15	10 Aug 15	7	6,000,000	0.250	*

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
225415	Debt Management Office	6 Aug 15	10 Aug 15	4	1,000,000	0.250	*
220714	Barclays Bank PLC	13 Aug 14	13 Aug 15	365	1,000,000	1.000	A
225515	Debt Management Office	10 Aug 15	14 Aug 15	4	4,000,000	0.250	*
225715	Debt Management Office	14 Aug 15	17 Aug 15	3	4,000,000	0.250	*
225815	Debt Management Office	17 Aug 15	19 Aug 15	2	2,000,000	0.250	*
225915	Debt Management Office	17 Aug 15	24 Aug 15	7	3,000,000	0.250	*
226015	Debt Management Office	24 Aug 15	28 Aug 15	4	2,500,000	0.250	*
Total					<u>56,750,000</u>		

*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 June to 31 August 2015 was 0.58%, above the average bank base rate for the period of 0.50%. Those made during the period averaged 0.49%.

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 £2,940,310 generating interest of approximately £2,600.

	Balance at 31 Aug '15 £'000	Average balance £'000	Average interest rate %
Santander Business Reserve Account	2,000	1,911	0.30%
Lloyds Bank Corporate Account	715	1,000	0.40%

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 £3m in each fund, and at no time was this limit exceeded.

	Balance at 31 Aug '15 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	3,000	2,983	0.58%
Deutsche Managed Sterling Fund	3,000	3,000	0.56%

2.7 Purchase of Treasury Bills (T-Bills)

The table below shows the T-Bills held at 31 August 2015 and activity in the period. It is the Council's intention to hold T-Bills until maturity.

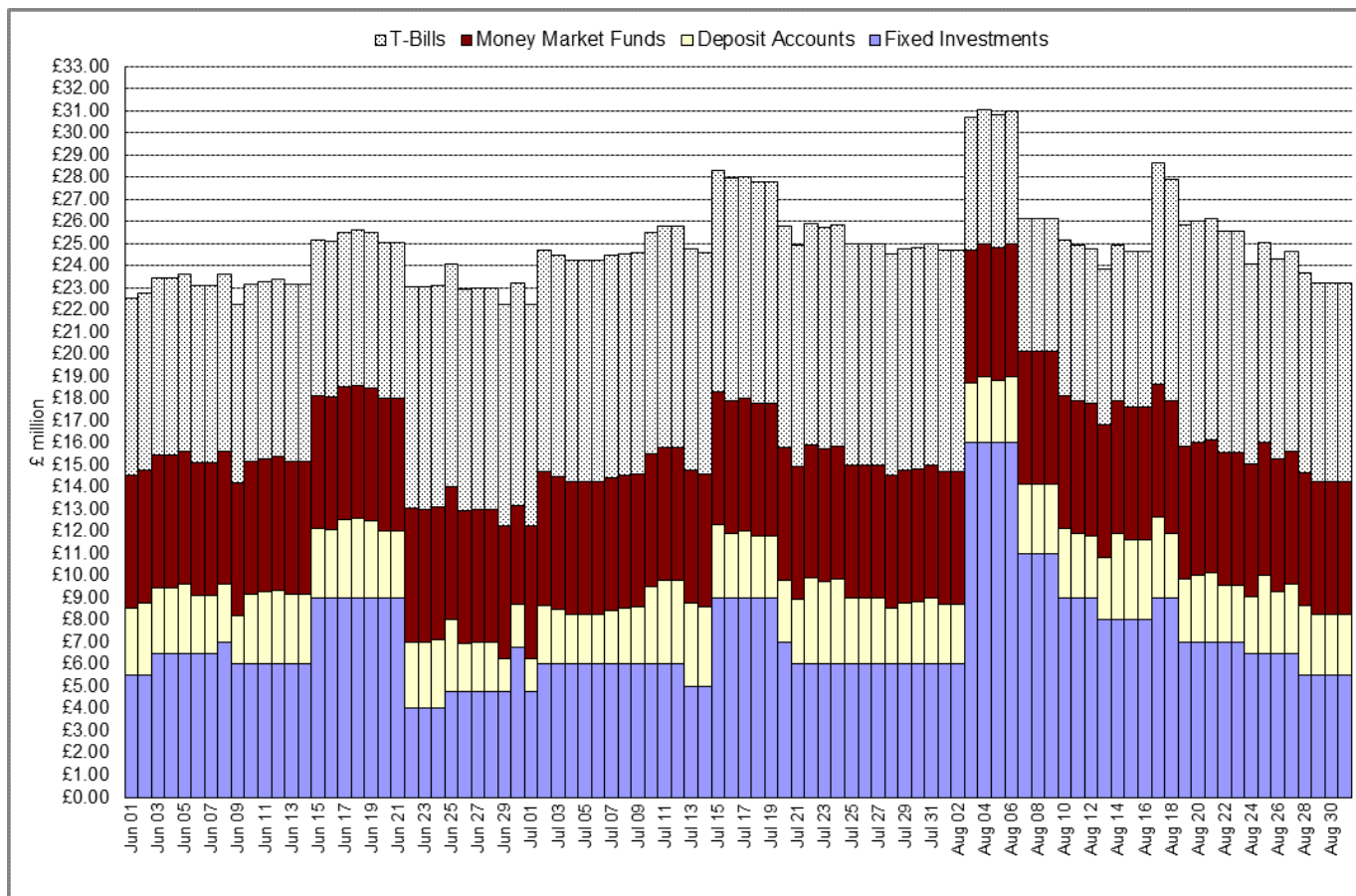
		Purchased in period	Purchase date	£'000	Disc %
Held at 31 August 2015					
UK Treasury Bill 0%	28 Sep 15	✓	29 Jun 15	1,000	0.509
UK Treasury Bill 0%	19 Oct 15	✓	20 Jul 15	1,000	0.492
UK Treasury Bill 0%	18 Jan 16	✓	20 Jul 15	1,000	0.585
UK Treasury Bill 0%	19 Oct 15	✓	20 Jul 15	1,000	0.492
UK Treasury Bill 0%	7 Sep 15	✓	10 Aug 15	1,000	0.439
UK Treasury Bill 0%	14 Sep 15	✓	17 Aug 15	1,000	0.440
UK Treasury Bill 0%	15 Feb 16	✓	17 Aug 15	1,000	0.540
UK Treasury Bill 0%	16 Nov 15	✓	17 Aug 15	2,000	0.460

		Purchased in period	Purchase date	£'000	Disc %
Matured since last report					
UK Treasury Bill 0%	22 Jun 15		23 Mar 15	1,000	0.439
UK Treasury Bill 0%	6 Jul 15		7 Apr 15	1,000	0.449
UK Treasury Bill 0%	1 Jun 15		20 Apr 15	2,000	0.410
UK Treasury Bill 0%	3 Aug 15		5 May 15	1,000	0.440
UK Treasury Bill 0%	1 Jun 15		5 May 15	1,000	0.420
UK Treasury Bill 0%	8 Jun 15		11 May 15	1,000	0.428
UK Treasury Bill 0%	8 Jun 15		11 May 15	1,000	0.439
UK Treasury Bill 0%	15 Jun 15		18 May 15	1,000	0.449
UK Treasury Bill 0%	29 Jun 15	✓	1 Jun 15	1,000	0.469
UK Treasury Bill 0%	29 Jun 15	✓	1 Jun 15	1,000	0.478
UK Treasury Bill 0%	6 Jul 15	✓	8 Jun 15	1,000	0.460
UK Treasury Bill 0%	6 Jul 15	✓	8 Jun 15	1,000	0.450
UK Treasury Bill 0%	20 Jul 15	✓	22 Jun 15	1,000	0.450
UK Treasury Bill 0%	20 Jul 15	✓	22 Jun 15	1,000	0.460
UK Treasury Bill 0%	20 Jul 15	✓	22 Jun 15	1,000	0.440
UK Treasury Bill 0%	20 Jul 15	✓	22 Jun 15	1,000	0.455
UK Treasury Bill 0%	27 Jul 15	✓	29 Jun 15	1,000	0.464
UK Treasury Bill 0%	3 Aug 15	✓	6 Jul 15	1,000	0.427
UK Treasury Bill 0%	3 Aug 15	✓	6 Jul 15	1,000	0.431
UK Treasury Bill 0%	3 Aug 15	✓	6 Jul 15	1,000	0.456
UK Treasury Bill 0%	17 Aug 15	✓	20 Jul 15	1,000	0.438
UK Treasury Bill 0%	24 Aug 15	✓	27 Jul 15	1,000	0.434

The 2015/2016 Treasury Strategy limits the amount of negotiable instruments (eg T-Bills) that can be held in one broker's nominee account to £10m. Currently the Council has a nominee account with one broker only. In order to increase the opportunity for investment in these instruments and to diversify the use of brokers, it is proposed to open a nominee account with a second broker. Financial procedure rules require Cabinet agreement to this action and a recommendation was made to its meeting on 24 September 2015 accordingly.

2.8 Overall investment position

The chart below summarises the Council's investment position over the period 1 June 2015 to 31 August 2015. It shows the total sums invested each day as 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 Training

Arlingclose, the Council's Treasury adviser, will be holding a briefing session in Lewes on Monday 12 October 2015. This session will cover a broad range of treasury management issues, and all councilors have been invited to attend.

Financial Implications

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

Risk Management Implications

- 4 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

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

Legal Implications

- 6 None arising from this report.

Background Papers - Treasury Strategy Statement

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

Agenda Item No: 11 **Report No:** 130/115
Report Title: Statement of Accounts 2014/2015
Report To: Audit and Standards Committee **Date:** 28 September 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 484043

Purpose of Report:

To present the Statement of Accounts 2014/2015 for approval following audit.

Officers Recommendation:

1. To approve the Statement of Accounts 2014/2015, with the Chair signing on the Committee's behalf.
 2. To agree delegated authority to the Director of Corporate Services Finance Officer to make minor amendments to the Statement of Accounts 2014/2015 ahead of signature by the Chair of the Audit and Standards Committee.
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Reasons for Recommendations

- 1 The Accounts and Audit Regulations 2011 require the Director of Corporate Services and councillors to certify and approve an audited set of accounts for publication by no later than 30 September.

Information

2 Approval of the Accounts

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

- 2.2** The Accounts for 2014/2015 continue to be produced in accordance with International Financial Reporting Standards (IFRS). There have been no significant changes to the accounting requirements for Lewes District Council in 2014/2015.
- 2.3** The 'Statement of Accounts 2014/2015 document' includes both the formal accounts which are subject to audit, as well as supplementary information (eg a narrative to explain, in simple terms, the year's key financial information).
- 2.4** A report to the meeting of the Audit and Standards Committee on 22 June 2015 explained that the Director of Corporate Services would approve a draft Statement of Accounts on 29 June 2015 (30 June is the latest date permitted by the Accounts and Audit Regulations), and present it to the Council's external auditors (BDO) for audit. This took place and BDO started their audit at the beginning of July.
- 2.5** BDO's work had been substantially completed at the time of writing this report. At an 'audit closure' meeting BDO indicated that they anticipate, subject to satisfactory completion of outstanding work, issuing an unqualified true and fair opinion on the financial statements for the year. BDO's report which appears elsewhere on this Agenda is expected to confirm this position. This means that the Council's independent Auditor considers that the Council's financial statements give a true and fair view, in accordance with appropriate legislation and relevant accounting guidance, of the financial position of the Council at 31 March 2015 and its income and expenditure for the year.
- 2.6** BDO's report sets out in detail the results of their accounts audit work. In some cases BDO considered that the information provided within the draft accounting statements and accompanying notes departed from the expected accounting practice and presentation. These departures had no impact on the Council's overall financial performance during the year or its useable reserves and balances. Following discussion, officers have been content to make amendments and these are incorporated in the final Statement of Accounts 2014/2015 which is attached at Appendix 2.
- 2.7** The implementation of an asset accounting system was completed in the year. With this system now fully operational, it has been necessary to review some of the entries made within the 2013/2014 accounts which had been prepared using information from a combination of both the new system and its predecessor. As a result of this review, an increase of £92,000 in the value of Net Assets at 31 March 2014 has been identified, matched by an equivalent increase in unusable reserves at that date. The 2013/2014 accounts have been restated where necessary. All amounts held in useable balances and reserves remain unchanged from the position recorded in the 2013/2014 audited accounts.
- 2.8** An overview of the Statement of Accounts 2014/2015 is given in Appendix 1. It is recommended that the Audit and Standards Committee should approve the Statement of Accounts, with the Chair signing on its behalf. In the event that BDO's audit work is not complete at the time of this meeting, it is recommended

that delegated authority should be given to the Director of Corporate Services to make minor amendments, prior to signature by the Chair.

- 2.9** Following approval, the Director of Corporate Services will certify the Statement of Accounts and BDO will release their formal audit certificate. The accounts will then be published by the statutory deadline of 30 September. In order to minimise costs, a very limited number of paper copies of the Statement of Accounts will be produced. However, it will be made available for download from the Council's website and a paper copy will be sent to any interested person requesting it.

Financial Implications

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

Risk Management Implications

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

Equality Screening

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

Background Papers

- 6** Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and Guidance Notes for Practitioners.

Appendices

Appendix 1 – Overview of Statement of Accounts 2014/2015

Appendix 2 – Audited Statement of Accounts 2014/2015

Overview of Statement of Accounts 2014/2015

The Statement of Accounts incorporates the formal accounting statements which have been produced in accordance with International Financial Reports Standards (IFRS). It consists of the key elements described below. **NB page references relate to the Statement of Accounts document, not the Agenda page numbers.**

1. Explanatory Foreword (pages 3 to 7)

This Foreword does not form part of the formal Statement of Accounts and is not subject to audit. Because of the complexity of the formal financial statements, it is helpful to provide a brief explanation of the Council's financial activities for 2014/2015 in 'plain English', although the use of some technical terms is unavoidable.

This section explains:

- a reduction of £0.075m in net spending on General Fund services compared with the budget
- an increase of £0.372m in net HRA spending compared with the in-year projection, incorporating additional spend of £0.638m on repairs and maintenance and a £0.547m reduction in management costs
- that the total value of capital expenditure was £9.901m and identifies the most significant projects
- the total value of the Council's assets increased by £7.368m in the year

2. Movement in Reserves Statement (pages 8 to 9)

This Statement shows:

- the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those the Council can apply to fund expenditure or reduce local taxation) and other reserves. The surplus on the provision of services (£2.693m in 2014/2015) shows the true economic cost of providing services, more details of which are shown in the Comprehensive Income and Expenditure Statement.
- that reversing adjustments (£2.855m in 2014/2015) are made through the accounts to ensure that technical accounting entries have no impact on the basis under which the General Fund and Housing Revenue Account are funded (Council Tax, rents, grants, etc).
- the balances held by the General Fund (£1.552m), Housing Revenue Account (£2.638m) and in earmarked reserves (£10.343m) at 31 March 2015.

3. Comprehensive Income and Expenditure Statement (page 10)

This Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount

to be funded from taxation in accordance with regulations. There are three sections:

- the first section provides information on the cost of operating all of the Council's services, including housing, net of specific grants and income from fees and charges. The service categories used are those which accounting guidance requires rather than the Council's own 'Councillor portfolios'. The net cost of services in 2014/2015 was £6.942m.
- the second section comprises items of income and expenditure relating to the Council as a whole and not to any individual service. This includes income from the Council Tax. After taking these items into account the overall 'surplus' on the provision of services in 2014/2015 is £2.693m.
- the third section introduces other items that have contributed to the movement in the net worth of the Council (ie the total value of its assets less its liabilities). The total of this 'other income and expenditure' in 2014/2015 was net income of £4.675m, comprising a surplus on the revaluation of property assets (£10.649m) partially offset by actuarial losses in respect of the Pension Fund (£5.974m).

The combination of all three sections in the Statement shows that the total value of comprehensive income in the year, on an accounting rather than funding basis, exceeded expenditure by £7.368m.

4. Balance Sheet (pages 11 to 12)

This provides a snapshot of the Council's financial position as at 31 March 2015 and includes the General Fund and Housing Revenue Account balances. It sets out what the Council owns, owes and is owed at that point in time, along with details of its balances and reserves.

Significant items are:

- Property, Plant and Equipment – valued at £224.182m. The Council commissions a complete independent valuation of its property assets every five years (different cycles apply to General Fund and HRA property), with the valuer also carrying out a 'desk-top' review annually to ensure that the impact of significant changes in the property market are reflected fairly in the Balance Sheet. The values of Council-owned homes are discounted against their open-market value by a standard factor which reflects their designated use as social housing.
- Heritage Assets – the value of these assets, which the Council holds principally for their contribution to knowledge and culture, was £2.574m. The Council sold one of these assets, Southover Grange, during 2014/2015.
- Investment Property - £3.143m, with the highest value sites being School Hill House (£0.775m) and The Maltings (£0.400m) in Lewes.
- Investments - £3.756m.
- Short Term Debtors - £3.663m. This includes amounts owed by Government departments, local government departments, monthly VAT

reimbursement, etc), as well as individuals (sundry debtors, council taxpayers, housing tenants)

- Cash and Cash Equivalents - £13.349m, held in Money Market Funds, on deposit, in the form of Treasury Bills or placed with another local authority and shortly to be returned
- Short Term Creditors - £6.617m. This includes amounts owed to Government departments and other local authorities as well as suppliers and contractors
- Long Term Borrowing - £56.673m. The amount of long-term borrowing remained unchanged through the year. The debt portfolio had been established at the end of 2011/2012 as a consequence of a national reform of housing finance, and there has been no reason to move away from that position
- Defined Pension Liability - £31.033m. This is the future liability to pay pensions to employees netted down by the value of assets held in the pension fund. The liability has increased by £7.211m in 2014/2015 primarily as a result of falling bond yields, partially offset by strong asset returns
- Total Usable Reserves - £20.561m. Over the course of the year, £0.162m was drawn from reserves in net terms.

5. Cash Flow Statement (page 13)

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

6. Notes to the Financial Statements (pages 14 to 95)

These explain the significant items within each of the core elements along with an explanation of the accounting policies that were followed when compiling and presenting the Accounts. The restatement of some items within the audited 2013/2014 accounts has been necessary, with details given in Note 1.

7. Housing Revenue Account and supporting notes (pages 96 to 102)

This statutory 'ring-fenced' account reports for the year on the management of the Council's housing stock. It shows the major elements of housing running costs: maintenance (£4.513m in 2014/2015), management (£2.782m), interest paid on borrowing (£1.878m) and how these are met by rents (£15.345m), service charges (£1.118m) and other income (£0.195m). After allowing for capital expenditure funded from the HRA in the year (£0.230m) and setting aside funds for the future repayment of borrowing (£1.698m), the 'true' position on the HRA was a deficit of £0.090m in the year, funded from the HRA Balance.

8. Collection Fund Statement and supporting notes (pages 103 to 105)

This shows the Council's transactions in relation to the collection of non-domestic rates (£24.339m) and council tax (£58.897m). The Council paid shares of the

council tax it collected to the 'precepting authorities' of East Sussex County Council (£40.942m), Sussex Police and Crime Commissioner (£4.893m), and East Sussex Fire Authority (£2.893m) and retained (£9.379m) as funding for its own services.

9. Statement of Responsibilities for the Statement of Accounts (page 106)

This explains the responsibilities of the Council and the Director of Corporate Services in respect of the management and reporting of financial affairs.

10. Independent Auditor's Report (pages 107 to 110)

At the date of preparing this report for the Audit and Standards Committee, BDO were yet to complete the audit of the accounts and submit the auditor's formal certificate for inclusion within the Statement of Accounts.

11. Annual Governance Statement (AGS) (pages 111 to 119)

A separate report to this meeting presents the AGS to the Audit and Standards Committee for approval. The Accounts and Audit Regulations require the AGS to 'accompany' the formal Statement of Accounts, and the draft document has been incorporated at this stage. It should be noted that the AGS is not covered by the Independent Auditor's Report.