

## Audit and Standards Committee

**Minutes** of a meeting of the **Audit and Standards Committee** held in the **Ditchling Room, Southover House, Southover Road, Lewes** on **Monday, 20 June 2016** at 10.00am

### **Present:**

Councillor M Chartier (Chair)  
Councillors N Enever, S Gauntlett and I Linington

### **Officers Present:**

D Heath, Head of Audit, Fraud and Procurement  
S Jump, Head of Finance  
I Morris, Head of Planning & Revenues (Minute Nos 1 to 5)  
J Norman, Committee Officer

### **Also Present:**

J Combrink, Public Sector Assurance, BDO

## Minutes

## Action

### **1 Minutes**

The Minutes of the meeting held on 14 March 2016 were approved as a correct record and signed by the Chair.

### **2 Apologies for Absence**

An apology for absence had been received from Councillor T Rowell.

### **3 Urgent Items**

The Chair reported that he had agreed, in accordance with Section 100B(4)(b) of the Local Government Act 1972, that 'Appendix 1: Annual Treasury Management Report 2015/16', which had been circulated to all members of the Committee on 15 June 2016 be considered as a matter of urgency, in order that the Committee could take its decisions based on the most recent information which was available.

#### **4 Change in the Order of the Agenda**

Resolved:

- 4.1** That Agenda Item 14 entitled 'Lewes District Council – Grant Claims and Returns Certification' be taken immediately before Agenda Item 4 entitled 'Committee Training Requirements'.

#### **5 Lewes District Council – Grant Claims and Returns Certification**

The Committee considered Report No 84/16 which summarised BDO's main issues which arose from the certification of grant claims and returns for the financial year ended 31 March 2015.

BDO undertook a grant claim and return certification as an agent of the Audit Commission, in accordance with the Certification Instructions (CI) issued by them after consultation with the relevant grant paying body. Its work was undertaken in accordance with the Statement of Responsibilities issued by the Audit Commission. For 2014/15, this included only the Housing Benefit Subsidy Claim. BDO noted that it had also been asked to certify the pooling of the housing capital receipts return on behalf of the Council. This was previously undertaken under the Audit Commission regime but was no longer a mandated review.

Ms Combrink referred to page 67 of the Report on which the table of fees was shown. She noted that the 2015/16 final agreed fee for Housing Benefit Subsidy was higher than originally planned, but was lower than the final fee for 2013/14. She explained that the reason for the higher fee was a result of a number of issues which were identified during the certification of the Housing Benefit Subsidy Claim this year, which required significant amounts of additional testing to quantify and resolve. In addition, Ms Combrink reported that the certification fee of £1,500 was the same as planned, and as such there were no amendments to the claim.

Ms Combrink referred to page 68 of the Report which detailed BDO's general findings and observations. BDO identified a particularly high level of error within the cases tested this year, which required a significant amount of additional testing by both the Council and BDO's Audit team to quantify and resolve. She particularly noted that, taking into account the individual errors which were reported, the level of local authority error and administrative delayed overpayments made by the Council this year fell close to the threshold set by the Department of Work and Pensions, above which reductions to subsidy would apply.

Should this threshold be breached in future years, the financial impact on the Council in terms of lost subsidy could be significant. Ms Combrink therefore strongly recommended that the Council carry out a thorough review of its claims checking procedures, processing controls and claim form compilation processes, to ensure the level of error did not continue to increase as it had done in recent years.

The Head of Planning and Revenues went into further detail explaining to the Committee that a majority of the errors found were small and that staff

were working in a very complex, technical and highly regulated environment so some element of error was inevitable. These were primarily classification ones, many of which could be dealt with in future by checking for classification errors before the next audit was carried out. The Council has a robust quality control process and checks approximately 10% of all benefit decisions prior to the decision letter being sent.

The Committee expressed their appreciation to Benefits staff for all their hard work.

Resolved:

- 5.1** That Report No 84/16 be noted.

**6 Committee Training Requirements**

The Committee considered Report No 76/16 which enabled the Committee to identify any training its members needed for the coming year. The results of the recent training needs analysis exercise which was carried out indicated that councillors would like committee specific training to assist them in their role as members of Committees

The Head of Audit, Fraud and Procurement referred to page 4 of the Report which gave specific examples of previous training sessions that Audit and Standards Committee members had received and found beneficial:

- The Role of the Audit Committee
- The Roles of Internal and External Audit
- Audit Committees – Practical Guidance for Local Authorities.

The Head of Audit, Fraud and Procurement and BDO suggested to the Committee that training be conducted either immediately before or immediately after the next scheduled Committee meeting on 26 September 2016.

The Head of Audit, Fraud and Procurement and BDO further recommended that the Committee be trained in the following areas:

- Role of Internal Audit
- Role of External Audit.

Resolved:

- 6.1** That the report 76/16 be noted; and

- 6.2** That the Head of Audit, Fraud and Procurement be requested to arrange for the Audit and Standards receive training on the role of Internal and External Audit, immediately following its next scheduled Committee meeting on 26 September 2016.

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## **7 Annual Report on Internal Audit Performance and Effectiveness 2015/16**

The Committee received Report No 77/16 which informed Councillors of the Internal Audit work of the Audit and Performance Division for 2015/16, and of the outcome of the review of the effectiveness of Internal Audit for 2015/16. The Head of Audit, Fraud, and Procurement explained that the Report brought together an overview of what the team had done throughout the year.

The overall conclusions on Internal Audit's performance and effectiveness was that the audit coverage had been sufficient to enable the Head of Audit, Fraud and Procurement to issue an unqualified opinion on the overall adequacy and effectiveness of the Council's control environment.

Paragraph 3.2 explained that in the past year, Internal Audit had continued to focus on the Council's main financial systems and the Housing Benefit subsidy grant claim, whilst at the same time providing resources to assist in the projects that form part of the Council's work on restructuring and regeneration. This approach helped to ensure the adequacy of internal control in key areas, safeguarded the Council's subsidy payments, ensured that the work of Internal Audit was integrated with the work of the external auditors (BDO), and helped to provide assurance on quality and controls in key Council developments. The Head of Audit, Fraud and Procurement stated that these were necessary priorities, which also assisted in the Council's management and control of risk.

The Head of Audit, Fraud and Procurement drew the Committee's attention to a misprint on page 8 of the Report in Table 1. He clarified that the actual audit days for 2014/15 should read as the actual audit days for 2015/16.

As set out in paragraph 4.4, from 1 January 2016 the Principal Audit Manager (PAM) had been taking flexible retirement, which had resulted in a reduction of 20 planned audit days in the period up to the end of March 2016. The Internal Audit Manager at Eastbourne Borough Council had agreed to work for Lewes District 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 provided 10 days of audit work. This joint working had helped to deliver progress on shared services between the two Councils, and had generated a saving of approximately £8,400 per annum.

The Committee requested that the Head of Audit, Fraud and Procurement include an appendix of abbreviations in future reports due to multiple acronyms being used.

The Head of Audit, Fraud and Procurement drew the Committee's attention to section 5 of the Report on page 11. Paragraph 5.1 explained that the Local Governance Application Note (LGAN) required that the Internal Audit service was periodically reviewed against its aims, strategy and objectives.

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The aim, objectives and strategy for the service for 2015/16 were set out in the Strategic Audit Plan 2015/18 that was presented to the March 2015 meeting of the Audit and Standards Committee.

The Council's Annual Governance Statement (AGS) reported on the effectiveness of the governance framework, and was approved by the Audit and Standards Committee. The AGS was based upon the results of the Council's assurance arrangements, the work by Internal Audit and the Council's external auditors, BDO.

The Head of Audit, Fraud and Procurement explained that every local authority was required to have external assessments of the internal audit function at least once every five years to be completed by March 2018. He then explained that the authorities in the Sussex Audit Group would be undertaking assessments of each other. This would provide significant savings to the Council. The Committee was pleased with this arrangement and congratulated the Head of Audit, Fraud and Procurement on the approach taken and the savings that would be achieved by adopting this approach.

The results of the quality reviews and proposed assessments throughout the year had been considered by the Head of Audit, Fraud and Procurement, who confirmed that the standards of Internal Audit work complied with the audit manual and the Public Sector Internal Audit Standards (PSIAS), as set out in paragraph 7.1.

Paragraphs 7.3 to 7.4 explained the review process by BDO and quality reviews by Internal Audit as follows:

- BDO made use of Internal Audit's work for their audits of key financial systems and the audits of the grant subsidy claim for Housing Benefits, and used Internal Audit results to inform their opinion of the Council's control environment.
- Each audit assignment was subject to quality reviews by the Principal Audit Manager (PAM) and the Head of Audit, Fraud and Procurement to establish that the field work and audit reports had been prepared and completed in accordance with audit manual procedures, quality standards and the objectives.

Paragraph 8.1 noted that customer satisfaction surveys had been part of Internal Audit's quality assurance measures since 2001. The PSIAS and LGAN required that performance monitoring arrangements included obtaining feedback from stakeholders. The Head of Audit, Fraud and Procurement brought to the Committee's attention that the results from the customer satisfaction surveys were all either good or satisfactory.

Resolved:

- 7.1** That it be noted that the Internal Audit coverage in 2015/16 has been sufficient to enable the Head of Audit, Fraud and Procurement to issue an unqualified opinion on the overall adequacy and effectiveness of the Council's control environment; and
- 7.2** That the satisfactory outcome of the review of the effectiveness of Internal Audit for 2015/16 be noted.

**8 Annual report of the Council's Systems of Internal Control**

The Committee considered Report No 78/16 which informed Councillors of the adequacy and effectiveness of the Council's systems of internal control for 2015/16.

The opinion of the Head of Audit, Fraud and Procurement on the internal control environment at Lewes District Council for the year ending 31 March 2016 was that the overall standards of internal control were satisfactory, as noted in paragraphs 3 to 3.1.

The Head of Audit, Fraud and Procurement explained that this satisfactory opinion would be taken forward into the Annual Governance Statement and also reported to Cabinet.

Paragraph 4.1 stated that the work carried out by Internal Audit had been sufficient to enable the HAFP to issue an unqualified opinion on the overall adequacy and effectiveness of the Council's control environment. The work carried out by Internal Audit was summarised in the Annual Report on Internal Audit Performance and Effectiveness 2015/16 that was presented separately to this meeting of the Committee.

The Committee requested that the Head of Audit, Fraud and Procurement arrange that the Internal Audit Work 2015/16 in paragraph 4 be reviewed at its next meeting on 26 September 2016.

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Resolved:

- 8.1** That the annual report on the Council's systems of internal control 2015/16 be noted;
- 8.2** That the overall standards of internal control were satisfactory during 2015/16 be noted;
- 8.3** That the satisfactory opinion on internal control be taken forward into the draft Annual Governance Statement 2016 be noted; and
- 8.4** That the Council's systems of internal control be reported to the Cabinet.

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## 9 Annual Report on the Council's work to combat Fraud and Corruption 2015/16

The Committee considered Report No 79/16 which informed Councillors of the adequacy and effectiveness of the Council's systems to combat fraud and corruption during 2015/16.

Paragraph 2.2 explained that in recent years, central and local government had sought to develop new initiatives to counter fraud and corruption. In recognition of these priorities the Chartered Institute of Public Finance and Accounting (CIPFA) published a Code of Practice on managing the risk of fraud and corruption. The Code emphasized that leaders of public services had a responsibility to embed effective standards for countering fraud and corruption in their organisations. This supported good governance and demonstrated effective financial stewardship and strong public financial management.

The Head of Audit, Fraud and Procurement had reviewed the Council's arrangements for countering fraud and corruption, and compared them to the standards and principles within the Code. The Report outlined the Council's work to counter fraud and corruption in 2015/16, and how this work met the Council's responsibilities for ensuring an effective response to these risks, as stated in paragraph 2.3.

In September 2015, Cabinet approved a strategy for the development of shared services between Lewes District Council (LDC) and Eastbourne Borough Council (EBC) based on the integration of the majority of Council services. This strategy was known as the Joint Transformation Programme (JTP). The full integration of the respective Fraud Investigation Teams into both Councils would form part of the wider JTP project, but progress had already been made in co-ordinating counter fraud activities and in sharing expertise and resources as set out in sections 4, 5 and 6.

The Head of Audit, Fraud and Procurement highlighted, under paragraph 6.6, that a total of 27 suspected cases of tenancy fraud were referred to the team, and eight of these cases were still underway at the end of March 2016. Seven properties were returned to the Council's housing stock after the team had proved abandonment by the tenant. The majority of the other cases were closed because the investigations had established that there had been no fraud or abandonment. The Committee was pleased with the news that seven properties were returned to the Council's property stock.

The Committee requested clarification on conflicting reports of fraud (reported cases of fraud 2015/16) versus no fraud detected (the National Fraud Initiative (NFI) – data matching), as mentioned in the findings. The Head of Audit, Fraud and Procurement clarified that the findings did not mean that there were not any cases of fraud, just that there were no fraud matches in the NFI. He suggested that the report for next year be adjusted to clarify why the differences existed.

The Head of Finance referred to paragraph 5.5 to clarify that Housing Benefit overpayments did not necessarily indicate fraud.

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Resolved:

- 9.1 That the control measures that are in place at the Council to maintain a strong anti-fraud and corruption culture be noted;
- 9.2 That the structures within the Council that counter fraud and corruption, particularly the arrangements for preventing, detecting and investigating fraud and corruption be noted;
- 9.3 That the Council's involvement in national, regional and local counter fraud networks be noted;
- 9.4 That the results of the Council's counter fraud activity during 2015/16 be noted;
- 9.5 That the Council's compliance with the Chartered Institute of Public Finance and Accountancy's Code of Practice on managing the risk of fraud and corruption be noted; and
- 9.6 That the Committee reaffirms the Council's zero tolerance on corruption.

**10 Interim Report on the Council's Systems of Internal Control 2016/17**

The Committee received Report No 80/16 which informed Councillors of the adequacy and effectiveness of the Council's systems of internal control during the first two months of 2016/17, and summarised the work on which the opinion was based.

The Head of Audit, Fraud and Procurement explained that the purpose of the internal audit work for 2016/17 was to show how the Council was progressing for the year, which was detailed in paragraphs 4.1 to 4.10. He also explained that the Council was reviewing how its processes were conducted; for example how staff was paid; etc.

Resolved:

- 10.1 That Report No 80/16 be noted.

**11 Annual Governance Statement 2016**

The Committee considered Report No 81/16 which sought Councillors' approval of the draft Annual Governance Statement 2016.

Paragraph 2.1 noted that the Council was required to prepare an Annual Governance Statement (AGS) each year in accordance with the statutory requirement set out in the Accounts and Audit Regulations, the most recent reference being regulation 6(1) of the Accounts and Audit Regulations 2015. The AGS covered the whole control framework of the Council rather than those controls which simply had a financial aspect.

The Head of Audit, Fraud and Procurement highlighted paragraph 3.1 which explained the content of the AGS.



Appendix A, the Draft Annual Governance Statement, explained that the local Code of Corporate Governance was reviewed each year.

In response to the Committee's query regarding when any necessary amendments would have to be made subject to any new information becoming available, the Head of Audit, Fraud and Procurement and BDO responded that amendments could be made in the period up to the approval of the Statement of Accounts in September 2016.

Resolved:

- 11.1 That the draft Annual Governance Statement 2016 shown in Appendix A to Report No 81/16 be approved; and
- 11.2 That Officers be authorised to make any final adjustments Officers make be authorised to the Annual Governance Statement (CIPFA) 2016 in the period up to the approval of the Statement of Accounts.

## 12 Annual Report on Risk Management

The Committee considered Report No 82/16 which presented the annual report on risk management and confirmed the Council's Risk Management Strategy and the strategic risks it faced.

The Head of Audit, Fraud and Procurement highlighted section 3 in which the Risk Management Strategy included provision for an annual review of the strategy by the Corporate Management Team, which was reviewed in May 2016.

Section 5 defined strategic risks as those that were likely to have a significant impact across the Council, in that if they occurred they were likely to prevent the Council from achieving its strategic objectives. The Head of Audit, Fraud and Procurement referred to Appendix 2 which detailed the thirteen highest risks to the Council, highlighting the loss of IT Services (ranked number one) and the failure to achieve the Joint Transformation Programme with Eastbourne Borough Council (ranked number two).

The Head of Audit, Fraud and Procurement highlighted section 8, explaining that the Corporate Management Team was responsible for ensuring that the strategic risks had mitigating controls in place. He noted that the Council had entered into the delivery stage of a major commercial partnership which sought to increase regeneration and housing (the North Street Quarter). The Council in partnership with Coast to Capital Local Enterprise Partnership had also successfully applied to create an Enterprise Zone in Newhaven to facilitate inward investment, offer value for money and sustain local economic growth. This Enterprise Zone would officially come into effect in April 2017. Both of these projects had been undertaken to address specific risks that the Council faced. Without them there was a risk that key opportunities for regeneration would not be created and affordable housing targets would not be achieved.

Resolved:

- 12.1 That the annual report on risk management be received;
- 12.2 That the Council's Risk Management Strategy be noted; and
- 12.3 That the strategic risks identified by the Corporate Management Team and the associated mitigating controls as set out in Appendix 2 of Report No 82/16 be noted.

**13 Lewes District Council – Planning Letter 2016/17**

The Committee considered Report No 83/16 which detailed BDO's proposed fees and programme of work for 2016/17.

The Code audit fee was based on the work required under the Code of Audit Practice issued by the National Audit Office and covered the audit of the financial statements and value for money conclusion. Public Sector Audit Appointments Limited (PSAA) was responsible for setting the scale fees for local authorities and consulted on the proposed work programme and scale of fees in October 2015. There were no planned changes to the overall work programme for 2016/17 and the scale audit fees had been set at the same level as 2015/16. PSAA had the power to determine the fee above or below the scale fee where there had been a change that required substantially more or less work than envisaged by the scale fee.

BDO's fee for the audit of the 2013/14 housing benefit subsidy claim was £19,947. The audit of the 2014/15 housing benefit subsidy claim was completed in March 2016 and BDO was in the process of agreeing its fees with the Council and PSAA as a result of additional work required to certify the claim. Work on the 2015/16 housing benefit subsidy claim had not yet commenced. At this stage BDO based its proposed fee for 2016/17 on the 2014/15 expected outturn fee. BDO would keep the level of certification fee required in 2015/16 and 2016/17 under review.

Resolved:

- 13.1 That Report No 83/16 be noted.

**14 Statement of Accounts 2015/2016**

The Committee received Report No 85/16 which provided assurance that the Council's Statement of Accounts for 2015/16 was prepared in accordance with statutory requirements and recommended accounting practice.

The Head of Finance explained to the Committee that the Statement of Accounts was currently being prepared for the next Audit and Standards Committee meeting on 26 September 2016, which then must be audited.

Paragraph 2.1 explained that the Audit and Standards Committee was required to approve the Council's formal annual Accounts, which included statements of its income and expenditure for the year and its balance sheet at the year end. The requirement stemmed from the Council's Constitution,

the Accounts and Audit Regulations and the Code of Practice on Local Authority Accounting published each year by the Chartered Institute of Public Finance and Accountancy.

Paragraph 2.4 highlighted that at the time of writing the Report, it was the intention that the Director of Corporate Services would certify the Statement of Accounts 2015/2016 on 29 June, maximizing the time available for final 'quality checking'. It would then be sent to the Council's external auditor, BDO, triggering the start of their audit work. It would also be published on the Council's website on 30 June 2016.

The Head of Finance referred to paragraphs 3.1 to 3.2 which stated that any person had the right to inspect the Council's accounts and supporting records. Local government electors for the area of the Council were also able to ask the auditor questions about the accounts and may object to the accounts, asking the auditor to issue a report in the public interest and/or apply to the court for a declaration that an item in the accounts was unlawful. The Regulations, for the first time, prescribed certain dates to be included within a thirty day period for the exercise of public rights before the final publication of the accounts and auditor's report. For the 2015/2016 accounts, the thirty working day period must include the first ten working days of July. The period for the exercise of public rights had been set for the period 1 July to 11 August 2016.

Resolved:

**14.1** That Report No 85/16 be noted.

**15 Treasury Management**

The Committee considered Report No 86/16 which presented details of recent Treasury Management activity and the Annual Treasury Management Report 2015/16.

Sections 1 and 2 highlighted that the Treasury Strategy Statement required the Committee to:

- Review details of Treasury transactions and make observations to the Cabinet.
- Review a formal summary report after the year end before it considered by the Council, in accordance with best practice and guidance issued by the Chartered Institute of Public Finance and Accountancy.

The Head of Finance brought to the attention of the Committee, paragraph 4.1, in which the Council appointed Arlingclose as its Treasury Advisor in 2012 following an open procurement. The agreement with Arlingclose was for an initial four-year term expiring on 30 June 2016, with the Council having the option to extend a further year, until 30 June 2017.

The Head of Finance explained that if Lewes District Council was now working with Eastbourne Borough Council, the authorities should be able to

borrow money, although there was currently discussion in progress on the interest rate. He noted that one of the investment types to consider was cover bonds.

Paragraph 3.8 explained that given the risk and continued low returns from short-term unsecured bank investments, the Treasury Strategy for 2016/2017 enabled the Council to diversify into more secure and/or higher yielding asset classes. Arlingclose had reaffirmed the importance of diversification at a meeting with officers in early May 2016. Subsequently, £1m was invested in an AAA rated 'covered bond' issued by Abbey National, at an initial interest rate of 0.755%, maturing on 5 April 2017.

The investment was secured against the assets of the bank. The interest rate could vary, by reference to changes in the 3 month 'London Interbank Offered Rate (LIBOR)'. This provided a safeguard against any rise in interest rates before the investment matured.

Resolved:

- 15.1** That it be confirmed to Cabinet that the Treasury Management activity between 1 March and 31 March 2016 has been in accordance with the approved Treasury Strategy for that period; and
- 15.2** That it be confirmed to Cabinet that the Annual Treasury Management Report for 2015/2016 had been reviewed by the Audit and Standards Committee.

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**16 Date of Next Meeting**

Resolved:

- 16.1** That the next scheduled meeting of the Audit and Standards Committee to be held on Monday, 26 September 2016 in the Ditchling Room, Southover House, Southover Road, Lewes commencing at 10:00am be noted.

All to note

The meeting ended at 11:45am.

M Chartier  
Chair