



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 **Telscombe Room, Southover House, Southover Road, Lewes** on **Monday, 14 March 2016** 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.

01/03/2016

Catherine Knight
Assistant Director - Corporate Services

Agenda

- 1 Minutes**
To approve the Minutes of the meeting held on 25 January 2016 (copy previously circulated).
- 2 Apologies for Absence/Declaration of Substitute Members**
- 3 Declarations of Interest**
Disclosure by councillors of personal interests in matters on the agenda, the nature of any interest and whether the councillor regards the interest as prejudicial under the terms of the Code of Conduct
- 4 Urgent Items**
Items not on the agenda which the Chair of the meeting is of the opinion should be considered as a matter of urgency by reason of special circumstances as defined in Section 100B(4)(b) of the Local Government Act 1972

- 5 Written Questions from Councillors**
To deal with written questions from the Councillors pursuant to Council Procedure Rule 12.3 (page D8 of the Constitution)
- 6 Treasury Management (page 3)**
To consider the Report of the Director of Corporate Services (Report No. 45/16 herewith)
- 7 Interim Report on the Council's Systems of Internal Control 2015/16 (Page 8)**
To receive the Report of the Director of Corporate Services (Report No. 46/16 herewith)
- 8 Lewes District Council – Code of Corporate Governance Update (Page 17)**
To receive the Report of the Director of Corporate Services (Report No. 47/16 herewith)
- 9 Annual Audit Plan 2016/17 (Page 28)**
To consider the Report of the Director of Corporate Services (Report No. 48/16 herewith)
- 10 Planning Report to the Audit and Standards Committee (Page 39)**
To receive the Report of the External Auditor (Report No. 49/16 herewith)
- 11 Date of Next Meeting**
To note that the next meeting of the Audit and Standards Committee is scheduled to be held on 20 June 2016 in the Ditchling Room, Southover House, Southover Road, Lewes commencing at 10:00am

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, S Gauntlett I Linington, A Loraine, R Robertson, T Rowell

Agenda Item No:6

Report No: 45/16

Report Title: Treasury Management

Report To: Audit and Standards Committee Date: 14 March 2016

Ward(s) Affected: All

Report By: Alan Osborne, Director of Corporate Services

Contact Officer(s)-

Name(s): Stephen Jump
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Purpose of Report:

To present details of recent Treasury Management activity.

Officers Recommendation:

1. To confirm to Cabinet that Treasury Management activity between 1 January and 29 February 2016 has been in accordance with the approved Treasury Strategy for that period.
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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
14 March 2016	1 January to 29 February 2016
20 June 2016	1 March to 31 March 2016

2.3 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 29 February 2016 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
227515	Thurrock Borough Council	16 Nov 15	10 Mar 16	115	3,000,000	0.500	*
228115	Nationwide Building Society	18 Feb 16	18 Aug 16	182	<u>1,000,000</u>	0.710	A
					<u>4,000,000</u>		

*UK Government body and therefore not subject to credit rating

2.4 Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured since 1 January 2016, in maturity date order. It is important to note that the table includes sums reinvested and that in total the Council's investments have not increased by £10m over this period. Further information is given in paragraph 2.8.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
228915	Debt Management Office	04 Jan 16	05 Jan 16	1	5,000,000	0.250	*
225615	Nationwide Building Society	10 Aug 15	10 Feb 16	184	1,000,000	0.660	A
226315	Thurrock Borough Council	23 Sep 15	11 Feb 16	141	2,000,000	0.470	*
227115	Thurrock Borough Council	30 Nov 15	22 Feb 16	84	<u>2,000,000</u>	0.480	*
	Total				<u>10,000,000</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 January to 29 February 2016 was 0.53%, above the average bank base rate for the period of 0.50%. Those made during the period also averaged 0.53%.

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 £1,536,191 generating interest of approximately £1,100.

	Balance at 29 Feb '16 £'000	Average balance £'000	Average interest rate %
Santander Business Reserve Account	Nil	512	0.30%
Lloyds Bank Corporate Account	727	1,023	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 below. The approved Investment Strategy allows a maximum investment of £3m in each fund, and at no time was this limit exceeded.

	Balance at 29 Feb '16 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	2,000	1,408	0.58%
Deutsche Managed Sterling Fund	3,000	1,417	0.56%

2.7 Purchase of Treasury Bills (T-Bills)

The table below shows the T-Bills held at 29 February 2016 and activity in the period. It is the Council's intention to hold T-Bills until maturity.

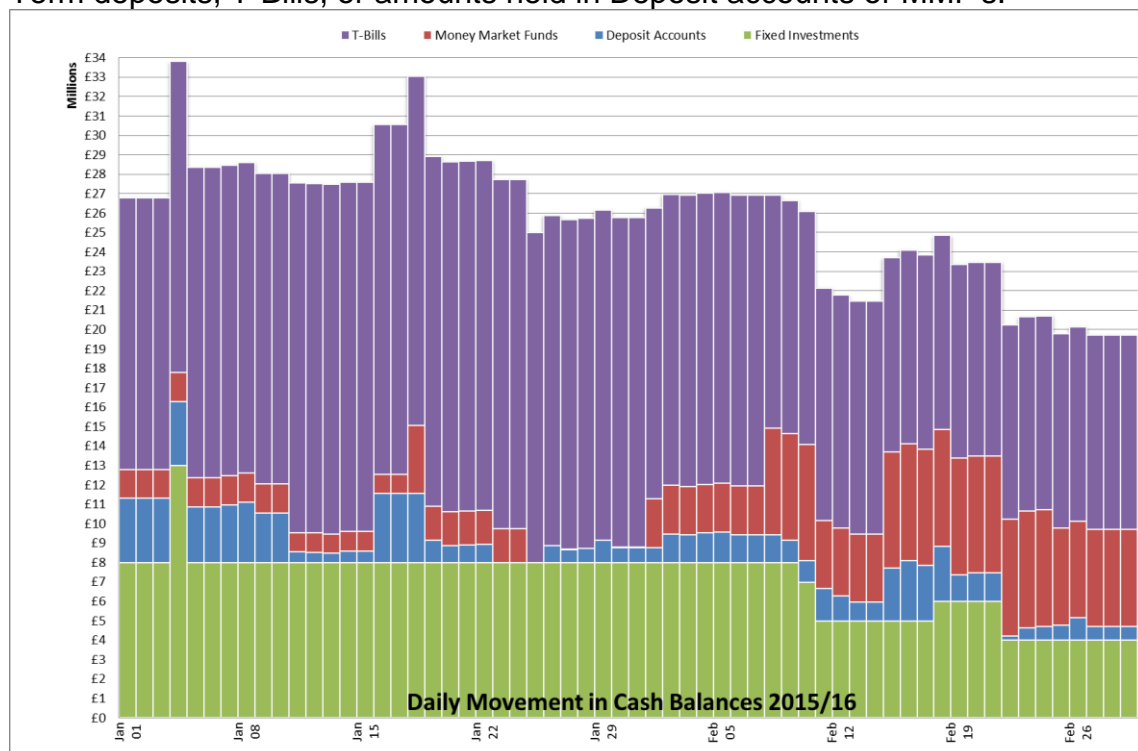
		Purchased in period	Purchase date	£'000	Disc %
Held at 29 February 2016					
UK Treasury Bill 0%	21 Mar 16		21 Sep 15	1,000	0.562
UK Treasury Bill 0%	29 Mar 16		28 Sep 15	1,000	0.565
UK Treasury Bill 0%	04 Apr 16		05 Oct 15	1,000	0.548
UK Treasury Bill 0%	03 May 16		02 Nov 15	1,000	0.555
UK Treasury Bill 0%	07 Mar 16		07 Dec 15	1,000	0.481
UK Treasury Bill 0%	21 Mar 16		21 Dec 15	1,000	0.466
UK Treasury Bill 0%	14 Mar 16	✓	15 Feb 16	2,000	0.460
UK Treasury Bill 0%	14 Mar 16	✓	15 Feb 16	2,000	0.440

	Purchased in period	Purchase date	£'000	Disc %
Matured since last report				
UK Treasury Bill 0%	18 Jan 16	20 Jul 15	1,000	0.585
UK Treasury Bill 0%	15 Feb 16	17 Aug 15	1,000	0.540
UK Treasury Bill 0%	25 Jan 16	26 Oct 15	1,000	0.479
UK Treasury Bill 0%	08 Feb 16	09 Nov 15	1,000	0.485
UK Treasury Bill 0%	18 Jan 16	21 Dec 15	1,000	0.330
UK Treasury Bill 0%	18 Jan 16	21 Dec 15	1,000	0.320
UK Treasury Bill 0%	18 Jan 16	21 Dec 15	1,000	0.315
UK Treasury Bill 0%	18 Jan 16	21 Dec 15	1,000	0.324
UK Treasury Bill 0%	01 Feb 16	✓ 04 Jan 16	2,000	0.390
UK Treasury Bill 0%	08 Feb 16	✓ 11 Jan 16	1,000	0.451
UK Treasury Bill 0%	08 Feb 16	✓ 11 Jan 16	1,000	0.440
UK Treasury Bill 0%	15 Feb 16	✓ 18 Jan 16	1,000	0.479
UK Treasury Bill 0%	15 Feb 16	✓ 18 Jan 16	1,000	0.502
UK Treasury Bill 0%	15 Feb 16	✓ 18 Jan 16	1,000	0.549
UK Treasury Bill 0%	15 Feb 16	✓ 18 Jan 16	1,000	0.480
UK Treasury Bill 0%	15 Feb 16	✓ 18 Jan 16	1,000	0.510

The average discount (ie the gross return) achieved on T-Bills held in the period was 0.49%. Those purchased in the period averaged 0.48%.

2.8 Overall investment position

The chart below summarises the Council's investment position over the period 1 January to 29 February 2016. 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

No temporary borrowing has been undertaken. The Council utilised an overdraft facility on its current account with Lloyds Bank for the three day period 23 to 25 January 2016, the average amount overdrawn being £75,000.

There has been no change to the Council's long term borrowing in the reporting period, which remains at £56.673m. At the last meeting of this Committee it was explained that, if the Council were to repay loans in advance of their fixed maturity dates, the lenders would charge significant premia for premature repayment. The premium amount for each loan at the date of writing this report is shown below:

Lender	Loan £m	Interest rate	Maturity date	Premium £m
Barclays Bank plc	5.000	4.50%	April 2054	3.520
PWLB	4.000	2.63%	Sept 2023	0.492
PWLB	4.000	2.70%	March 2024	0.523
PWLB	2.000	2.76%	Sept 2024	0.275
PWLB	4.000	2.97%	Sept 2026	0.531
PWLB	4.000	3.01%	March 2027	0.663
PWLB	2.000	3.05%	Sept 2027	0.368
PWLB	5.000	3.28%	Sept 2031	0.985
PWLB	5.000	3.30%	March 2032	0.996
PWLB	5.000	3.43%	Sept 2036	1.090
PWLB	5.000	3.44%	March 2037	1.101
PWLB	6.673	3.50%	March 2042	1.631

The interest rate on the loan from Barclays Bank plc is reviewed every 4 years, the next review date being 6 April 2016. If Barclays Bank choose to increase the rate of this loan, which is unlikely, the Council can opt to repay without incurring a premium.

The Council also has a £5m variable rate loan from PWLB, which can be repaid without premium on 2 dates each year, at the time that the interest rate is refreshed.

- 3 **Financial Implications** - all relevant implications are referred to in the above paragraphs.
- 4 **Risk Management Implications** - 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.
- 5 **Equality Screening** - this is a routine report for which detailed Equality Analysis is not required to be undertaken.
- 6 **Legal Implications** - none arising from this report.
- 7 **Background Papers** - Treasury Strategy Statement
<http://www.lewes.gov.uk/council/20987.asp>

Agenda Item No:7

Report No 46/16

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

Report To: Audit and Standards Committee Date: 14 March 2016

Ward(s) Affected: All

Report By: Head of Audit, Fraud and Procurement

Contact Officer

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Purpose of Report:

To inform Councillors on the adequacy and effectiveness of the Council's systems of internal control during the first ten 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 ten 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 have applied 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 CIPFA has advised that there will be some changes to the PSIAS during 2016. HAFP will advise the Committee of the changes, and their impact on Internal Audit at LDC, as soon as they are confirmed.**

- 2.3** 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.
- 2.4** 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 ten 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 ten months of the year, compared to the annual plan that was presented to the Audit and Standards Committee in March 2015.

Table 1: Plan audit days compared to actual audit days for April 2015 to January 2016

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	301	
Central Systems	25	50	50	
Departmental Systems	79	105	59	
Performance and Management Scrutiny	39	45	27	
Computer Audit	28	55	2	
Management Responsibilities/Unplanned Audits	176	127	70	
Total	683	667	509	556

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.

- 4.2** Table 1 shows that a total of 509 audit days have been undertaken compared to the 556 planned. The variance of 47 days is mainly caused by the vacancy in the Senior Auditor post, the effect of the Principal Audit Manager (PAM) taking flexible retirement and HAFP's recent focus on procurement and governance issues. The impact of the staff changes (see 4.3 and 4.4) and the other issues that reduce the time available for audit work were reported to the January 2016 meeting of the Committee.

- 4.3 From 1 January 2016, the Principal Audit Manager (PAM) has been taking flexible retirement, with his working days per week reduced from five to three. This results 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 audit days in 2016/17. The Internal Audit Manager at Eastbourne BC has agreed to work for the Council for the equivalent of one day per week, with the time spent on specific audit projects – in the period January to March 2016 this arrangement will provide 10 days of audit work. 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 One of the Senior Auditors at LDC retired and left the Council on 19 November 2015. The vacancy has been filled and the officer commenced work with the Council on 1 March 2016. The impact of the vacancy is likely to be reduction of up to 45 days in the time available for audit work in 2015/16.
- 4.5 **Main Systems:** The testing of the major financial systems for 2014/15 was completed, and a final report issued. The results provided assurance on the adequacy of internal controls for the Annual Governance Statement (AGS), and helped to inform BDO's work on the Council's accounts. The corresponding work by Internal Audit and BDO for 2015/16 is underway.
- 4.6 The summary report on the work to test the Council's subsidy claim for Benefits for 2013/14 was finally issued. The priority work to test the Council's subsidy claim for Benefits for 2014/15 has been underway since June 2015. Initial results were passed to BDO for evaluation, and BDO confirmed that significant extra testing would be required to determine the impact of the errors noted in processing some HB applications. The timetabled date for BDO to have signed off and submitted the audited claim was at the end of November 2015, but that date was not met because of the extra work that has been required. The claim is expected to have been submitted the time of the Committee meeting.
- 4.7 **Central Systems:** Final reports were issued for the audits of Ethics 2014/15 and Health and Safety. The audits of Insurance, and Electoral Registration and Elections are at the draft report stage. The audits of Ethics 2015/16 and Cemeteries are at the planning stage.
- 4.8 **Departmental Systems:** The final reports from the audit of Building Control, Trade Waste and Housing Management were issued.
- 4.9 **Performance and Management Scrutiny:** Earlier in the year, PAM was part of the officer group that was evaluating the tenders for the systems comprising the New Service Delivery Model (NSDM). HAFP was regularly involved as a member of the project team for the procurement. The procurement of the NSDM systems was halted because it was not consistent with the strategy for shared services with Eastbourne BC.
- 4.10 During October 2015, it was confirmed that the Council will integrate staff and services with Eastbourne BC (EBC) under the Joint Transformation Program (JTP). At the moment, a full JTP business case is being developed to look in detail how joint services might work in future. HAFP is a member of the Core Group that is overseeing these developments for the Council, and PAM has been taking part in the workshops and activity analysis that are being used to gather information for the business case.

- 4.11 Computer Audit:** Internal Audit completed the IT aspects of the testing of the main financial systems.
- 4.12 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.
- 4.13** 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 in January 2015. Further matches have been received, and there are 1,640 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 areas. The work has included analysis of the matches to weed out those that are the result of error or coincidence, and then the examination of the remaining matches to assess the likelihood of fraud. So far, 873 matches have been actioned. There have been no instances of fraud found, although the exercise has identified 42 benefit overpayments resulting from error, with a total value of approximately £15,700. Any suspected cases of fraud would be passed to the Fraud Investigation Team for assessment, with any suspected cases of HB fraud forwarded to DWP under the standard procedures (see 8.7 below).

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 2014/15 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 were reported to the September 2015 meeting of the Committee.

7 Review of 2015/16 Audit Plan

- 7.1** As part of the original Committee report that detailed the Annual Audit Plan for 2015/16, HAFP advised that there would be a nine month review of the plan to assess whether any significant changes had become necessary. That review took place and the results were presented to the January 2016 meeting of the Committee.

8 Combatting Fraud and Corruption

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

- 8.1** The Annual Report on the Council's work to combat Fraud and Corruption 2014/15 was presented to the September 2015 meeting of the Committee. Some of the issues outlined below were also covered in the Annual Report. 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

- 8.2** Since 1 November 2014 the Investigation 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 8.5 -8.8).
- 8.3** The Investigation Team has maintained 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. 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.
- 8.4** The Hub is coordinated by officers at Eastbourne BC with input from ESFOG partners. Work on cases in the separate Hub authorities will continue to have priority, but increasingly activities are being coordinated to help in the development of joint approaches to common issues. For example, LDC has been sharing information with Brighton and Hove CC and Wealden DC on aspects of tenancy fraud, and Eastbourne BC is leading on Right to Buy (RTB) fraud.

LDC Investigation Team

- 8.5** During 2015/16, the team's main operational priority has been on countering tenancy fraud. Six abandoned properties have 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. Ten cases have been closed with there being no evidence of subletting or abandonment, and a further eleven cases are currently being investigated. Dealing with cases of abandonment enables properties to be returned to the housing stock, although abandonment is not regarded as fraud under the Prevention of Social Housing Fraud Act 2013.
- 8.6** NDR fraud is a development priority for the team. 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 identified nine business premises not recorded on NDR and therefore not paying business rates – the results were passed to the local team of the Valuation Office Agency (VOA) for assessment. Further visits to other industrial estates will be scheduled.
- 8.7** Internal Audit has in place an agreement with DWP for the management of cases of HB fraud. The major work on each HB case is the responsibility of the national Single Fraud Investigation Service (SFIS), but LDC retains a role in referring cases

of suspected HB fraud to SFIS and handling requests for information. A total of 137 HB cases have been passed to SFIS since April 2015, and 95 information requests have been actioned. This liaison work with DWP/SFIS can take up to 25% of the team's time. Negotiations are underway with Eastbourne BC to have the officer that manages their liaison with DWP take over the corresponding work at LDC, and thus enable the LDC Investigation Team to focus on case work in Housing and NDR.

- 8.8** LDC retains responsibility for dealing with the cases of suspected Council Tax 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 44 cases of suspected CTRS fraud under review, with ten cases having been proven and penalties administered.

9 Risk Management

General

- 9.1** 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.
- 9.2** 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.
- 9.3** 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. The report was copied to the June 2015 meeting of this Committee.

Savings programme

- 9.4** 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, with a total value of £2.9m, to the start of 2015/16. 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.
- 9.5** When setting the General Fund budget for 2016/17, the Council identified a requirement to make further savings, which will reduce spending by £2.8m over the four years to 2019/20. The target for 2016/17 is £685,000 of which £400,000 is to be generated from the Joint Transformation Programme (JTP) with Eastbourne BC. A budget has been allocated to finance the investment needed to implement the changes required through the JTP

- 9.6** There are also pressures to reduce spending on the management and maintenance of Council owned housing, with income from rents reducing as a result of measures

being introduced by the Government in 2016/17 and 2017/18. The first of these, a 1% reduction in tenants' rents for each of the next four years, will incrementally reduce income received by £2.8m by 2019/20, the total shortfall in that period being £6.9m.

- 9.7** The system of management assurance (see Section 10) 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 was reflected in the Annual Governance Statement (AGS) 2015 that was presented to the September 2015 meeting of the Committee (see Section 11).

10 System of management assurance

- 10.1** 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 ten months of the financial year to change these assessments.

11 Corporate governance

- 11.1** During February 2016, HAFP has reviewed the Council's Local Code of Corporate Governance, and concluded that the arrangements remain satisfactory and fit for purpose. The results of the review are reported to this meeting of the Committee.
- 11.2** 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 was reported to the September 2015 meeting of the Committee.

12 External assurance

- 12.1** 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.
- 12.2** Annual Audit Letter for 2014/15 (October 2015) – This report summarised the key issues from the work carried out by BDO during the year, and was presented to the November 2015 meeting of the Committee. The key issues were:
- BDO issued an unqualified true and fair opinion on the financial statements for the period ended 31 March 2015.
 - BDO identified a number of misstatements in relation to fixed asset accounting for Property, Plant and Equipment which were corrected.
 - BDO did not identify any significant deficiencies in the Council's framework of internal controls, but signed annual related party declarations had not been received from Members who were re-elected in the May 2015 elections.

- BDO concluded that, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015, and issued an unqualified value for money conclusion.
- BDO found that the Council is continuing to monitor the overall financial position, has established effective arrangements to ensure its financial resilience and is taking measures to address the budget gap identified over the period of the medium term financial plan.
- BDO noted that good progress is being made towards the transformation programme and significant savings are being secured from planned procurements.
- 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 standard guidance.
- BDO noted that the Council's Whole of Government Accounts (WGA) submission is below the threshold for full assurance review and no audit work was necessary.
- BDO reported on the results of the most recent grant claims and returns certification report that covered two claims and returns for 2013/14, with a total value of £37.5 million. Only the Housing Benefit subsidy claim for 2014/15 remains within the scope of the Audit Commission's grant certification regime, and the audit of the claim is expected to have been recently completed (see 4.6).

13 Financial Appraisal

13.1 There are no additional financial implications from this report.

14 Sustainability Implications

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

15 Risk Management Implications

15.1 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.

16 Legal Implications

16.1 There are no legal implications arising from this report.

17 Equality Screening

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

18 Background Papers

[Strategic Audit Plan 2015 to 2018](#)

19 Appendices

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

Agenda Item No:8

Report No: 47/16

Report Title: Lewes District Council – Code of Corporate Governance Update

Report To: Audit and Standards Committee **Date: 14 March 2016**

Ward(s) Affected: All

Report By: Head of Audit, Fraud and Procurement

Contact Officer(s): Name(s):David Heath
Post Titles(s): Head of Audit, Fraud and Procurement
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Purpose of Report:

To inform Councillors of the update of the Lewes District Council Code of Corporate Governance, and the progress on issues to be addressed.

Officers Recommendation(s):

- 1 To receive and consider the report.
-

Reasons for Recommendations

- 1 To ensure the Council follows best practice for corporate governance as set out in the Chartered Institute of Public Finance and Accountancy/ Society of Local Authority Chief Executives (CIPFA/SOLACE) Framework, and has effective arrangements in place.

Information

2 Background

2.1 Lewes District Council recognises the importance of effective corporate governance so that local communities can place trust in the way that the Council carries out its duties. Corporate governance for councils in simple terms is ensuring they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

2.2 At the Audit Committee meeting of 17 March 2008 Councillors approved the Council's Code of Corporate Governance to meet the requirements of the CIPFA/SOLACE Framework, "Delivering Good Governance in Local Government". The local Code is made available to the public on the Council's website and can be found at the following link
<http://www.lewes.gov.uk/council/3748.asp>

3 Lewes District Council Code of Corporate Governance

3.1 The Code brings together all of the Council's corporate governance arrangements in one place and identifies a number of issues to be addressed that will improve the Council's approach. Each financial year the Head of Audit, Fraud and Procurement in consultation with key officers reviews the Code to ensure that it remains robust and reflects the arrangements at the Council, and identifies any issues that need to be further developed.

3.2 The Code has the following six core principles:

- Focusing on the purpose of the Council and on outcomes for the community, and creating and implementing a vision for the local area.
- Members and officers working together to achieve a common purpose with clearly defined functions and roles.
- Promoting values for the Council and demonstrating the value of good governance through upholding high standards of conduct and behavior.
- Taking informed and transparent decisions which are subject to effective scrutiny and risk management.
- Developing the capacity and capability of members and officers to be effective.
- Engaging with local people and other stakeholders to ensure robust public accountability.

3.3 Appendix A provides an extract of the Code to illustrate the structure of the document. It shows:

- The individual requirements of the local code.
- Systems/processes/documentation demonstrating compliance.
- Responsibility for monitoring/review.
- Issues to be addressed, target date where known and officer responsible.

4 Review of the Code

4.1 The review has shown the Council continues to have satisfactory arrangements in place for corporate governance, and these are embodied in a range of documents and systems that are already in place at the Council, or are planned. For example:

- Council's Constitution
- Council Plan
- Medium Term Financial Strategy
- Whistleblowing Policy
- Data Quality Strategy

4.2 A small number of updates have been made to the Code to reflect developments in the Council's governance arrangements. The updated Code can be found at the following link;
<http://www.lewes.gov.uk/council/3748.asp>

4.3 Appendix B identifies the progress that has been made against the issues to be addressed that were identified in December 2014 when the Code was last reviewed.

5 Financial Appraisal

5.1 There are no additional financial implications from this report.

6 Risk Management Implications

6.1 Failure to maintain proper corporate governance arrangements can reduce the likelihood of the Council meeting its aims and objectives and attract criticism from the Council's stakeholders and the Council's external auditor. Maintenance of a local Code of Corporate Governance which concords with best practice and is regularly reviewed will ensure that the corporate governance arrangements remain effective.

7 Sustainability Implications

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

8 Legal Implications

8.1 There are no legal implications arising from the 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 None.

11 Appendices

11.1 Appendix A: Extract from the Lewes District Council Code of Corporate Governance.

11.2 Appendix B: Progress that has been made against the issues to be addressed in the Code that were identified in December 2014.

Appendix A: Extract from the Lewes District Council Code of Corporate Governance.

LEWES DISTRICT COUNCIL
CODE OF CORPORATE GOVERNANCE

CORE PRINCIPLE 1: Focusing on the purpose of Lewes District Council and on outcomes for the community and creating and implementing a vision for the local area

	Our local code will reflect the requirement to:	Systems / processes/ documentation demonstrating compliance	Responsibility for monitoring/review	Issues to be addressed, target date and officer responsible
1.1	Supporting Principle: Lewes District Council will exercise strategic leadership by developing and clearly communicating the Council's purpose and vision and its intended outcomes for citizens and service users			
a)	Develop and promote the Council's purpose and vision	<ul style="list-style-type: none"> • Council Plan • Council Tax Leaflet • District News • Website • Internal communications to staff • Hosted events 	<ul style="list-style-type: none"> • Council • Cabinet • Corporate Management Team 	Council Plan published by March 2016 to cover the period 2016-20. It will be reviewed annually. Head of Business Strategy and Performance
b)	Review on a regular basis the Council's vision for the local area and its impact on the Council's governance arrangements	<ul style="list-style-type: none"> • Review following 2015 elections • Annual review as part of business planning process • Review of Lewes District Council Local Code of Corporate Governance 	<ul style="list-style-type: none"> • Cabinet • Corporate Management Team • Reviewed annually by the Head of Audit, Fraud and Procurement and monitored by the Audit and Standards Committee through an annual update report 	Review of the Council's vision as part of the Council Plan annual review. Ongoing. Head of Business Strategy and Performance
c)	Ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all partners	<ul style="list-style-type: none"> • Partnership agreements with associated governance arrangements • Review of Lewes District Council Local Code of Corporate Governance • Guidance for partnership working • Project Initiation Documents • Corporate Management Team sign off for new projects 	<ul style="list-style-type: none"> • Cabinet • Corporate Management Team • Project Lead Officers • Head of Business Strategy and Performance 	Review of partnership arrangements annually to take account of any changes brought about by the Joint Transformation Programme. Ongoing. Head of Business Strategy and Performance

Appendix B: Progress that has been made against the issues to be addressed in the Code identified in December 2014

Requirement of Local Code	Issue to be addressed and target date	Progress against target
CORE PRINCIPLE 1: Focusing on the purpose of Lewes District Council and on outcomes for the community and creating and implementing a vision for the local area.		
Develop and promote the council's purpose and vision.	Council Plan published by July 2015. Head of Business Strategy and Performance	The plan was delayed by the change in Council Leadership but agreed by Council in February 2016 and published in March 2016. (G)
Review on a regular basis the Council's vision for the local area and its impact on the Council's governance arrangements.	Review of the Council's vision following the 2015 elections. Head of Business Strategy and Performance	Review undertaken and articulated in the Council Plan published in March 2016. (G)
Ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all partners.	Review of partnership agreements to be undertaken by March 2015. Head of Business Strategy and Performance	Partnership agreements (with key voluntary organisations) negotiated and signed off by March 2015. (G)
Publish an annual report to communicate the Council's activities and achievements, its financial position and performance.	Annual performance report published June 2015 report. Head of Business Strategy and Performance	Completed in the form of a report to the Scrutiny Committee in June 2015 and Cabinet in July 2015. (G)
	Mandatory data transparency requirements met on website by March 2015. Coordinated by Head of Audit, Fraud and Procurement	This work is mostly completed with information available on the Council's website. Some further work required on publishing purchase order information. (A)

Requirement of Local Code	Issue to be addressed and target date	Progress against target
Decide how the quality of service for users is to be measured and make sure the information needed to review service quality is available.	Service plans containing KPIs and targets published by March 2015. Head of Business Strategy and Performance	Completed and published in March 2015. (G)
Put in place effective arrangements to deal with failure in service delivery.	First performance report to the Scrutiny Committee in June 2015. Head of Business Strategy and Performance	Completed June 2015. (G)
CORE PRINCIPLE 2: Members and officers working together to achieve a common purpose with clearly defined functions and roles		
State the respective roles and responsibilities of the executive and the executive's members individual, and the Council's approach towards putting this into practice.	Revising of responsibilities for the executive function on ongoing basis to accord with wishes of the Leader. Ongoing – Head of Democratic Services	Individual Cabinet Member portfolios updated in the Constitution and on the website in December 2015 following changes to the membership of Cabinet. (G)
Set out the terms and conditions for the remuneration of members and officers and an effective structure for managing the process including and effective remuneration panel (if applicable)	Independent Remuneration Panel appointed to conduct the next full review of the Members Allowance Scheme by December 2014. Head of Democratic Services	Full Review of Members' Allowances Scheme conducted by the Independent Remuneration Panel in December 2014. Implementation of any recommendations from the Panel was subsequently deferred by Council to consider after the completion of the Electoral Review in October 2016. (A)
Ensure that effective mechanisms exist to monitor service delivery.	Covalent established as the primary performance and project management tool by January 2015. Head of Business Strategy and Performance	This was achieved by January 2015. (G)
Ensure that the organisation's vision, strategic plans, priorities and targets	Plans for future community and stakeholder engagement to be	Plans under development. Delayed due to change in staffing and changes to Cabinet Portfolios. Due for adoption by Cabinet Member for Customer and Partners March 2016. (R)

Requirement of Local Code	Issue to be addressed and target date	Progress against target
are developed in consultation with the local community and other key stakeholders and, that they are clearly articulated and disseminated.	developed by June 2015. Head of Business Strategy and Performance	
When working in partnership, ensure that members are clear about: <ul style="list-style-type: none"> • Their roles and responsibilities both individually and collectively in relation to the partnership and the Council. • The legal status of the partnership. • The extent of their authority to bind their organisations to partner decisions. 	Review guidance for partnership working by March 2015. Head of Business Strategy and Performance	Review started but delayed due to staffing changes. Due to be completed by March 2016. (R)
CORE PRINCIPLE 3: Promoting values for the council and demonstrating the values of good governance through upholding high standards of conduct and behaviour		
Ensure that standards of conduct and personal behaviour expected of members and staff, of work between members of staff and between the Council, its partners and the community are define and communicated through codes of conduct and protocol's.	Officer's Code of Conduct updated in liaison with Human Resources by December 2014. Head of Democratic Services and HR Manager	Officers' Code of Conduct updated by HR Manager in liaison with Head of Democratic Services. Revised Code agreed by Council on the 25 February 2016 (G)
Put in place arrangements to ensure members and employees of the council are not influenced by prejudice, bias or		

Requirement of Local Code	Issue to be addressed and target date	Progress against target
conflicts of interest in dealing with different stakeholders.		
Develop and maintain shared values for both the organisation and staff reflecting public expectations, and communicate these with member, staff and the community and partners.	<p>Officer's Code of Conduct updated in liaison with Human Resources by December 2014. Head of Democratic Services and HR Manager</p> <p>Induction programme to include Code of Conduct training for Councillors by May 2015. Head of Democratic Services</p>	<p>Officers' Code of Conduct updated by HR Manager in liaison with Head of Democratic Services. Revised Code agreed by Council on 25 February 2016. (G)</p> <p>Code of Conduct training sessions provided for Councillors on 13 and 20 May 2015 as part of Induction Programme. (G)</p>
Agree a set of values for partnerships against which decision making can be judged.	<p>Review guidance for partnership working by March 2015. Head of Business Strategy and Performance</p>	<p>Review started but delayed due to staffing changes. Due to be completed by March 2016. (R)</p>
CORE PRINCIPLE 4: Taking informed and transparent decisions which are subject to effect scrutiny and risk management		
Put in place arrangements to safeguard members and employees against conflicts of interest and ensure that continue to operate in practice.	<p>Officer's Code of Conduct updated in liaison with Human Resources by December 2014. Head of Democratic Services and HR Manager</p>	<p>Officers' Code of Conduct updated by HR Manager in liaison with Head of Democratic Services. Revised Code agreed by Council on 25 February 2016. (G)</p>

Requirement of Local Code	Issue to be addressed and target date	Progress against target
Ensure those making decisions for the Council or partnerships are provided with information that is fit for purpose, relevant, timely and gives clear explanations of technical issues and their implications..	Covalent established as the primary performance and project management tool by January 2015. Head of Business Strategy and Performance Review Data Quality guidance in light of move to Covalent by July 2015 Head of Business Strategy and Performance	This was achieved by January 2015. (G) Data Quality guidance review delayed due to staffing changes. Information Governance Officer to undertake the review by April 2016. (R)
Ensure that effective arrangements for whistleblowing are in place to which officers, staff and all those contracting with or appointed by the authority have access.	Revised Whistleblowing Policy issued by June 2015. HR Manager and Head of Audit, Fraud and Procurement	The revised Whistleblowing Policy was agreed by the Employment Committee at its September 2015 meeting subject to any comments being incorporated from the Employees' Side. Final queries are currently being resolved with Unison before publishing. (A)
CORE PRINCIPLE 5: Developing the capacity and capability of members and officers to be effective		
Provide induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis.	Results from Councillors Survey to inform Induction Training Programme for Councillors. Head of Democratic Services	Responses received from prospective Councillors' Survey used to inform Induction Training Programme in May 2015. (G)
Assess the skills required by members and officers and make a commitment to develop those skills to enable roles to be carried out effectively.	Structured Councillors' Training and Development Programme to be implemented during 2015. Head of Democratic Services	Individual member training needs analysis carried out to inform structured Councillors' Training and Development Programme to be implemented during 2016. (A)
CORE PRINCIPLE 6: Engaging with local people and other stakeholders to ensure robust public accountability		
Produce an annual report on the activity of the scrutiny function.	Reporting to be integrated into the Annual Performance Report by June 2015. Head of Business Strategy and Performance	Scrutiny annual report integrated into the annual performance report in June 2015. (G)

Requirement of Local Code	Issue to be addressed and target date	Progress against target
Ensure clear channels of communication with all sections of the community and other stakeholders and ensure effective monitoring arrangements.	Corporate approach to communications being reviewed as part of the establishment of Business Strategy and Performance Team by end of March 2015. Head of Business Strategy and Performance	Corporate approach to communications has been reviewed, and a restructured team established January 2015. (G)
Ensure that arrangements are in place to enable the authority to engage with all sections of the community effectively. These arrangements should recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands.	Equalities Working Group to be reviewed by December 2014. Head of Business Strategy and Performance	Group reviewed and reconstituted in December 2014. (G)
Establish a policy on consultation with the public and service user, including a feedback mechanism for consultees to demonstrate what has changed as a result.	Plans for future community and stakeholder engagement to be developed by June 2015. Head of Business Strategy and Performance	Plans under development. Delayed due to change in staffing and changes to Cabinet Portfolios. Due for adoption by Cabinet Member for Customers and Partners by March 2016. (R)
Publish an annual performance plan giving information on the authority's vision, strategy, plans and financial statements as well as information about its outcomes, achievements and the satisfaction of service users in the previous period.	Annual performance report to Cabinet by June 2015. Head of Business Strategy and Performance	Completed in the form of a report to the Scrutiny Committee in June 2015 and Cabinet in July 2015. (G)

Requirement of Local Code	Issue to be addressed and target date	Progress against target
<p>Ensure that the authority as a whole is open and accessible to the community, service users and its staff and ensure that has made a commitment to openness and transparency in all its dealings, including partnerships, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so.</p>	<p>Mandatory data transparency requirements met on website by March 2015. Coordinated by Head of Audit, Fraud and Procurement</p>	<p>This work is mostly completed with information available on the Council's website. Some further work required on publishing purchase order information. (A)</p>

Green (G)	Completed	Amber (A)	Underway	Red (R)	Delayed
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Agenda Item No: **Report No: 48/16**

Report Title: **Annual Audit Plan 2016/17**

Report To: **Audit and Standards Committee** **Date: 14 March 2016**

Ward(s) Affected: **All**

Report By: **Head of Audit, Fraud and Procurement**

Contact Officer

Name: **David Heath**

Post Title: **Head of Audit, Fraud and Procurement**

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Purpose of Report:

To present to Councillors the Annual Audit Plan for 2016/17.

Officers Recommendation(s):

- 1 To agree the Annual Audit Plan for 2016/17 (as shown at Appendix 1)
- 2 To note the change from the previous approach that included a three year Strategic Audit Plan – this change recognises the specific circumstances arising from the Joint Transformation Programme (JTP), via which Lewes District Council (LDC) will integrate its staff and services with Eastbourne Borough Council (EBC) (as shown at Section 2).

Reasons for Recommendations

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

Information

1 Background

- 1.1 The Internal Audit function at Lewes operates in accordance with the auditing guidelines published by the Chartered Institute of Public Finance and Accountancy (CIPFA). CIPFA, with the other governing bodies that set auditing standards for the various parts of the public sector, adopted a common set of Public Sector Internal Audit Standards (PSIAS) that have applied since 1 April 2013.

- 1.2** The 2013 PSIAS require the Head of Audit, Fraud and Procurement (HAFP) to prepare a strategic statement of how the Internal Audit service will be delivered and developed in accordance with the Internal Audit Charter, and for there to be a risk based plan that sets out the priorities for Internal Audit activity.
- 1.3** As previously, the main focus of the planning process is on the first year of the Strategic Audit Plan, which provides the Annual Audit Plan for 2016/17. HAFP is proposing a specific change to the normal planning process in which only the Annual Audit Plan for 2016/17 is presented to the Committee for approval – the reasons for this proposal are given at Section 2 below.

2 Impact of the Joint Transformation Programme (JTP)

- 2.1** The strategic statement and the audit plan are normally combined into a three year Strategic Audit Plan that is presented to the Audit and Standards Committee for approval. HAFP is proposing a specific change to the normal planning process to recognise the impact of the JTP.
- 2.2** LDC and EBC have agreed to a Joint Transformation Programme (JTP) which will create a more flexible, customer focussed and cost effective way of delivering services by integrating both councils to form a single team. A number of services (eg Human Resources, Legal Services, Properties and Facilities (Corporate Landlord Service)) have already integrated, or are in the process of integration, to deliver shared services. Other LDC teams are at an early stage in the move towards integration but are expected to make significant progress during 2016/17.
- 2.3** The changes that will be come about as integration moves forward are likely to be such that Internal Audit is not be able to prepare a meaningful programme of audits for the second and third years of the Strategic Audit Plan. Accordingly, HAFP is recommending a change from previous practice and is presenting only the Annual Audit Plan for 2016/17 to the Audit and Standards Committee.
- 2.4** As part of the overall integration process, HAFP is working towards a shared service for Audit and Fraud at LDC and EBC. It is anticipated that, by March 2017, there will have been significant progress towards full integration and it is possible that the Annual Audit Plan for 2017/18 will be a joint plan with EBC.

3 Purpose and Objectives

- 3.1** In order to comply with the 2013 PSIAS the Annual Audit Plan is required to:
- Show a plan of Internal Audit engagements that is based on a documented risk assessment, undertaken at least annually.

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

4 Aims and Objectives for Internal Audit

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

4.2 The Internal Audit function is provided internally, and has the following service objectives:

- To provide an efficient and effective Internal Audit function which achieves its service standards, and improves performance where possible.
- To deliver the Council's Annual Audit Plan.
- To provide an efficient and effective Investigations Team that supports the Council's Anti-Fraud and Corruption Strategy by carrying out a planned programme of work to help prevent and detect fraud, and provide resources to investigate suspected fraud cases.

4.3 The desired outcome is for the Council to be able to demonstrate an effective control environment with no significant control issues, and to provide a satisfactory and unqualified audit opinion in its Annual Governance Statement (AGS).

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

5 Planning Assumptions

5.1 In preparing the Annual Audit Plan, HAFP has taken account of the adequacy and outcomes of the Council's risk management, corporate governance and other

assurance processes. The Annual Audit Plan has been drawn up on the basis that Internal Audit will:

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

6 Relationship with BDO

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

6.2 Since 2013/14 Internal Audit has decided the scope and content of the work on the key financial systems that will be required to obtain the necessary assurance for the purposes of the AGS. This arrangement will continue and, through negotiation, Internal Audit will ensure that the BDO requirements for information on the adequacy of controls will continue to be met.

6.3 During 2015/16, Internal Audit has worked with BDO in carrying out testing of the Housing Benefits subsidy grant claim for the previous year of account, with the increased levels of testing requiring more Internal Audit resources than previously. To ensure that the resources required for these audits remain proportionate, Internal Audit will limit coverage to those parts of the systems that must be verified for the grant claims and the annual system testing, plus any other controls highlighted by risk assessments.

7 Other sources of assurance

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

Preparation of the Annual Audit Plan

8 Review of Key Council Activities

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

Council Transformation

8.2 As noted in Section 2, the Council is undergoing a significant transformation. Any Internal Audit work arising from transformation projects, community initiatives or linked policy commitments will be accounted for under Council Transformation within Performance and Management Review.

8.3 Internal Audit will review the Annual Plan for 2016/17 after nine months to assess whether any significant changes are necessary in response to the ongoing restructuring of the Council. A report on the results of the review will be presented to the January 2017 meeting of the Committee.

Key Financial Systems

8.4 Internal Audit undertakes the review and testing of the key financial systems every year to provide assurance for the AGS. The work for the 2015/16 exercise is underway. To help in the planning and monitoring of the reviews of the key financial systems, the resource requirements are shown against each key system with only

the time required for the management and coordination of the overall exercise shown under the heading Managed Audit.

Computer Audit

8.5 The Computer Audit coverage includes provision for:

- The testing of key IT controls as part of the annual work on the key financial systems.
- A combined audit of IT Security and IT Networks. A risk assessment and gap analysis indicated that the separate audit of IT Networks was no longer necessary.

General

8.6 The Annual Plan includes a contingency for unforeseen work (Unplanned Work) that enables Internal Audit to be flexible and to adapt its coverage to address changing priorities.

8.7 The Annual Plan includes two studies to be conducted jointly with EBC. One study is an examination of the two councils' response to the Government's national security strategy to counter terrorism. The other is a review of each council's relationship with its respective leisure trust.

8.8 There has been consultation with CMT on the content of the Annual Plan for 2016/17.

9 Application of the Risk Assessment Model

9.1 The risk model assesses each activity under six categories: financial materiality, system stability, sensitivity, complexity, inherent risk and the adequacy of internal control. Each category is scored on a scale from 1 to 9, with the greater risks receiving the higher scores. The total score for all activities determines the frequency of audit coverage. Audits are assigned to one of three frequency bandings as follows:

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

9.2 This assessment process has been applied for the current exercise, but only the audits allocated to the audit programme for 2016/17 are shown. Some activities occur every year and are not subject to the risk assessment process. These include the work on risk management, corporate governance, and the transformation programme that are included at Performance and Management Review. There are

also ongoing Management Responsibilities such as the support to the Audit and Standards Committee, Follow Up and Liaison with External Audit.

- 9.3** The assignments within the Annual Audit Plan are prioritised, and this forms the basis for the scheduling of audit work. The Annual Audit Plan for 2016/17 (at Appendix 1) shows the assignments categorised as High, Medium or Low priority.

10 Investigations Team

- 10.1** From 1 November 2014, the Investigations Team has been part of Internal Audit within the Audit, Fraud and Procurement Division. The work of the team is planned in accordance with a programme of development and case management priorities.

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

- 10.3** Alongside this development work the Investigations Team will investigate reported cases of suspected fraud, initially concentrating on Council Tax Reduction fraud and tenancy fraud, and then moving onto the detection and investigation of suspected NDR fraud. There also remains a commitment - reinforced by a formal SLA - for the LDC Investigations Team to support the DWP's Single Fraud Investigation Service (SFIS) in the handling of cases of Housing Benefit fraud. Preparations are being made to share this work with the Investigations Team at EBC to make best use of resources.

11 Allocation of Staff Resources

Internal Audit

- 11.1** The current level of staffing (3.1FTE) has been assumed for the Annual Audit Plan 2016/17. This staffing reflects the changes that took place on 1 January 2016 when the Principal Audit Manager (PAM) began taking flexible retirement - the full year effect is a reduction in planned audit time of approximately 80 days. To partly offset this reduction, the Internal Audit Manager at Eastbourne BC has agreed to work for the Council for the equivalent of one day per week, with the time spent on specific audit projects.

- 11.2** Internal Audit forms part of the Audit, Fraud and Procurement Division that is responsible for a range of activities related to corporate governance, risk management and procurement. The Annual Audit Plan includes a 75/25 apportionment of the time of HAF between these other activities and internal audit

work. When Internal Audit examines one of these other activities, this work is done entirely independently of HAFP who has no role in the audit other than as a client.

Investigations Team

11.3 The current level of staffing (1.4 FTE) has been assumed for the Annual Audit Plan 2016/17.

Summary

11.4 The outline plan of Internal Audit assignments and the main areas of work for the Investigations Team are given at Appendix 1. The resources assigned to these tasks are after making provision for administration, training, leave and sickness.

12 Financial Appraisal

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

13 Sustainability Implications

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

14 Risk Management Implications

14.1 I have completed a risk assessment in accordance with the Council's Risk Management methodology. The following risks and mitigating factors have been identified.

14.2 If the Council cannot demonstrate an effective Internal Audit function it will not meet its statutory obligations. The Annual Audit Plan, together with the associated monitoring of the plans via the regular reporting to the Audit and Standards Committee, represents a key part of the control framework that helps to ensure the effectiveness of Internal Audit.

15 Legal Implications

15.1 There are no legal implications arising from this report.

16 Equality Screening

16.1 I have given due regard to equalities issues and, as this is an internal planning report with no key decisions, screening [Page 35 of 59](#) is not required.

17 Background Papers

None.

18 Appendices

Appendix 1 Annual Audit Plan 2016/17

Appendix 1

LEWES DISTRICT COUNCIL: ANNUAL AUDIT PLAN 2016/17

Audit Area	2016/ 2017 Days	Priority
Key Financial Systems		
Cash and Bank	10	HIGH
Council Tax	10	HIGH
Council Tax Reduction Scheme	10	HIGH
Expenditure and Creditors	15	HIGH
Fixed Assets	10	HIGH
Grant Claims	160	HIGH
Housing Benefit	10	HIGH
Housing Rents	10	HIGH
Income and Debtors	10	HIGH
Investments and Investment Income	10	HIGH
Main Accounting System	10	HIGH
Managed Audit	5	HIGH
NNDR	10	HIGH
Payroll and Employment Costs	10	HIGH
	290	
Central Systems		
Business Continuity Planning	20	MEDIUM
Ethics	10	HIGH
Newhaven Business Centre	15	LOW
Prevent and Protect (Joint review with EBC)	5	HIGH
Leisure Trusts (Joint review with EBC)	20	MEDIUM
	70	
Departmental Systems		
Cemeteries	15	LOW
Estates Management	20	MEDIUM
Members Allowances & Civic Expenses	15	LOW
Private Sector Housing	20	LOW
	70	
Performance & Management Review		
Review - Council Transformation	25	
Review - Risk Management/Corporate Governance	20	
	45	
Computer Audit		
Disaster Recovery	20	MEDIUM
IT Security and Networks	20	MEDIUM
IT Managed Audit	5	HIGH
	45	

Audit Area	2016/ 2017 Days	Priority
Management Responsibilities		
Audit and Standards Committee	15	
Audit Planning	10	
Data Matching	5	
Financial Vetting	2	
Follow Up	5	
ESFOG/Hub/Sussex Audit Group	5	
Fraud Team Planning and Review	10	
Liaison with External Audit	4	
	56	
Unplanned Audits / Investigations		
Unplanned Audits / Investigations	60	
	60	
Internal Audit Total	636	
Investigations Team		
Council Tax Reduction Scheme Fraud	40	
Data Matching/Other Fraud	10	
Housing Benefit Fraud	20	
NDR Fraud	120	
Procurement Fraud	5	
Tenancy Fraud	93	
Fraud Management Responsibilities	20	
Investigations Team Total	308	
Internal Audit and Investigations Team Total	944	

Notes

The Internal Audit assignments within the Annual Audit Plan are prioritised on the basis of risk assessments, and this informs the scheduling of audit work. Management Responsibilities and Performance and Management Review have no priorities assigned to the tasks, which take place every year.

LEWES DISTRICT COUNCIL

PLANNING REPORT TO THE AUDIT AND STANDARDS COMMITTEE
Audit for the year ending 31 March 2016

24 February 2016

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INTRODUCTION

PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements and use of resources of Lewes District Council (the Council) for the year ending 31 March 2016. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

This report has been prepared solely for the use of the Audit and Standards Committee.

In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person to whom it is shown or into whose hands it may come, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

YOUR BDO TEAM



Name	Contact details	Key responsibilities
JANINE COMBRINCK Engagement Lead	Tel: 020 7893 2631 janine.combrinck@bdo.co.uk	Oversee the audit and sign the audit report
JODY ETHERINGTON Project Manager	Tel: 01473 320790 jody.etherington@bdo.co.uk	Management of the audit
TAWANDA MUTENGA Senior	Tel: 01473 320711 tawanda.mutenga@bdo.co.uk	Day to day supervision of the on-site audit

Janine Combrinck is the engagement lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements and use of resources. In meeting this responsibility, she will ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that:

- the financial statements are free from material misstatement, whether due to fraud or error
- the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

She is also responsible for the overall quality of the engagement.

OUR CLIENT SERVICE COMMITMENT TO YOU

CLIENT SERVICE EXPECTATIONS

1

High quality audit service at a reasonable cost.

2

A quality team, with relevant expertise.

3

Clear communication.

4

Concentrating our work on areas of higher risk.

5

Avoiding surprises through timely reporting of issues.

6

Consulting with management to resolve matters early.

7

Meeting deadlines.

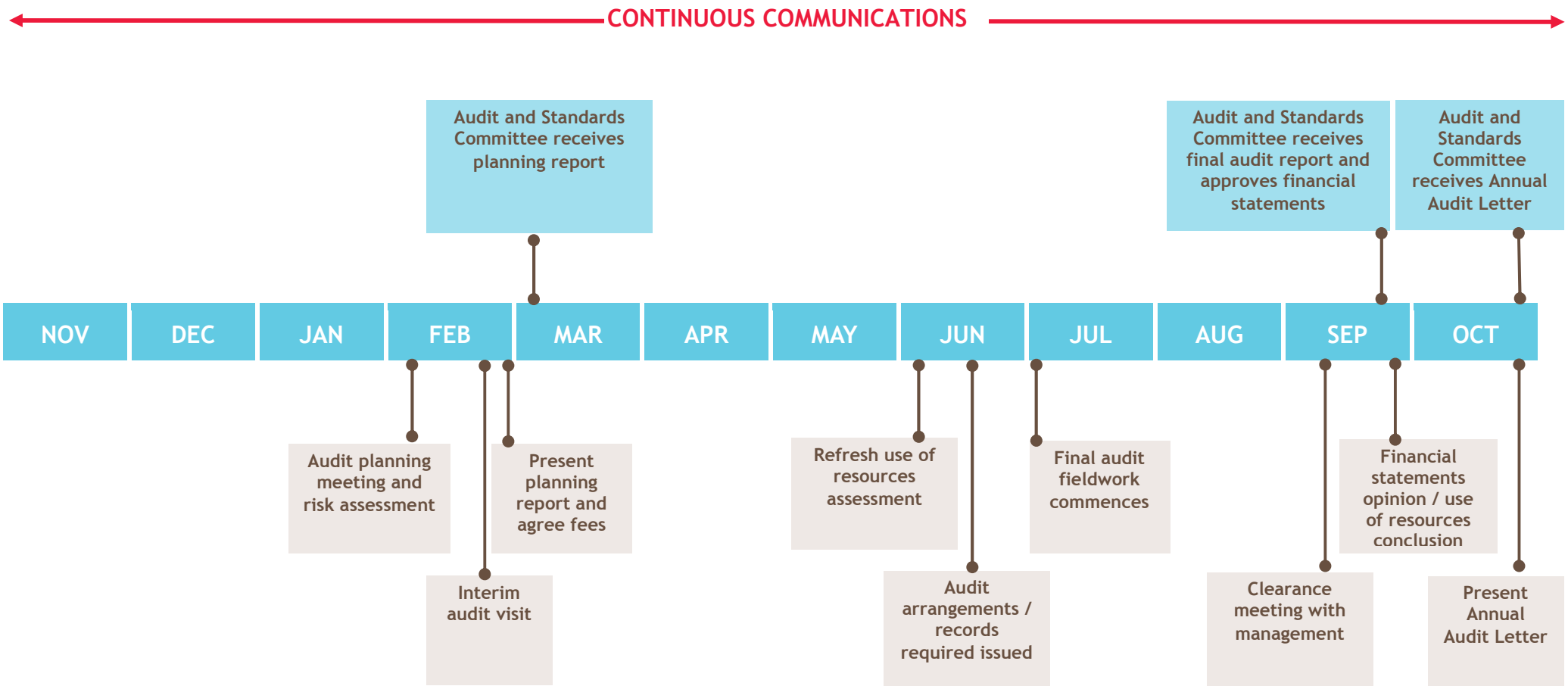
8

Identifying shortcomings in controls and processes.

ENGAGEMENT TIMETABLE

TIMETABLE

The timeline below identifies the key dates and anticipated meetings for the production and approval of the audited financial statements and completion of the use of resources audit.



AUDIT SCOPE AND OBJECTIVES

SCOPE AND OBJECTIVES

Our audit scope covers the audit in accordance with the National Audit Office (NAO) Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the NAO.

To form an opinion on whether:

FINANCIAL STATEMENTS		OTHER INFORMATION	WGA CONSOLIDATION	USE OF RESOURCES
<p>1 The financial statements give a true and fair view of the financial position of the authority and its expenditure and income for the period in question.</p>	<p>2 The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.</p>	<p>3 Other information published together with the audited financial statements is consistent with the financial statements (including the governance statement).</p>	<p>4 The return required to facilitate the preparation of WGA consolidated accounts is consistent with the audited financial statements.</p>	<p>5 The authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>

ADDITIONAL POWERS AND DUTIES

- 6** To consider the issue of a report in the public interest, where necessary.
To make a written recommendation to the authority, where necessary.
- 7** To allow electors to raise questions about the accounts and consider objections.
To apply to the court for a declaration that an item of account is contrary to law, where necessary.
To consider whether to issue an advisory notice or to make an application for judicial review, where necessary.

MATERIALITY

COUNCIL MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Council	£1,630,000	£32,000

Please see Appendix I for detailed definitions of materiality and triviality.

Planning materiality for the Council has been based on 2% of the prior year gross expenditure. This will be revisited when the draft financial statements are received for audit.

The clearly trivial amount is based on 2% of the materiality level.

OVERALL AUDIT STRATEGY

We will perform a risk based audit on the Council's financial statements and use of resources

This enables us to focus our work on key audit areas.

Our starting point is to document our understanding of the Council's business and the specific risks it faces. We discussed the changes to the business and management's own view of potential audit risk during our planning meetings in order to gain an understanding of the Council's activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

For the financial statements audit, we also confirm our understanding of the accounting systems in order to ensure their adequacy as a basis for the preparation of the financial statements and that proper accounting records have been maintained.

For the use of resources audit, we consider the significance of business and operational risks insofar as they relate to 'proper arrangements', including risks at both sector and authority-specific level, and draw on relevant cost and performance information as appropriate.

We then carry out our audit procedures in response to risks.

Risks and planned audit responses

For the financial statements audit, under International Standard on Auditing 315 "Identifying and assessing the risks of material misstatement through understanding the entity and its environment", we are required to consider significant risks that require special audit attention.

In assessing a risk as significant, we exclude the effects of identified controls related to the risk. The ISA requires us at least to consider:

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties

- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

For the use of resources audit, the NAO has provided information on potential significant risks such as:

- Organisational change and transformation
- Significant funding gaps in financial planning
- Legislative or policy changes
- Repeated financial difficulties or persistently poor performance
- Information from other inspectorates and review agencies suggesting governance issues or poor service performance.

We consider the relevance of these risks to the Council in forming our risk assessment and audit strategy.

Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will consider these reports as part of our audit planning and consider whether to place any reliance on internal audit work as evidence of the soundness of the control environment.

KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk ■ Other issue

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Management override	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under International Standard on Auditing (UK and Ireland) 240 “The Auditor’s responsibility to consider fraud in an audit of financial statements”, there is a presumed significant risk of management override of the system of internal controls.</p>	<p>Our audit is designed to provide reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent. We consider the manipulation of financial results through the use of journals and management estimates as a significant fraud risk.</p> <p>In every organisation, management may be in a position to override routine day to day financial controls. Accordingly, our audit has been designed to consider this risk and adapt procedures accordingly.</p>	Not applicable.
Revenue recognition	<p>Under International Standard on Auditing 240 there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the completeness, accuracy and existence of income.</p> <p>We consider there to be a significant risk over the completeness, existence and accuracy of income in relation to fees and charges recorded in the Comprehensive Income & Expenditure Statement (CIES).</p>	<p>We will carry out audit procedures to gain an understanding of the Council’s internal control environment for fees and charges, including how this operates to prevent loss of income, and ensure that income is recognised in the correct accounting period.</p> <p>We will carry out focussed substantive testing on a sample of income received and debtor accruals to ensure that accounting policies have been correctly applied in determining the point of recognition of income.</p> <p>We will also use analytical procedures, drawing upon our understanding of the Council’s revenue streams, to gain assurance over the completeness of income.</p>	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Property, plant and equipment (PPE) valuations</p>	<p>The Code requires management to carry out a full valuation of its land and buildings on a periodic basis (at least every 5 years). In the intervening years, management is required to assess whether there has been a material change in the value of its assets which should be accounted for.</p> <p>This year, the Council has appointed an external valuer to carry out a full five-yearly valuation of Council dwellings. Other land and buildings were last revalued at 1 April 2014.</p> <p>In addition, the adoption of IFRS 13 “Fair Value Measurement” in 2015/16 now requires surplus assets to be valued at fair value based on their ‘highest and best’ use, where there are no restrictions to the market, which may differ from the ‘existing use’ values previously used. Our discussions with management have indicated that the Council holds a number of assets which may fall into this category, and which will need to be revalued at fair value.</p> <p>Due to the significant value of land and buildings, and the high degree of estimation uncertainty, we consider there to be a significant risk of material misstatement in respect of the valuation of PPE.</p> <p>We also note that during the prior year’s audit we identified a significant level of misstatement in the draft financial statements in respect of how PPE revaluations had been accounted for, which resulted in material adjustments to the financial statements. As such, we also consider there to be a significant risk of material misstatement in respect of the</p>	<p>For formal valuations carried out in the year, we will review the instructions provided to the valuer and review the valuer’s skills and expertise in order to determine if we can rely on the management expert used.</p> <p>We will check whether the basis of valuation for assets valued in year is appropriate based on their usage. We will also consider whether there have been any material movements in the value of non-current assets between valuation dates and year end, which would need to be accounted for.</p> <p>We will review the Council’s listing of non-current assets at year-end, to check whether all surplus assets have been revalued at fair value. We will also review a sample of other assets to consider whether they are correctly classified within the PPE note.</p> <p>We will agree all significant revaluation movements to supporting documentation, and check that these movements have been correctly accounted for and presented within the PPE note, CIES, and reserves.</p>	<p>We will review indices and price movements for classes of assets provided by Gerald Eve LLP to assess the reasonableness of the Council’s valuations.</p>

accuracy of presentation of PPE and related revaluation and impairment transactions posted to the CIES and reserves.

KEY AUDIT RISKS AND OTHER MATTERS Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Pension liability assumptions	<p>The net pension liability comprises the Council's share of the market value of assets held in the East Sussex County Council Pension Fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is required to be based on the most up to date membership data held by the pension fund and have regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p>	<p>We will obtain assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.</p> <p>We will review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.</p> <p>We will agree the disclosure to the information provided by the actuary.</p>	<p>We will agree the disclosures to the report received from the Council's actuary.</p> <p>We will use the PwC consulting actuary report commissioned by Public Sector Audit Appointments Limited (PSAA) for the review of the methodology of the actuary and reasonableness of the assumptions used.</p>
Senior officer remuneration note	<p>We note that there have been a number of changes at senior management level within the Council during 2015/16. This introduces an increased risk of error in respect of the senior officer remuneration note, in terms of ensuring that all senior officers are included for the correct periods, and that where posts are shared with another authority, the appropriate Code disclosure requirements are complied with. The Council will also need to ensure that any exit packages are appropriately disclosed.</p>	<p>We will review the senior officer remuneration note against supporting documentation such as contracts and payslips.</p> <p>We will check that all Code requirements have been complied with through the completion of a disclosure checklist.</p> <p>We will gain assurance over the completeness of exit package disclosures through discussion with management, review of Cabinet and Council minutes, and review of relevant ledger codes.</p>	<p>Not applicable.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Financial instrument disclosures	During the prior year audit, we identified a number of errors within the draft financial instruments notes, including omissions within the fair value disclosure tables, an incorrect methodology being applied to the presentation of maturity analysis figures, and the incorrect treatment of debtor impairments. In addition, no sensitivity analysis was provided in the 'Market Risk' section of the note.	<p>We will review the disclosures in the draft Statement of Accounts against supporting working papers, and other parts of the financial statements.</p> <p>We will complete a disclosure checklist to gain assurance over the completeness and presentation of the financial instrument disclosures.</p>	We will refer to any financial instrument valuations provided by the Council's investment managers or advisers. Where relevant, we will carry out additional procedures to confirm the competence, independence and objectivity of the management experts employed by the Council.
Narrative reporting	The Council will be required to produce a 'Narrative Report' replacing the Explanatory Foreword in the financial statements. The Narrative Report includes additional information not previously included in the Explanatory Foreword.	We will review the Narrative Report to ensure that it complies with current guidance and regulations.	Not applicable.
Fraud and error	<p>We are required to discuss with you the possibility of material misstatement, due to fraud or error, and reassess this throughout the audit.</p> <p>We are informed by management that there have not been any cases of material fraud or error, to their knowledge.</p>	We will continue to consider this throughout the audit process and discuss with management.	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - USE OF RESOURCES

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Sustainable finances</p>	<p>The Council's Medium Term Financial Strategy (MTFS) was updated in February 2016 to cover the four year period to 2019/20. This indicates that the Council is required to make an average level of savings of £705,000 per annum over the four year period. The Council has identified savings which exceed this target by £365,000, although delivery is likely to be challenging and will require further difficult decisions around service provision and alternative delivery models.</p> <p>The Council is currently in the process of undergoing a major transformation programme to help facilitate these savings through closer joint working with Eastbourne Borough Council, both in the provision of frontline services and the organisation of back office functions.</p> <p>Other savings identified by the Council include a reduction in service fees paid to Wave Leisure Trust; the phasing out of Local Council Tax Support grants to town and parish councils; income generation from solar, waste and recycling; and regeneration schemes.</p> <p>There is a risk that the MTFS does not adequately take account of the investment costs and savings associated with these projects.</p>	<p>We will review the reasonableness of the assumptions in the MTFS, including the level of Government grant reductions expected, cost pressures, and investment and savings associated with the transformation programme.</p> <p>We will review the arrangements in place for the Council to make informed decision making in relation to its transformation programme. In particular, we will consider how the Council understands and uses reliable financial information to make decisions and how it supports the delivery of strategic priorities, as well as reviewing the governance structures and processes in making decisions.</p>	<p>Business case, including sensitivity analysis of future outcomes, for the Council's transformation programme.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - USE OF RESOURCES

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>New homes project</p>	<p>In July 2015, the Council signed a Conditional Sale Agreement and Profit Share and Project Management Agreement with a private sector consortium, in respect of a project to raise funds to allow the Council to build a number of new Council homes across the district, and at the same time to bring regenerative benefits to a number of sites.</p> <p>This was meant to have been a significant project involving the sale of a number of the Council's surplus land assets, and substantial investment from both the Council and the consortium.</p> <p>In February 2016 a decision was taken by Cabinet to terminate this agreement as a result of the non-satisfaction of title and ground conditions in respect of key sites within the project.</p> <p>Given the scale of the project, there is a risk to our use of resources opinion if due process was not followed by the Council in entering into the contract and terminating the contract.</p>	<p>We will review the governance and decision making processes followed by the Council in entering into the Conditional Sale Agreement, and subsequently terminating the agreement, to determine whether the Council's own internal processes were followed and whether these were sufficient to ensure that appropriately informed decisions were made. This will involve a review of relevant documents and Cabinet minutes, and discussions with management and officers involved in the project.</p>	<p>Not applicable.</p>

INDEPENDENCE

INDEPENDENCE

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit and Standards Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ending 31 March 2016.

We are not planning to provide any non audit services.

We have not identified any other potential threats to our independence as auditors.

We confirm that the firm complies with the Financial Reporting Council’s Ethical Standards for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement lead and audit staff is not impaired. These policies include engagement lead and manager rotation. The table in appendix II sets out the length of involvement of key members of the audit team and the planned year of rotation.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

FEES

FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2016 are:

	£
Code fee - audit of financial statements	46,418
Code fee - certification of housing benefit subsidy claim	14,960
Fees for audit related services - review of the pooling of housing capital receipts return	1,500
TOTAL FEES	62,878

Code audit fee invoices for the audit of financial statements will be raised as set out below, following which our firm's standard terms of business state that full payment is due within 14 days of receipt of invoice:

- Instalment 1: £11,604.50 in June 2015
- Instalment 2: £11,604.50 in September 2015
- Instalment 3: £11,604.50 in December 2015
- Instalment 4: £11,604.50 in March 2016

Fee invoices for other audit related services will be raised as the work is completed.

Our fee is based on the following assumptions

The complete draft financial statements and supporting work papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.

Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the final audit fieldwork.

We will receive only one draft of the financial statements prior to receiving the final versions for signing.

Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

APPENDIX I: MATERIALITY

CONCEPT AND DEFINITION

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.
- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.
- Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):
 - Narrative disclosure e.g. accounting policies, going concern
 - Instances when greater precision is required (e.g. senior management remuneration disclosures).
- International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower level of materiality for particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

CALCULATION AND DETERMINATION

- We have determined materiality based on professional judgement in the context of our knowledge of the Council, including consideration of factors such as sector developments, financial stability and reporting requirements for the financial statements.
- We determine materiality in order to:
 - Assist in establishing the scope of our audit engagement and audit tests
 - Calculate sample sizes
 - Assist in evaluating the effect of known and likely misstatements on the financial statements.

APPENDIX I: MATERIALITY

Continued

REASSESSMENT OF MATERIALITY


- We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.
- Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope. If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.
- You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

UNADJUSTED ERRORS

- In accordance with auditing standards, we will communicate to the Audit and Standards Committee all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.
- Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.
- We will obtain written representations from the Audit and Standards Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.
- There are a number of areas where we would strongly recommend/request any misstatements identified during the audit process being adjusted. These include:
 - Clear cut errors whose correction would cause non-compliance with statutory requirements, management remuneration, other contractual obligations or governmental regulations that we consider are significant.
 - Other misstatements that we believe are material or clearly wrong.

APPENDIX II: INDEPENDENCE

INDEPENDENCE - ENGAGEMENT TEAM ROTATION		
SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED	ROTATION TO TAKE PLACE IN YEAR ENDING
JANINE COMBRINCK - Engagement lead	1 year as engagement lead and 2 years as project manager	31 March 2018
JODY ETHERINGTON - Project manager	2 years as project manager	31 March 2024



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

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