



Lewes District Council

To all Members of the Audit and Standards Committee

A meeting of the **Audit and Standards Committee** will be held in the **Ditchling Room, Southover House, Southover Road, Lewes Southover House, Southover Road, Lewes** on **Monday, 19 March 2018** 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.

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07/03/2018

Catherine Knight
Assistant Director of Legal and Democratic Services

Agenda

- 1 Minutes**
To approve the minutes of the meeting held on 22 January 2018 (copy previously circulated).
- 2 Apologies for Absence**
- 3 Declarations of Interest**
Disclosure by councillors of personal interests in matters on the agenda, the nature of any interest and whether the councillor regards the interest as prejudicial under the terms of the Code of Conduct.
- 4 Urgent Items**
Items not on the agenda which the Chair of the meeting is of the opinion should be considered as a matter of urgency by reason of special circumstances as defined in Section 100B(4)(b) of the Local Government Act 1972.

- 5 Written Questions**
To deal with written questions from councillors pursuant to Council Procedure Rule 12.3 (page D8 of the Constitution).
- 6 Interim Report on the Council's Systems of Internal Control 2017/18 (page 3)**
To receive the report of the Head of Audit and Counter Fraud (attached herewith).
- 7 Annual Audit Plan 2018/19 (page 17)**
To consider the report of the Head of Audit and Counter Fraud (attached herewith).
- 8 Risk Management and the Strategic Risk Register (page 29)**
To consider the report by the Deputy Chief Executive (attached herewith).
- 9 Treasury Management (page 41)**
To consider the report of the Deputy Chief Executive (attached herewith).
- 10 Audit Plan – Audit for the Year Ended 31 March 2018 (page 46)**
To consider the report of BDO Accountants and Business Advisers (attached herewith).
- 11 Date of Next Meeting**
To note that the next meeting of the Audit and Standards Committee is scheduled to be held on Tuesday, 17 July 2018 in the Ditchling Room, Southover House, Southover Road, Lewes, commencing at 10:00am.

For further information about items appearing on this agenda, please contact Jen Norman at Southover House, Southover Road, Lewes, East Sussex BN7 1AB – telephone: 01273 471600 ext. 8305.

Distribution: Councillors M Chartier (Chair), S Catlin, J Denis, N Enever, S Gauntlett and A Loraine

(Members of the Committee who are unable to attend this meeting or find a substitute councillor to attend on their behalf should notify Jen Norman, Committee Officer – jennifer.norman@lewes-eastbourne.gov.uk)

Agenda Item No: 6

Report Title: Interim Report on the Council's Systems of Internal Control 2017/18

Report To: Audit and Standards Committee **Date:** 19 March 2018

Ward(s) Affected: All

Report By: Head of Audit and Counter Fraud

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 eleven months of 2017/18, and to summarise the work on which this opinion is based.

Officers Recommendation(s):

- 1 To note that the overall standards of internal control were satisfactory during the first eleven months of 2017/18 (as shown in Section 3).

Reasons for Recommendations

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

Information

2 Background

- 2.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) has, with the other governing bodies that set auditing standards for the various parts of the public sector, adopted a common set of Public Sector Internal Audit Standards (PSIAS) that were first applied from 1 April 2013. The PSIAS have been updated, with new standards published in March 2017. The new standards are not materially different from the previous version, and so have not been separately reported to the Committee.
- 2.2 The PSIAS 2017 continue to specify the requirements for the reporting to the Audit and Standards Committee and senior management by the Head of Audit and

Counter Fraud (HACF). These requirements are met via a series of reports, including interim reports to each meeting of the Committee.

- 2.3** Each interim report includes a review of the work undertaken by Internal Audit compared to the annual programme, an opinion of HACF 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 contains 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.
- 2.4** 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 via a Joint Transformation Programme (JTP). The formal integration of the Internal Audit and Counter Fraud Teams in both councils took place on 1 July 2017.

3 Internal Control Environment at Lewes District Council

- 3.1** The Annual Report on the Council's Systems of Internal Control for 2016/17 included the opinion of HACF that the overall standards of internal control are satisfactory. This opinion was based on the work of Internal Audit and the Council's external auditors, BDO, and the Council's work on risk management. In the eleven months since the start of the financial year there has been nothing to cause that opinion to change and there have been no instances in which internal control issues created significant risks for Council activities or services.

4 Internal Audit work 2017/18

- 4.1** Table 1 shows that a total of 506 audit days have been undertaken compared to 570 days planned in the first eleven months of the year.

Table 1: Plan audit days compared to actual audit days for April 2017 to February 2018

Audit Area	Actual audit days for the year 2016/17	Plan audit days for the year 2017/18	Actual audit days to date	Pro rata plan audit days to date
Main Systems	347	295	300	
Central Systems	83	65	65	
Departmental Systems	86	65	3	
Performance and Management Scrutiny	8	45	33	
Computer Audit	2	5	5	
Management Responsibilities/Unplanned Audits	113	147	100	
Total	639	622	506	570

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.

The variance of 64 days has arisen mainly from the retirement of the Senior Auditor in January 2017, with the vacancy filled on 4 September 2017, the additional time being spent on management tasks arising from the JTP, and a period of six weeks

absence for a team member following an operation. The overall position has gradually improved as the year has progressed, but there will be a shortfall in the time available for audit work.

- 4.2** This section of the report summarises the work undertaken by Internal Audit, compared to the annual plan that was presented to the Audit and Standards Committee in March 2017. Further information on each of the audits completed since the previous meeting of the Committee is given at Appendix A1.
- 4.3 *Main Systems:*** The main work has been on the testing of the major financial systems in order to gain assurance on the adequacy of internal controls for the Annual Governance Statement (AGS) and to inform BDO's work on the Council's accounts for 2016/17. A final report has been issued, together with a separate final report on the issues arising from the review of Non-Domestic Rates (NDR). The corresponding work for 2017/18 is underway.
- 4.4** The work on behalf of BDO to test the Council's HB subsidy claim 2015/16 was completed, and the audited claim submitted, during July 2017. BDO's planning for this work had set out the standard testing and identified the likely need for significant additional testing to address the issues noted in the previous year's claim - the standard testing and the initial extra testing were completed in late September. The timetabled date for BDO to have signed off and submitted the audited claim was at the end of November 2016, but that date was not met because of further additional testing, reperformance by BDO, and the resolution of queries and challenges. The overall value of the claim was £36.5m. In July 2017, DWP confirmed the results of the audit - there had been an overpayment of subsidy of £6,976, but with a related understatement of £2,367 the net effect was a recovery of £4,609 by DWP.
- 4.5** The work on the HB subsidy claim for 2016/17 is well advanced. BDO had identified the need for significant additional testing to address the issues noted in the 2015/16 claim and other errors noted in the current claim. The timetabled date for BDO to sign off and submit the audited claim was the end of November 2017 but, because of the significant extra work required, Internal Audit is now working towards the submission of the claim at the end of March 2018.
- 4.6** In order to avoid similar delays in the completion of the audit of the HB subsidy claim for 2017/18, Internal Audit is assisting service managers to put in place a range of preventative measures to help ensure the accuracy of claims assessments and recording. One aspect has been the use of external consultants Branch and Lee (B&L) to carry out data analysis of the HB files. B&L reported their initial results in November 2017, and will carry out a further check on HB files at the end of March 2018.
- 4.7 *Central Systems:*** A final report has been issued for the audit of Ethics. A final report has been issued for a review of EBC/LDC compliance with aspects of the Regulatory Powers Act (RIPA), and a similar review of compliance with the General Data Protection Regulation (GDPR) at both councils is at the draft report stage. HACF has carried out an independent consultancy review of options for the future management of the Lewes and Eastbourne Leisure Trusts – the results of the review were reported to the November 2017 meeting of the Committee. HACF is leading on an audit of the Joint Ventures and Council Companies that have been

established by both EBC and LDC to help provide services and improve the councils' respective financial positions – the audit is underway.

- 4.8 Departmental Systems:** The audit of Estates Management, incorporating work on the corresponding function at EBC, began in January 2017 but was put on hold to free resources for the work on the HB subsidy claim 2015/16 and the testing of the major financial systems – the audit has now restarted and is being carried out by the team's two Audit Managers as part of the shared service arrangements. Initial discussions have been held with client managers on the planned audit of the procedures for managing the Housing Register – a start date has yet to be agreed.
- 4.9 Performance and Management Scrutiny:** The initial work in this category was in reviewing the data that supports the Annual Governance Statement (AGS) for 2017. This was followed by an assessment of the impact of the JTP on the client liaison arrangements and audit planning procedures. Recent work has been the review of risk management issues linked to the report on Risk Management and the Strategic Risk Register that is reported separately to this meeting of the Committee (see also Section 9).
- 4.10 Computer Audit:** Internal Audit has examined the IT aspects of the main financial systems (see 4.3 above).
- 4.11 Management Responsibilities/Unplanned Audits:** This category provides resources for activities such as support for the Audit and Standards Committee, managing the Counter Fraud Team, liaison with BDO, managing the Follow Up procedures, as well as for special projects or investigations.
- 4.12** HACF has carried out an independent consultancy review of the options for the future management of strategic procurement at both councils. The results of the review were reported to the November 2017 meeting of the Committee. A final report has been issued for a review - also carried out by HACF - of the Prevent and Protect Strategy.
- 4.13** CMT has requested Internal Audit to carry out an assurance review to support the establishment of the newly configured Health and Safety (H&S) service. The review includes site visits to two key service areas – the Eastbourne Crematorium and the Waste and Recycling (W&R) service for LDC. A final interim report has been issued on the W&R aspects of the review.
- 4.14** Internal Audit continues to coordinate the Council's work on NFI data matching exercises. Internal Audit, the Investigations Team and service managers prepared for the receipt of the reported matches, and nominated officers to investigate matches in their service areas. The reported matches arrived in late January 2017 - there are over 2,000 separate matches detailed across 93 reports. Each report sets out different types of potential frauds among benefit claimants, housing tenants, and anyone receiving payments or discounts from the Council. The exercise involves analysis of the matches to identify those that are the result of error or coincidence, and then the examination of the remaining matches to assess the likelihood of fraud - 335 matches have been examined, with no fraud or error noted so far. The Audit and Standards Committee will be kept advised of progress.

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 2017/18 has been on confirming the implementation of the recommendations that had been agreed in the previous year.

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 2016/17 were reported to the June meeting of the Audit and Standards Committee. The results enabled the HACF 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** The planned External Peer Review of LDC Internal Audit is underway. The review is being carried out by the Principal Auditor at Chichester District Council. The results of the review will be reported to the June 2018 meeting of the Committee.

7 Review of 2017/18 Audit Plan

- 7.1** As part of the report to the March 2017 meeting of the Committee that detailed the Annual Audit Plan, HACF advised that there would be a nine month review of the Audit Plan for 2017/18 to assess whether any significant changes were necessary.
- 7.2** That review has taken place and the results of the review were presented to the January 2018 meeting of the Committee. The review took account of a range of issues, in particular the Joint Transformation Programme, the impact of the significant extra work on the Benefits subsidy claim with BDO, the time between the retirement of the Senior Auditor and the arrival of the replacement, and the extra audit days worked by HACF. There has been a significant impact on the number of days available to complete the audit programme for 2017/18, and there has been a need to re-assign some tasks.
- 7.3** HACF advised that the significant aspects of the annual audit plan will be covered, with audits that are planned or underway continuing to a normal conclusion. The exceptions are:
- The audit of Legal Services (in Central Systems) will be scheduled into the Annual Plan for 2018/19.
 - The planned audits of Members Allowances and Expenses, and Licensing (in Departmental Systems) will be scheduled into the Annual Plan for 2018/19.

8 Combatting Fraud and Corruption

Local initiatives

- 8.1** The Counter Fraud Team is a member of the East Sussex Fraud Officers Group (ESFOG), a body that enables information sharing and joint initiatives with neighbouring authorities on a wide range of counter fraud work.

- 8.2** A sub group of six authorities within ESFOG are working together in a 'Hub' approach to coordinate counter fraud initiatives across East Sussex and Brighton. The Hub is managed by officers at EBC and Wealden District Council with input from ESFOG partners. Recent Hub activities have included a shared approach to publicity for Hub activities and the development of an on-line system to allow the public to report suspected frauds – the Counter Fraud Teams at EBC and LDC use a shared web link to receive these reports. The Hub is working on the development of data sharing arrangements that will facilitate exercises to combat fraud on issues that cross council boundaries, for example NDR (see 8.7 below).

Counter Fraud Team

- 8.3** At present, countering housing tenancy fraud and abandonment, and preventing RTB fraud, are the main operational priorities for the Counter Fraud Team at Lewes because of the evidence of this being a high risk area for the Council. There are 18 cases of suspected abandonment and/or subletting under investigation, plus one of suspected housing application fraud. Six properties have been returned to stock after cases of abandonment. Further property returns are anticipated in current cases where evidence gives a strong indication that the tenant no longer lives at the property.
- 8.4** Since April 2017, 40 RTB applications have been checked to prevent and detect fraud, and protect the Council against money laundering. Of these, 15 RTB applications have been approved and passed for processing, and eight applications are currently under review. In this period, 19 RTB applications have been withdrawn or closed after intervention by the team. The team will assess these applications to determine whether the cases indicate potential fraud.
- 8.5** Recent months have seen a number of case referrals that have required extensive liaison with a range of Council services and external agencies to protect residents and prevent fraud. The team will be working further with front line staff to help in recognising possible issues such as attempted identity fraud.
- 8.6** A meeting has been held with managers in Homes First as the next stage in the development of a standard approach to combatting abandonment and subletting across the property portfolios of both EBC and LDC. The first step in this standardisation process was the introduction of a consistent method of checking RTB applications for both EBC and LDC.
- 8.7** NDR is a development priority for the shared service, with the aim to have a coordinated approach to counter business rates fraud across the county via a methodology developed with Hub partners.
- 8.8** Audit and Counter Fraud 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) within DWP. LDC retains a role in referring cases of suspected HB fraud to SFIS and handling requests for information. In an agreement with Counter Fraud colleagues at EBC, a member of that team carries out the DWP liaison work for LDC and thus allows the LDC team to focus on case work in other areas. In the period since April 2017, there have been 35 referrals to SFIS, and 86 information requests have been actioned.

9 Risk Management

- 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** A report on Risk Management and the Strategic Risk Register is presented separately to this meeting of the Committee. The report forms part of the reporting cycle on risk as set out in the Risk Management Strategy. In addition to providing an assessment of strategic risks facing the Council, the report includes the results of a review of the risk management framework.
- 9.4** In response to reductions in Government funding for local authorities, the Council continues to make savings each year in its General Fund (which covers all services except the management and maintenance of Council owned homes). At its meeting in February 2018, Council agreed a net budget of £11.82m for 2018/19 including a savings target of £1.03m – of this, £0.70m is to be delivered by Phases 2 and 3 of the JTP and £0.20m from increasing commercial income streams. The 2018/19 budget is to be seen in the context of a Medium Term Finance Strategy that will require an additional £0.73m of savings in the net budget by 2021/22, including £0.30m from the JTP.
- 9.5** There are also pressures to reduce spending on the management and maintenance of Council owned (HRA) housing. Starting in 2016/17, the Government has required all housing authorities to reduce tenants' rents by a 1% in cash terms in each of the four years through to 2019/20. As a result, by 2019/20, total annual rent income will have fallen by £0.6m to £14.4m. This means that savings of £2.2m will be needed to offset the expected impact of inflation on expenditure budgets over that period. A share of the JTP savings will pass through to the HRA, and the 2018/19 HRA budget has been reduced by a target of £0.30m accordingly.

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 are responsible. As part of this process all members of the Corporate Management Team (CMT) are required to consider whether there were any significant governance issues during 2016/17. At its meeting on 30 May 2017, CMT confirmed that there were no significant governance issues to report, and there has been nothing in the period since then to change these assessments.

11 Corporate governance

- 11.1** 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 2017 was presented to the June 2017 meeting of the Committee – a version of that AGS with minor amendments was issued with the financial statements for 2016/17.

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 Council's current external auditors are BDO, and the results of their external reviews have helped inform the opinion on the internal control environment. The recent results are summarised below.

- 12.2** Annual Audit Letter for 2016/17 (October 2017) – This report summarises the key issues from the work carried out by BDO during the year, and was presented to the November 2017 meeting of the Committee. The report confirms the interim results that were included in the Audit Completion Report that was presented to the September 2017 meeting of the Committee. The key issues were:

- BDO issued an unmodified true and fair opinion on the financial statements for the year ended 31 March 2017.
- BDO identified a number of immaterial misstatements, but these were found to have no material impact on the opinion on the financial statements.
- BDO did not find any significant deficiencies in internal controls.
- BDO were satisfied that the Annual Governance Statement (AGS) was not misleading or inconsistent with other information they were aware of from the audit.
- BDO issued an unmodified opinion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- BDO noted that, whilst there is a funding gap in the Medium Term Financial Strategy (MTFS) the Council has appropriate arrangements to remain financially sustainable over a period of the MTFS. All of the required savings for 2017/18 have been identified.
- BDO noted that the Council's Whole of Government Accounts (WGA) submission is below the threshold for further work other than to submit the WGA Assurance Statement - the relevant section of the statement was submitted in advance of the statutory deadline.
- BDO noted that the Council had made progress against all the recommendations that were raised in respect of the New Homes Project, and there is evidence that the learning from this project has been applied to other capital projects.
- The BDO review of grant claims and returns for the year ended 31 March 2017 is in progress, and the results will be reported on completion of this work.

13 Future external audit arrangements

- 13.1** Under the provisions of the Local Audit and Accountability Act 2014, the Secretary of State for Communities and Local Government has specified that a company,

Public Sector Audit Appointments (PSAA) Limited, will appoint auditors to local government, police and some NHS bodies.

13.2 The Council has opted into the PSAA arrangements, and has recently been consulted on the appointment of the external auditor for the period of five years from 2018/19. PSAA have appointed Deloitte LLP, and the Council has responded to the consultation to confirm its acceptance of the appointment, which will start on 1 April 2018. Deloitte LLP will also be the external auditors for EBC.

13.3 BDO will carry out the audits of the 2017/18 accounts and the 2017/18 HB subsidy claim, and will therefore be working with the Council until at least November 2018. HACF is seeking cost quotations from Deloitte LLP, and will contact other companies if necessary, for the independent check and sign off of the HB subsidy claim exercises after the BDO contract has ceased.

14 Financial Appraisal

14.1 There are no additional financial implications from this report.

15 Sustainability Implications

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

16 Risk Management Implications

16.1 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.

17 Legal Implications

17.1 There are no legal implications arising from this report.

18 Equality Screening

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

19 Background Papers

[2017/18 Annual Audit Plan](#)

20 Appendices

20.1 Appendix A1 - Statement of Internal Audit work and key issues.

20.2 Appendix A2 - Table of abbreviations.

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

APPENDIX A1

Statement of Internal Audit work and key issues

Audit Report: Prevent and Protect

Date of issue: 8 February 2018

Introduction

This title - Prevent and Protect - has been used as shorthand for a review of the responses by Lewes District Council (LDC) and Eastbourne Borough Council (EBC) to the UK's counter terrorism strategy - CONTEST. The CONTEST strategy was first developed by the Home Office in 2003 and has been subject to a number of revisions since then, with specific supporting legislation to enact the strategy. CONTEST is divided into four streams that are known within the counter terrorism community as the four Ps.

- Prevent: Stopping people becoming terrorists or supporting violent extremists.
- Protect: Strengthening our protection against attack.
- Prepare: Mitigating the impact of attacks.
- Pursue: Stopping terrorist attacks.

The Counter Terrorism and Security Act 2015 places a duty on all specified authorities (Lewes District Council and Eastbourne Borough Council are such authorities) to have due regard to preventing people from being drawn into terrorism. Prevent is managed at a partnership level by the East Sussex Prevent Board (ESPB) which is run by East Sussex County Council - EBC and LDC are members of this Board, with the councils classified as low risk areas. Responsibility for Pursue sits primarily with the Security Services and Police. The CONTEST strategy does not specify any formal duties for local authorities in respect of the Protect and Prepare streams. However, under the Civil Contingencies Act councils have a statutory response duty to deal with a range of major incidents including flooding, coast protection, major fires and terrorist incidents.

Overall opinion

From the audit work carried out during this review Internal Audit has obtained partial assurance that there is an adequate framework of policies, procedures and controls covering the administration of Prevent and how the Councils consider Protect and Prepare. There are some areas which require attention, including the need to ensure that action plans remain up to date and are monitored effectively. The report contains eight recommendations.

Main issues

There is a comprehensive governance structure in place which helps to ensure that the councils meet their responsibilities under the Prevent Duty.

Staff at the councils are represented on all relevant partnerships where Prevent is dealt with, and there are adequate resources to undertake the roles. There are clear lines of

responsibility and reporting between the Councils and partners.

The current Prevent Action Plan does not reflect the staff who are currently responsible for most of the actions identified. As the action plan has not been updated for some time the status of the actions shown as green (complete) or amber (partly completed) may have changed.

Training on Prevent has been provided to almost 230 staff and it is intended to put a new training plan in place after JTP Phase 2 is completed. Adequate information on Prevent is available on the councils' intranets.

There is limited information on the extent of room hire and its availability at the councils. Some information has been provided to Community Centres at EBC on the Extremist Speakers Framework and the role it has in Prevent. No evidence was found that rooms for hire at LDC had been identified or that parties leasing those property assets had been notified of the Prevent responsibilities of the Council. For the sample of sites where IT is available to the public, arrangements to prevent access to extremist material were found to be satisfactory.

In a small sample of recent contracts no evidence could be found that contractors were being made aware of Prevent. However, a form of wording has been prepared by Legal Services for this purpose.

Good progress would appear to have been made on a number of the action points included in the original report to CMT on Protect and Prepare when compared with the January 2018 draft update report. However, both reports lack target setting.

The Facilities Managers should not be responsible for progressing actions which do not fall within their areas of responsibility. However, there are benefits to be obtained from the Property and Facilities Shared Service (PFSS) coordinating the responses and monitoring progress in the areas identified for scrutiny.

Arrangements for significant public events where the councils are involved take into account the potential risk of a terrorist incident, with comprehensive multi-agency planning to ensure such events are managed safely.

Audit Report: Health and Safety Interim Report – Waste and Recycling

Date of issue: 21 February 2018

The Director of Service Delivery and Deputy Chief Executive requested Internal Audit to carry out an assurance review to support the establishment of the newly configured Health and Safety (H&S) service for both Eastbourne District Council (EBC) and Lewes District Council (LDC). In addition, it was suggested that key areas of risk in health and safety terms should be examined as part of the review – these were the Eastbourne Crematorium and the in house Waste and Recycling (W&R) service for Lewes District Council.

This interim report provides the results of the review of H&S at the Waste and Recycling service. The H&S review was carried out at the same time as an inspection of the W&R

operations by the Health and Safety Officer (HSO) that had been requested by the Head of Customer and Neighbourhood Services.

The results of the wider H&S review and the inspection of the Eastbourne Crematorium will be included in an overall report to be issued at a later date.

Overall opinion

From the audit work carried out during this review of Waste and Recycling (W&R) Internal Audit has obtained partial assurance that the Council has in place adequate measures to ensure that health and safety standards are maintained. This level of assurance is consistent with the Level 3 assessment made by the HSO.

In some respects the controls over health and safety provide effective safeguards for those working in W&R and the wider public. For example, there is a senior level commitment to ensuring proper standards of H&S, and there is a good understanding of the importance of H&S among the workforce. Vehicles are maintained to the necessary standard and subject to regular check.

The majority of staff wear the correct protective clothing at all times, and there is evidence of management action to address the few instances when this is not the case. A number of the staff and managers are very experienced, and new staff are required to undertake training in the H&S aspects of their work before they are allowed to join collection rounds. Arrangements to ensure the welfare of staff are generally to a high standard. A member of the administrative staff with H&S training carries out weekly checks on fire safety precautions, emergency lighting and the good order of the depot and yard.

However, there are gaps in the control processes which weaken the system of health and safety for W&R, and there is a need to improve compliance with existing controls (or introduce additional controls) to reduce the risks to the Council, staff and residents. The audit report contains two recommendations

Main issues

The Waste and Recycling service is currently engaged in major changes in service provision, including the roll out of the new recycling bins to all households across the District, and these are being managed at the depot alongside the normal activities to collect refuse and recyclates. The levels of activity, the number of vehicles parked at the depot and the increase in vehicle movements appear to create additional risks, particularly where the limitations of the site mean that pedestrians, cars and waste vehicles are sharing the same areas. Given the likely period of future use of the site as a W&R depot it appears necessary to consider changes to both operational arrangements and the depot layout to reduce the level of risk.

A framework of checks and inspections covering vehicles and working practices has been put in place to ensure proper standards of H&S, and for the most part the framework is working effectively. However, the resources available for management and supervision are under pressure because of the need to deliver major changes in service alongside the normal activities to collect refuse and recyclates. One outcome is that the Team Leader

inspections of crews and vehicles are not consistently applied across the three areas, with the result that there is no assurance that health and safety arrangements are properly enforced across all crews.

Observed driving standards were as expected from professional drivers, with no incidents or significant issues. It is a legal requirement for drivers to undertake Certificate of Professional Competence training on key aspects of their role; this training is run annually by LDC. There were a small number of cases in which vehicle reversing did not appear to follow good practice and was carried out without there being reversing assistance from other staff. Reminders on the use of reversing assistance and techniques could be reinforced with all staff during team meetings and 'tool box' talks.

Most of the issues raised by the HSE during their last inspection in March 2016 have been actioned. The few outstanding points mainly involve improvements in the ways that activities such as training and team leader inspections are planned and the results recorded. Without adequate documentation of what is planned and the results that have been achieved, there is limited assurance that the activities take place as intended.

Report by the HSO

The HSO has prepared a detailed draft report on the results of the separate H&S inspection. The HSO report provides detailed assessments of the various operational activities, covering the areas that were found to be satisfactory as well as those that require improvement – the report includes over 50 recommendations covering both minor issues and more significant matters. Internal Audit has chosen not to repeat these recommendations, but focusses on a small number of key areas.

The Head of Customer and Neighbourhood Services has agreed to action as a priority the detailed issues raised by the HSO, and Internal Audit acknowledges this commitment. Internal Audit has examined the action plan of necessary improvements that was agreed with W&R managers and team leaders at a meeting on 6 February 2018. The HSO carried out a follow up inspection on 8 March 2018 to review progress of the action plan.

APPENDIX A2

Table of abbreviations

AGS – Annual Governance Statement
BCP – Business Continuity Planning
BDO – BDO, the Council's external auditors. Formerly BDO Stoy Hayward
CIPFA – Chartered institute of Public Finance and Accounting
CMT – Corporate Management Team
CTRS – Council Tax Reduction Scheme
DCLG – Department for Communities and Local Government
DFGs – Disabled Facilities Grants
DWP – Department of Work and Pensions
EBC – Eastbourne Borough Council
ESFOG – East Sussex Fraud Officers Group
ESPB - East Sussex Prevent Board
GDPR - General Data Protection Regulation
HACF – Head of Audit and Counter Fraud
HB – Housing Benefit
HRA – Housing Revenue Account. Refers to Council owned housing
HSO – Health and Safety Officer
ISO – International Organisation for Standardisation
IT – Information Technology
JTP – Joint Transformation Project
LATC – Local Authority Trading Company
LDC – Lewes District Council
NDR – Non Domestic Rates
NFI – National Fraud Initiative
PFSS - Property and Facilities Shared Service
PIs – Performance Indicators
PSIAS – Public Sector Internal Audit Standards
PSAA - Public Sector Audit Appointments
QAIP – Quality Assurance and Improvement Programme
RTB – Right to Buy
SFIS – Single Fraud Investigation Service
WGA – Whole of Government Accounts
W&R – Waste and Recycling

Agenda Item No: 7

Report Title: Annual Audit Plan 2018/19

Report To: Audit and Standards Committee **Date:** 19 March 2018

Ward(s) Affected: All

Report By: Head of Audit and Counter Fraud

Contact Officer

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Purpose of Report:

To present to Councillors the Annual Audit Plan for 2018/19.

Officers Recommendation(s):

- 1** To agree the Annual Audit Plan for 2018/19 (as shown at Appendix 1)
- 2** To note that the plan recognises the specific circumstances arising from the Joint Transformation Programme (JTP), as part of which the shared Audit and Counter Fraud service became formally integrated on 1 July 2017 (see 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 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 were first applied from April 2013. The PSIAS have been updated, with new standards published in March 2017.
- 1.2** The PSIAS require the Head of Audit and Counter Fraud (HACF) 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. The plan must show the audit engagements to be carried out, their respective priorities and the resources required.

2 Impact of the Joint Transformation Programme (JTP)

- 2.1** 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 via a Joint Transformation Programme (JTP).
- 2.2** 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. The changes that continue to be being made as part of the JTP integration process 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. HACF is therefore proposing that only the Annual Audit Plan for 2018/19 is presented to the Audit and Standards Committee. The draft Annual Audit Plan for 2018/19 is given at Appendix 1.
- 2.3** The formal integration of the Internal Audit and Counter Fraud Teams in both councils took place on 1 July 2017. The Annual Audit Plan 2018/19 includes a number of joint audits and other shared work.

3 Aims and Objectives for Audit and Counter Fraud

- 3.1** Internal Audit at Lewes is an independent, objective assurance and consulting activity designed to add value and improve the Council's operations. It helps the Council accomplish its objectives by bringing a systematic and disciplined approach to evaluating the effectiveness of risk management, control and governance processes.
- 3.2** Counter Fraud is an independent and objective activity designed to help prevent and detect fraud, and undertake appropriate investigations when necessary. Working together, these activities help the councils accomplish their objectives by bringing a systematic and disciplined approach to improving the effectiveness of risk management, control and governance processes.
- 3.3** The PSIAS include a Mission Statement for Internal Audit as follows

'To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.'
- 3.4** The Core Principles for the Professional Practice of Internal Auditing , which form part of the updated PSIAS, have been incorporated into the revised Charter for Internal Audit that was presented to the Committee in January 2018.

3.5 The Audit and Counter Fraud service for EBC and LDC 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 councils' Audit Plans.
- To provide efficient and effective Counter Fraud Teams that supports the councils' 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 Planning Assumptions

4.1 In preparing the Annual Audit Plan, HACF has taken account of the adequacy and outcomes of the councils' risk management, corporate governance and other assurance processes. The Annual Audit Plan has been drawn up on the basis that the Audit and Counter Fraud service 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 (HB) subsidy grant claim on behalf of BDO.
- Examine the main central and 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 Transformation Project and provide a quality assurance role for individual projects on request.
- 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 consultancy assignments.
- Carry out a programme of planned and responsive work to prevent, detect and investigate fraud across all the councils' services and activities (except Housing Benefits).

4.2 The scope of the Annual Audit Plan is designed to enable HACF to form an annual opinion on the Council's internal control and governance framework, and to obtain

the necessary assurance for the purposes of the Annual Governance Statement (AGS).

5 Relationship with external auditors

- 5.1** The Government relies on external auditors to periodically review the work of the Council to make sure it is meeting its statutory obligations and performing well in its services. The Council's external auditors, BDO, and Internal Audit operate in accordance with a joint protocol that ensures an integrated audit approach that makes efficient use of resources and prevents duplication of work. The Annual Audit Plan includes provision for the resources necessary to manage the relationship with BDO.
- 5.2** During 2018/19 Internal Audit will work with BDO until November 2018 in carrying out testing of the Housing Benefits (HB) subsidy grant claim for the previous year of account, and it is forecast that the transaction testing will again require significant Internal Audit resources. So that the resources required for the HB audits of 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.
- 5.3** Under the provisions of the Local Audit and Accountability Act 2014, the Secretary of State for Communities and Local Government has specified that a company, Public Sector Audit Appointments (PSAA) Limited, will appoint auditors to local government, police and some NHS bodies. The Council opted into the PSAA arrangements, and has recently been consulted on the appointment of the external auditor for the period of five years from 2018/19. PSAA have appointed Deloitte LLP, and the Council has confirmed its acceptance of the appointment, which will start on 1 April 2018. Deloitte LLP will also be the external auditors for EBC.
- 5.4** Internal Audit decides the scope and content of the work on the key financial systems (see 7.5) that will be required to obtain the necessary assurance for the purposes of the AGS. Internal Audit will ensure that the BDO requirements for information on the adequacy of controls for the purposes of the 2017/18 accounts will be met. Thereafter, Internal Audit will ensure the same arrangements will be made with Deloitte's LLP.

6 Other sources of assurance

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

Preparation of the Annual Audit Plan

7 Review of Key Council Activities

- 7.1** This review is based on information from the Council Plan, the Council's Strategic 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

- 7.2** Any Internal Audit work arising from transformation projects, major system changes, community initiatives or linked policy commitments will be accounted for under Council Transformation within Performance and Management Review.
- 7.3** HACF works as part of the assurance panel that monitors the Joint Transformation Programme (JTP) covering both authorities. The time spent on this work will be accounted for within Performance and Management Review.
- 7.4** Internal Audit will review the Annual Plan for 2018/19 after nine months to assess whether any significant changes are necessary in response to the ongoing restructuring of the councils' services. A report on the results of the review will be presented to the January 2019 meeting of the Committee.

Key Financial Systems

- 7.5** Internal Audit undertakes the review and testing of the key financial systems every year to provide assurance for the AGS. The work for the 2017/18 exercise is underway. To help in the planning and monitoring of these reviews, 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.
- 7.6** As the JTP progresses, individual shared services will continue to be located in both Eastbourne and Lewes or they may become more centralised in one or other location. Internal Audit reviews of the services will reflect these changes as appropriate. For example, the payroll function is largely situated in Eastbourne, and the internal audit work on payroll as part of the reviews of Key Financial Systems will be done mainly by the Eastbourne team.
- 7.7** This work includes the testing of the key IT controls that form part of the key financial systems. The work on the IT controls is planned as part of the separate Computer Audit coverage.

Joint work in LDC and EBC Annual Audit Plans

- 7.8** The LDC Annual Audit Plan includes a number of joint audits to be carried out at both authorities by Internal Audit and Counter Fraud staff. All the audits of Central Systems and most for Departmental Systems (see Appendix 1) will be managed in

this way. Appendix 1 shows the time allocated to the joint audits in the LDC Annual Audit Plan, but the audits will cover both authorities equally.

- 7.9** Since mid – August 2016, the major part of the LDC work to ensure effective liaison with the Single Fraud Investigation Service (SFIS) at the Department of Work and Pensions (DWP) has been carried out by a member of the Counter Fraud Team based at EBC. The intention is for this arrangement to continue in 2018/19, and only a small provision for this work is shown in the LDC Annual Audit Plan at Appendix 1.

General

- 7.10** The Annual Plan includes contingencies for unforeseen work (Unplanned Work) and, Consultancy Reviews that enable Internal Audit to be flexible and to adapt its coverage to address changing priorities.
- 7.11** For consultancy assignments carried out by HACF or any other member of Internal Audit, the follow up of the results are carried out by team members other than those involved in the original work, with oversight by an Audit Manager. Standard audits of areas/topics covered by recent consultancy studies will apply the same disciplines to ensure the independence of Internal Audit and avoid conflicts of interest.
- 7.12** There has been consultation with CMT on the content of the Annual Plan for 2018/19.
- 7.13** The outline plan of Internal Audit assignments and the main areas of work for the Counter Fraud Team are given at Appendix 1. The resources assigned to these tasks are after making provision for administration, training, leave and sickness.

8 Application of the Risk Assessment Model

- 8.1** The risk model assesses each activity under six categories: financial materiality, system stability, sensitivity, complexity, inherent risk and the adequacy of internal control. Each category is scored on a scale from 1 to 9, with the greater risks receiving the higher scores. The total score for all activities determines the frequency of audit coverage. Audits are assigned to one of three frequency bandings as follows:
- 1 Audited every year
 - 2 Audited every other year
 - 3 Audited no more than once every three years
- 8.2** This assessment process has been applied for the current exercise, but only the audits allocated to the audit programme for 2018/19 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, Council Transformation and the JTP Assurance Panel that are shown under Performance and Management Review. There are also ongoing Management Responsibilities such as the support

to the Audit and Standards Committee and Liaison with External Audit that take place every year.

- 8.3** 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 2018/19 (at Appendix 1) shows the assignments categorised as High, Medium or Low priority.

9 Counter Fraud Team

- 9.1** The work of the team is planned in accordance with development and case management priorities. The initial priority was to develop a methodology for dealing with housing tenancy abandonment and the different types of tenancy fraud. Currently, there is a priority to recognise the changes in the management of social housing at EBC and develop a consistent Counter Fraud approach to tenancy abandonment and subletting at both councils.
- 9.2** During 2016/17, the Investigation Team introduced a new regime of checks on Right to Buy (RTB) applications to prevent and detect fraud, and protect the Council against money laundering. The approach to RTB fraud is standard across both councils. The next development priority for the team, working with colleagues at Eastbourne, will be business rates (NDR). Thereafter, the team will develop its expertise in other areas of counter fraud activity based on risk assessments.
- 9.3** Alongside the development work the Investigations Team will continue to investigate reported cases of suspected fraud, initially concentrating on tenancy and RTB fraud, and then moving onto the detection and investigation of suspected NDR fraud.
- 9.4** The resources required to manage the Counter Fraud Team are shown as Fraud Team Planning and Review under Management Responsibilities. The resources required to assist other services to develop improved Fraud Prevention methods are shown as Fraud Prevention under the Counter Fraud Team.
- 9.5** 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. The resources required to carry out this support role are shown as Housing Benefit Fraud (see also 7.9).

10 Allocation of Staff Resources

- 10.1** The current level of staffing for Internal Audit (3.6FTE) has been assumed for the Annual Audit Plan 2018/19. The Annual Audit Plan includes a 75/25 apportionment of the time of HACF between internal audit work and other activities such as corporate governance and risk management. When Internal Audit examines one of these other activities, this work is done entirely independently of HACF who has no role in the audit other than as a client. The current level of staffing for Counter Fraud (1.6 FTE) has been assumed for the Annual Audit Plan 2018/19.

11 Financial Appraisal

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

12 Sustainability Implications

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

13 Risk Management Implications

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

13.2 If the Council cannot demonstrate an effective Internal Audit function it will not meet its statutory obligations. The Annual Audit Plan, 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.

14 Legal Implications

14.1 There are no legal implications arising from this report.

15 Equality Screening

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

16 Background Papers

None.

17 Appendices

Appendix 1 - Annual Audit Plan 2018/19

Appendix 2 - Table of abbreviations

Appendix 1

LEWES DISTRICT COUNCIL: ANNUAL AUDIT PLAN 2018/19

Audit Area	2018/ 2019 Days	Priority
Key Financial Systems Cash and Bank Council Tax Council Tax Reduction Scheme Expenditure and Creditors Fixed Assets Grant Claims Housing Benefit Housing Rents Income and Debtors Investments and Investment Income Main Accounting System Managed Audit NNDR Payroll and Employment Costs	10 10 10 15 10 180 10 10 10 10 10 10 10 3 308	HIGH HIGH HIGH HIGH HIGH HIGH HIGH HIGH HIGH HIGH HIGH HIGH HIGH HIGH
Central Systems Business Continuity Planning (BCP) (Note C) Ethics (Note A) Legal Services (Note C) Records Management/ Retention of documents (Note C)	25 5 25 10 65	MEDIUM HIGH MEDIUM MEDIUM
Departmental Systems Arrears Collection (Note A) Customer Services (Note A) Estates Management (Note A) HMO Licensing (Note B) Licensing (other than HMOs) (Note C) Members Allowances & Civic Expenses Repairs and Maintenance of Housing (Note C)	10 10 10 2 20 15 20 87	MEDIUM MEDIUM MEDIUM MEDIUM MEDIUM LOW MEDIUM
Performance & Management Review Review - Council Transformation Review - Risk Management/Corporate Governance Review – JTP Assurance Panel	10 15 5 30	
Computer Audit IT Cyber Security (Note C) IT Managed Audit	20 5 25	HIGH HIGH

Audit Area	2018/ 2019 Days	Priority
Management Responsibilities		
Audit and Standards Committee	15	
Audit Planning	10	
Data Matching	20	
Follow Up	10	
ESFOG/Hub/Sussex Audit Group	15	
Fraud Team Planning and Review	15	
Liaison with External Audit	3	
New Audit System Implementation	20	
	108	
Unplanned Audits / Investigations/Consultancy Reviews		
Consultancy Reviews (Note D)	25	
Unplanned Audits / Investigations	25	
	50	
Internal Audit Total	673	
Investigations Team		
Council Tax Reduction Scheme Fraud	5	MEDIUM
Data Matching	20	MEDIUM
Housing Benefit Fraud	5	LOW
NDR Fraud	60	HIGH
Payroll and other fraud	10	LOW
Tenancy Fraud (RTB, subletting and abandonment)	200	HIGH
Fraud Prevention	23	MEDIUM
Investigations Team Total	323	
Internal Audit and Counter Fraud Total	996	

Notes

Note A - These audits will cover both EBC and LDC equally. The resources shown in the LDC Annual Audit Plan will be the same as those shown in the EBC Annual Audit Plan (e.g. 10 days for LDC and 10 days for EBC with the total days for the audit being 20 days).

Note B – These audits will cover both EBC and LDC equally, but resources are being provided mainly in the EBC Annual Audit Plan.

Note C - These audits will cover both EBC and LDC equally, but resources are being provided mainly in the LDC Annual Audit Plan.

Note D – CMT have asked that this be earmarked for a potential review of the Integration of Waste Services.

The tasks shown under Management Responsibilities, Performance and Management Review, and Unplanned Audits/Investigations/Consultancy Reviews have no priorities assigned.

Appendix 2

Table of abbreviations

AGS – Annual Governance Statement
BCP – Business Continuity Planning
BDO – BDO, the Council's external auditors. Formerly BDO Stoy Hayward
CIPFA – Chartered institute of Public Finance and Accounting
CMT – Corporate Management Team
CTRS – Council Tax Reduction Scheme
DFGs – Disabled Facilities Grants
DWP – Department of Work and Pensions
EBC – Eastbourne Borough Council
ESFOG – East Sussex Fraud Officers Group
HACF – Head of Audit and Counter Fraud
HB – Housing Benefit
HRA – Housing Revenue Account. Refers to Council owned housing
ISO – International Organisation for Standardisation
IT – Information Technology
JTP – Joint Transformation Project
LDC – Lewes District Council
LLP – Limited Liability Partnership
NFI – National Fraud Initiative
PIs – Performance Indicators
PSIAS – Public Sector Internal Audit Standards
QAIP – Quality Assurance and Improvement Programme
RIPA – Regulation of Investigatory Powers Act
RTB – Right to Buy
SFIS – Single Fraud Investigation Service

Agenda Item No: 8

Report Title: Risk Management and the Strategic Risk Register

Report To: Audit and Standards Committee **Date:** 19 March 2018

Ward(s) Affected: All

Report By: Alan Osborne, Deputy Chief Executive

Contact Officer
Name: David Heath
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Purpose of Report:

To present the Council's Risk Management Strategy, propose a change in approach to reporting of strategic risks and highlight those risks that are faced by the Council.

Officers Recommendation(s):

That the Audit and Standards Committee:

- 1 Receives and endorses the Council's Risk Management Strategy (Appendix 1).
 - 2 Adopts the change in approach to the reporting of strategic risks.
 - 3 Notes the strategic risks identified by the Corporate Management Team (CMT) and the associated mitigating controls (Appendix 2).
 - 4 Considers those matters it wishes to highlight to CMT.
-

Reasons for Recommendations

- 1 The Council is committed to the proper management of risk. This report forms part of reporting cycle on risk as set out in the Risk Management Strategy. This report also provides key elements in the Council's submissions to the external auditor, BDO, and will provide data for the Annual Governance Statement (AGS).
- 2 To align risk management processes with those of Eastbourne Borough Council.

Introduction to Risk Management

- 3 Risk management is about using common sense to take effective action to prevent or limit the impact of risks so as to help the Council meet its priorities and deliver services effectively. In September 2003 Cabinet adopted a Risk Management Strategy that set out the responsibilities for risk management at the Council, and which has been

supported by a framework of procedures and guidance for the assessment of risks and the development of mitigating controls.

- 4 Since 2003 the Risk Management Strategy has included provision for an annual review of the strategy by CMT. The strategy was reviewed in March 2018 and has been updated to take account of a revised approach to risk management (see Appendix 1). The significant change is that the Audit and Standards Committee is now the principal recipient of the strategic risk register.
- 5 To support this strategy the Council has a standard approach for assessing risk which is applied to service planning, the management of major projects and decision making. The methodology reflects the need to manage the different aspects of the uncertainty that is inevitable when making changes in how the Council works and taking new approaches to regeneration and investment. The methodology recognises both the uncertainty that could have an adverse impact leading to loss, harm or damage (ie a risk) and the uncertainty that could have a positive effect leading to benefits or rewards (ie an opportunity).

Approach to the reporting of strategic risks

- 6 This report gives an opportunity to the Council to develop and improve on its approach to risk management. The following changes to approach are made:
 - The Audit and Standards Committee becomes the principal recipient of the Strategic Risk Register and on-going updates. This aligns with the Committee's Remit as set out in the Constitution of the Council.
 - Each risk is scored on the basis of likelihood and impact before mitigation and after mitigation.
 - Each strategic risk becomes the responsibility of all of CMT.
 - CMT to review the strategic risks on a quarterly basis. Where any changes are proposed they are reported to the Audit and Standards Committee with a detailed explanation of the changes in risks or the scoring.
 - A broader basket of risks which incorporates all the areas of strategic risk previously identified in the Annual Report on Risk Management to the Committee.
- 7 These changes have also given the opportunity to align risk management reporting processes between Lewes District Council and Eastbourne Borough Council as well as making the process more efficient. CMT now reviews the risks for both councils at the same time and applies a consistent approach.

Strategic risks

- 8 Strategic risks are those that are likely to have a significant impact across the Council, in that if they occur they are likely to prevent it from achieving its strategic objectives.
- 9 The compilation of a strategic risk register provides evidence of a risk aware and risk managed organisation. Generally, the register reflects the risks that will be common to comparable local authorities in this current period of change and financial challenge for Local Government.
- 10 Appendix 2 shows the strategic risk register that has been compiled by CMT for the year 2018/19. This register shows the:

- The title of the risk.
- A description of the risk scenario.
- Scoring of the likelihood and impact before any mitigating controls.
- Mitigating controls that are put in place to reduce the risk or prevent it from occurring.
- Scoring of the likelihood and impact after any mitigating controls.
- Cross reference to the strategic risks from the previous risk register.

- 11** CMT is responsible for ensuring that the strategic risks have mitigating controls in place.
- 12** For 2018/19, CMT will be reviewing the strategic risks of the Council on a quarterly basis. Any new risks identified, together with any changes in the scoring of risks, will be reported to the Audit and Standards Committee.

Scoring of risks

- 13** The Council has a methodology for scoring risks based on a five by five matrix. Each risk is scored from one to five for likely impact and likelihood. The two scores are multiplied to give an overall score for the risk. Risks are scored prior to mitigation and after mitigation. Depending on the score the risks will be assessed as red, amber or green. Appendix 3 outlines how the scoring methodology works. Each of the strategic risks in Appendix 2 has been assessed on this basis.

Areas of emerging risk

- 14** The Council has set up a number of commercial enterprises and this approach is set to continue. This has accordingly been included as Strategic Risk 9 in Appendix 2. Such commercial enterprises include:
- The North Street Project
 - Aspiration Homes (LDC 50% EBC 50%)
 - Lewes Housing Investment Company
- 15** The new General Data Protection Regulation comes into force in May 2018 and there is a large amount of work underway in preparation for this deadline. This includes ensuring all privacy notices are updated, systems/ processes allow for documents to be found and destroyed in line with the Retention and Disposal Policy and to ensure there is an awareness of the new regulations across the Council. This is considered under Strategic Risk 8.

Financial Appraisal

- 16** There are no financial implications arising from the recommendations to this report other than those already contained within existing budgets. However, if a strategic risk is not subject to effective mitigation there could be significant financial impact on the Council.

- 17** An equalities impact assessment is not considered necessary because the report is seeking endorsement of risk arrangements at the Council including the strategic risks identified by CMT.

Risk Management Implications

- 18** If the Council does not have an effective risk management framework that is subject to proper oversight by Councillors it will not be able to demonstrate that it has in place adequate means to safeguard Council assets and services, and it could be subject to criticism from the Council's external auditor or the public.

Legal Implications

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

Sustainability Implications

- 20** I have not completed the Sustainability Implications Questionnaire as there are no significant effects as a result of these recommendations.

Background Papers

None

Appendices

Appendix 1: Lewes District Council – Risk Management Strategy

Appendix 2: Lewes District Council –Strategic Risk Register 2018/19

Appendix 3: Lewes District Council – Scoring Methodology for Risks

Appendix 1

LEWES DISTRICT COUNCIL - RISK MANAGEMENT STRATEGY

1.0 Policy

- 1.1 We define risk as uncertainty that could have a detrimental impact on the achievement of the Council's objectives or service delivery. Uncertainty that could have a positive effect is an opportunity.
- 1.2 The appraisal and management of risk and opportunity will be part of our business planning and project management.
- 1.3 We will use risk management to promote innovation, and work proactively with stakeholders to minimise risks and maximise the opportunities associated with project and service decisions.

2.0 Organisation

- 2.1 This risk management strategy will be subject to approval by Corporate Management Team (CMT).
- 2.2 The Chief Executive is responsible for risk management. CMT will support the Chief Executive in assessing and mitigating risks likely to have a significant impact on the achievement of the Council's objectives. CMT will also review risks on a quarterly basis.
- 2.3 Heads of Service will implement risk management within their services and ensure that;
 - annual service plans contain an appraisal of risks to service delivery
 - managers carry out risk assessments as a routine part of service planning and project management activities
 - managers put in place appropriate controls to mitigate risks
 - managers will notify the Deputy Chief Executive of any significant risks that will require additional insurance and/or financing measures
- 2.4 The Head of Audit and Counter Fraud is responsible for providing advice and guidance and coordinating the Council's approach to risk

management. Internal Audit is responsible for monitoring the implementation and effectiveness of this risk management strategy and for reviewing compliance with controls introduced by CMT and their managers to manage risks.

- 2.5 The Audit and Standards Committee is responsible for reviewing the effectiveness of the systems and processes in place for managing risk. The Audit and Standards Committee receives reports on risk management and the strategic risk register.
- 2.6 Cabinet is responsible for considering risks when it makes key decisions.

3.0 Arrangements

- 3.1 Annual service plans support achievement of the Council Plan. Service plans will include an assessment of risk which will be reviewed and updated by Heads of Service.
- 3.2 Reports to Cabinet will include risk management implications.
- 3.3 Risk management training will be provided to senior managers with the aim of ensuring that they have the skills necessary to identify, appraise and control the risks and opportunities associated with the services they provide. Councillors will receive training/information on risk management so that they can consider the implications of risks and opportunities in their work for the Council.
- 3.4 Project managers will be responsible for appraising risks and opportunities associated with their projects and make provision for dealing with them.
- 3.5 This strategy will be communicated to Councillors and staff via the Council's intranet and will be reviewed annually by CMT.

March 2018

Appendix 2: Lewes District Council – Strategic Risk Register 2018/19

Risk	Description	Likelihood	Impact	Original Risk Score	Mitigating controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Cross reference to risks from the previous strategic risk register.
1. No political and partnership continuity/consensus with regard to organisational objectives	Sudden changes of political objectives at either national or local level renders the organisation, its current corporate plan and Medium Term Financial Strategy unfit for purpose.	4	4	16	1. Creation of inclusive governance structures which rely on sound evidence for decision making. 2. Annual review of corporate plan & Medium Term Financial Strategy. 3. Creating an organisational architecture through the Joint Transformation Programme that can respond to changes in the environment.	CMT	3	3	9	Amber	
2. Changes to the economic and financial environment makes the Council economically less sustainable	1. Economic development of the district suffers. 2. Council objectives cannot be met.	4	4	16	1. Robust Medium Term Financial Strategy reviewed annually and monitored quarterly. Refreshed in line with macro-economic environment triennially. 2. Creating an organisational architecture through the Joint Transformation Programme that can respond to changes in the environment.	CMT	4	3	12	Amber	Failure to achieve the Joint Transformation Programme. Failure to achieve the Council's savings. Economic factors outside the Council's control.
3. Unforeseen socio-economic and /or demographic shifts creating significant changes in demands and expectations.	1. Unsustainable demand on services. 2. Service failure. 3. Council structure unsustainable and not fit for purpose. 4. Heightened likelihood of fraud.	2	4	8	1. Ensuring significant corporate decisions are based on up to date, robust, evidence base. (e.g. Census information) 2. Ensuring community and interest group engagement in policy development (e.g. Neighbourhood Management Schemes; Corporate Consultation Programme)	CMT	2	3	6	Amber	

Risk	Description	Likelihood	Impact	Original Risk Score	Mitigating controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Cross reference to risks from the previous strategic risk register.
4. The employment market provides unsustainable employment base for the needs of the organisation	Employment market unable to fulfil recruitment and retention requirements of the Council resulting in a decline in performance standards and an increase in service costs.	4	4	16	1. Joint Transformation Programme to increase non-financial attractiveness of LDC to current and future staff. 2. Appropriate reward and recognition policies reviewed on a regular basis. 3. Review of organisation delivery models to better manage the blend of direct labour provision. Pursuit of mutually beneficial shared service arrangements.	CMT	2	2	4	Green	
5. Not being able to sustain a culture that supports organisational objectives and future	1. Decline in performance. 2. Higher turnover of staff.	4	4	16	1. Deliver a fit for purpose organisational culture through the Joint Transformation Programme. 2. Continue to develop our performance management capability to ensure early intervention where service and/or cultural issues arise. 3. Continue to develop communications through ongoing interactions with staff.	CMT	2	4	8	Amber	

Risk	Description	Likelihood	Impact	Original Risk Score	Mitigating controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Cross reference to risks from the previous strategic risk register.
6 Council prevented from delivering services for a prolonged period of time.	1. Denial of access to property (including plant and equipment) 2. Denial of access to technology/information 3. Denial of access to a significant contract or partnership.	3	5	15	1. Reviewed and tested Business Continuity Plans. 2. Reviewed and tested Disaster Recovery Plan. 3. Joint Transformation Programme has created more flexible, less locationally dependent service architecture. 4. Adoption of best practice IT and Asset Management policies and procedures.	CMT	2	4	8	Amber	Loss of IT Services. Loss of premises. Major failure in the financial systems. Loss of plant or equipment. Failure of significant contractor. Failure of partnership. Damage to reputation.
7 Council materially impacted by the effects of an event under the Civil Contingencies Act	1. Major incident caused by fire, flood or other disaster resulting in homelessness, disruption to Council services and local business community. 2. Service profile of the Council changes materially as a result of the impact of the event. 3. Cost profile of the Council changes materially as a result of the impact of the event.	3	5	15	1. Robust Emergency Planning/ use of Council's Emergency powers. 2. Ongoing and robust risk profiling of local area (demographic and geographic). e.g. flood risk 3. Review budget and reserves in light of risk profile to make funds available if an event occurs. 4. Working in partnership with other public bodies to put in place preventative measures and/or deal with effect of an incident once it has occurred.	CMT	1	3	3	Green	Major event or emergency affecting the District or the Region.

Risk	Description	Likelihood	Impact	Original Risk Score	Mitigating controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Cross reference to risks from the previous strategic risk register.
8. Failure to meet regulatory or legal requirements	1. Credibility of the Council is negatively impacted. 2. Deterioration of financial position as a result of regulatory activity/ penalties. 3. Deterioration of service performance as a result of regulatory activity/ penalties. 4. Increased probability of prosecutions and compensation claims as a result of inadequate management of Health and Safety duties. 5. Possibility of fraud and bribery. 6. Ensure compliance with legislation such as Data Protection and Safeguarding. 7. Entering into contracts etc. without having adequate finance in place.	3	4	12	1. Maintain, monitor and continue to develop a robust governance framework for the Council. 2. Building relationships with regulatory bodies. 3. Performance Management capability in place and continue to further develop to ensure early intervention where service and/or cultural issues arise. 4. Ensure there is full understanding the impact of new legislation or regulations .e.g. GDPR 5. All managers are required to abide by the Council's procurement rules. 6. JTP Board considers activity mapping, ensuring that it covers regulatory/legal and main financial matters.	CMT	1	4	4	Green	Governance and regulatory failure. Damage to reputation. Major changes to legislation.

Risk	Description	Likelihood	Impact	Original Risk Score	Mitigating controls	Risk Owner	Likelihood	Impact	Current Risk Score	Traffic Light	Cross reference to risks from the previous strategic risk register.
9.Commercial enterprises and new significant joint ventures that are fully controlled by the authority do not deliver financial expectations or do not meet governance requirements.	1. Unfamiliar activity with staff inexperienced in this area. 2 Council finances affected if projects do not meet financial expectations. 3 Reputational damage if governance procedures are inadequate. 4 Failure to abide by company law.	3	3	9	1. Hire suitably qualified/experienced staff to give legal and specialist support. 2. Appoint Head of Commercial Activities. 3. Ensure that projects meet core principles. 4. Up or reskill staff to maximise commercial opportunities. 5. Maintain strong governance processes which are adhered to. When new commercial enterprises and significant joint ventures are set up ensure strong governance processes are put in place.	CMT	2	3	6	Amber	Major Projects – North Street Quarter and Newhaven Enterprise Zone. Damage to reputation.

Appendix 3: Scoring methodology for risks

Assess the impact of risks

Classify (and score) the risks (assuming that nothing is done to prevent the risks occurring) into:

- Very low impact
- Low impact
- Medium impact
- High impact
- Very high impact

Assess the likelihood of risk

Classify (and score) the risks (assuming that nothing is done to prevent them). Risks are evaluated in terms of:

- Very low likelihood
- Low likelihood
- Medium likelihood
- High likelihood
- Very high likelihood

Evaluate the risks

Each risk should be plotted on the risk matrix (see below). This allows you **evaluate the** overall effect of your risk assessment.

Evaluation of risk score

Colour	Score	Commentary
Green	1 to 4	Low Risk
Amber	5 to 14	Medium Risk
Red	15 to 25	High Risk

Determine the action or controls to deal with the risks

Determine what can be done or what is already being done to deal with the risks that have been identified.

Accept

Some risks may be accepted if they have a low impact or are not likely to occur, or are considered to be risks worth taking to secure a business advantage.

Reduce/Treat/Mitigate

Risks may be reduced by taking steps to control or reduce the risk. It is for managers to take appropriate action to limit the threat posed by risks.

Effective control systems already exist in many areas of the Council's activities. However, it is important that existing controls are **not** assumed to mitigate all the risks identified by the risk assessment exercise. As the risk environment needs regular monitoring, so will managers need to consider whether new controls or improvements to existing controls are needed.

Where significant new controls are required these need to be planned as part of the Service Plan. If additional resources are necessary, managers will need to discuss requirements with their Director and the Head of Finance to determine if resources are available.

Avoid

If the risk is too great for the Council and it is not practical to reduce the risk, then it may be decided that the risk should be avoided. Please note that areas of greatest uncertainty may provide the greatest opportunity for significant benefits to the Council. In that context, decisions to avoid risks should be taken after a full assessment of the positive/negative impacts.

Transfer

Insurance is the normal method of transferring risks, particularly high impact risks that cannot be accepted. It may be necessary to consider additional insurance cover and the Council's Insurance Officer will be able to offer further advice on this if required. It is possible to transfer some risks by contracting out certain functions/services, but the contracting process itself can create other risks.

Specify what can be done to reduce/mitigate/control the risk.

Rescore the risk. Once the mitigation or control is in place you should re score the impact and likelihood to reflect the current position.

Risk matrix

IMPACT

5					
4					
3					
2					
1					
	1	2	3	4	5

LIKELIHOOD

Agenda Item No: 9

Report Title: Treasury Management

Report To: Audit and Standards Committee **Date:** 19 March 2018

Ward(s) Affected: All

Report By: Alan Osborne, Deputy Chief Executive

Contact Officer(s)-

Name(s): Stephen Jump
Post Title(s): Deputy Head of Finance
E-mail(s): steve.jump@lewes-eastbourne.gov.uk
Tel No(s): 01273 085257

Purpose of Report:

To present details of recent Treasury Management activity.

Officers Recommendation:

1. To confirm to Cabinet that Treasury Management activity between 1 January and 28 February 2018 has been in accordance with the approved Treasury Strategy for that period.
-

Reasons for Recommendations

- 1.1 The Council's approved Treasury Strategy Statement requires the Audit and Standards Committee to review details of investment and borrowing transactions against the criteria set out in the Strategy and make observations to Cabinet as appropriate.

2 Treasury Management Activity

- 2.1 The timetable for reporting Treasury Management activity in 2017/2018 is shown in the table below. 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
19 March 2018	1 January to 28 February 2018
17 July 2018	1 March to 31 March 2018 (also 2018/19 transactions 1 April to 30 June 2018)

2.2 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 28 February 2018 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. All of the deposits met the necessary criteria. The minimum rating required for deposits made in 2017/2018 is long term BBB+ (Fitch).

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
237317	Nationwide Building Society	15/12/17	15/03/18	90	1,000,000	0.37	A+
237417	Nationwide Building Society	15/12/17	16/04/18	122	1,000,000	0.39	A+
238417	Thurrock Borough Council	12/02/18	14/05/18	91	3,000,000	0.55	*
					<u>5,000,000</u>		
*UK Government body and therefore not subject to credit rating							

2.3 Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured since 1 January 2018, 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 £22m over this period.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term Rating
237917	Debt Management Office	02/01/18	03/01/18	01	6,000,000	0.25	*
237817	Debt Management Office	19/02/17	19/01/18	31	2,000,000	0.25	*
238017	Debt Management Office	15/01/18	22/01/18	07	2,000,000	0.25	*
238117	Debt Management Office	19/01/18	22/01/18	03	2,000,000	0.25	*
238217	Debt Management Office	01/02/18	05/02/18	04	2,000,000	0.25	*
238317	Debt Management Office	05/02/18	09/02/18	04	2,000,000	0.25	*
237017	Thurrock Borough Council	10/11/17	12/02/18	94	3,000,000	0.45	*
237617	The Highland Council	18/12/17	19/02/18	63	1,000,000	0.35	*
237717	Coventry Building Society	19/02/17	19/02/18	62	2,000,000	0.34	A
	Total				<u>22,000,000</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 28 February 2018 was 0.41%. The average rate of interest on deposits made during the period was 0.50%. The Bank of England's official Bank Rate was increased from 0.25% to 0.50% on 2 November 2017 and has remained unchanged since.

2.4 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following interest bearing accounts in the period covered by this report, with the average amount held being £2.75m generating interest of approximately £1,500.

	Balance at 28 Feb '18 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	2,000	1,627	0.40%
Lloyds Bank Corporate Account	630	1,122	0.40%

2.5 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 28 Feb 18 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	1,000	1,063	0.50%
Deutsche Managed Sterling Fund	1,000	1,686	0.46%

2.6 Purchase of Treasury Bills (T-Bills)

No T-Bills were held at 28 February 2018 and the activity in the period is shown below.

	Maturity Date	Purchased in period	Purchase date	£'000	Disc %
Matured during the period					
UK Treasury Bill 0%	22 Jan 18		23 Oct 17	1,000	0.358
UK Treasury Bill 0%	22 Jan 18		23 Oct 17	1,000	0.347
				<u>2,000</u>	

2.7 Secured Investments

There were no secured investments at 28 February 2018.

2.8 Tradeable Investments

The table overleaf shows the Tradeable Investments held at 28 February 2018.

Ref	Counterparty	Type	Date From	Date To	Days	Principal £	Rate %	Long Term Rating
Held at 28 February 2018								
GB00BXRH7N61	Barclays	CD	20 Jan 18	20 Mar 18	57	2,000,000	0.493	A+
XS0739933421	BMW Finance NV	FB	19 Dec 17	14 Dec 18	360	1,000,000	0.691	A+
GB00BDXF3B48	Danske Bank	CD	18 Dec 17	05 Mar 18	77	2,000,000	0.340	A
GB00BDXFTR27	Nordea AB	CD	25 Oct 17	25 Apr 18	182	1,000,000	0.440	AA-
XS1015890210	Daimler AG	FB	04 Oct 17	16 Jul 18	285	1,000,000	0.805	A-
XS1015890210	Daimler AG	FB	14 Sep 17	16 Jul 18	305	650,000	0.690	A-
						<u>7,650,000</u>		

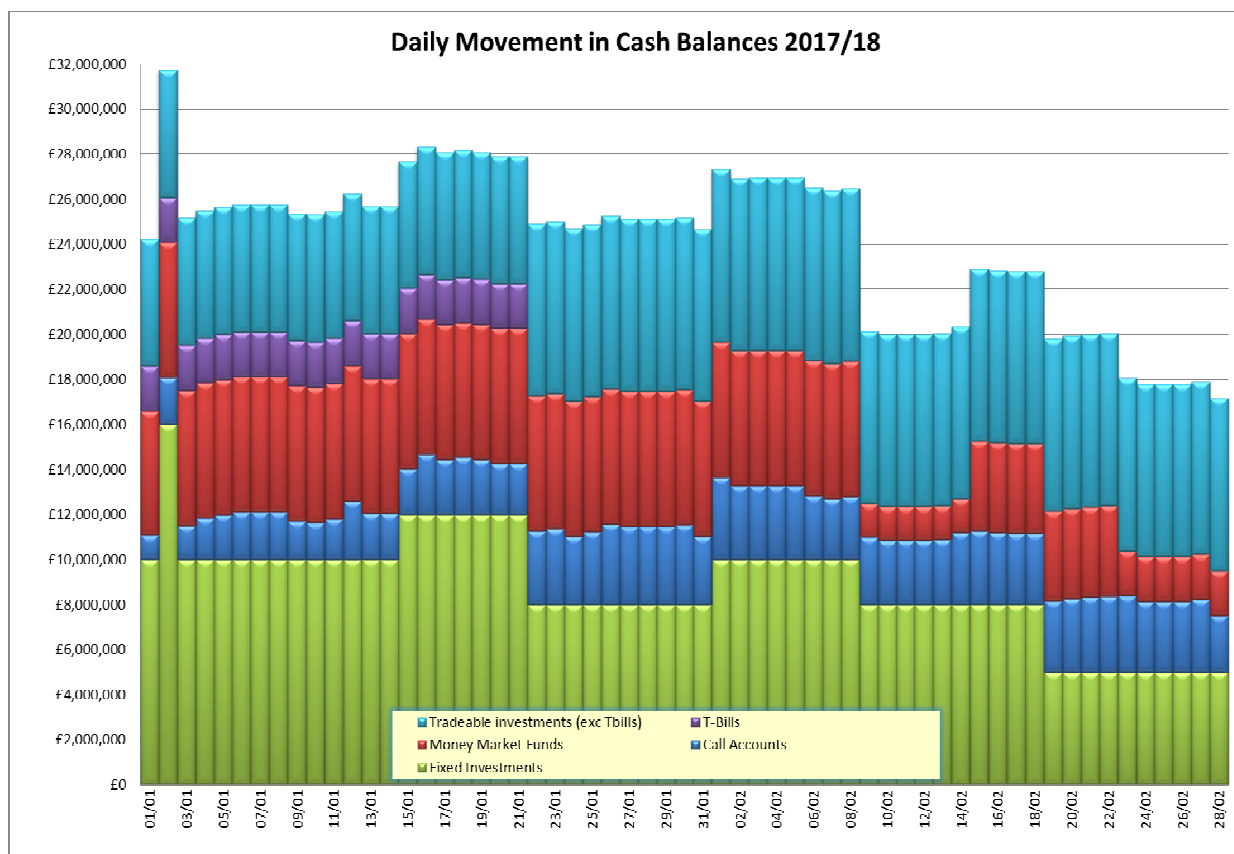
FB – Fixed Bond **CD** – Certificate of Deposit

2.9 Loans to Lewes Housing Investment Company and Aspiration Homes LLP

No loans have yet been advanced by the Council to either of these companies in which the Council has an interest.

2.10 Overall investment position

The chart below summarises the Council's investment position over the period 1 January to 28 February 2018. It shows the total sums invested each day as Fixed Term deposits, T-Bills, amounts held in Deposit accounts, MMFs and Tradeable Investments.



2.11 Borrowing

No temporary borrowings were made for cash-flow management purposes during the period.

There has been no change in the total value of the Council's long term borrowing in the reporting period, which remains at £56.673m.

Financial Implications

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

Risk Management Implications

- 4** The risk management implications associated with this activity are explained in the approved Treasury Management Strategy. No additional implications have arisen during the period covered by this report.

Equality Screening

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

Legal Implications

- 6** None arising from this report.

Background Papers

Treasury Strategy Statement 2017/2018



LEWES DISTRICT COUNCIL

AUDIT PLAN TO THE AUDIT AND STANDARDS COMMITTEE
Audit for the year ending 31 March 2018

Date of issue: 26 February 2018

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INTRODUCTION

PURPOSE AND USE OF OUR REPORT

We present our Audit Plan to the Audit and Standards Committee. 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.

This report has been prepared to highlight and explain the key components of our audit strategy we believe to be relevant to the audit of the financial statements and use of resources of the Lewes District Council ('the Council') for the year ending 31 March 2018. Audit planning is a collaborative and continuous process and our audit strategy, as reflected in this report, will be reviewed and updated as our audit progresses. In particular, we will review our approach following our interim audit site visit. We will communicate any significant changes to our audit strategy, should the need for such change arise.

As auditors we are responsible for performing our audit in accordance with International Standards on Auditing (UK) which provide us with a framework which enables us to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management nor those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and use of resources. As the purpose of the audit is for us to express an opinion on the Council's financial statements and use of resources for the year ending 31 March 2018, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist. As part of our work, we consider internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work is not for the purpose of expressing an opinion on the effectiveness of internal control.

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.

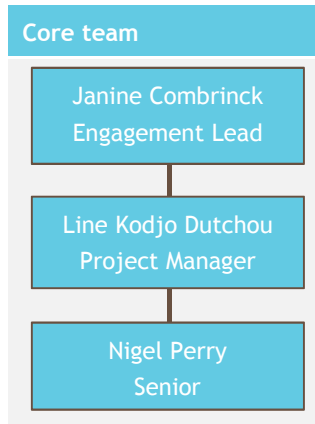
AUDIT QUALITY

BDO is totally committed to audit quality. It is a standing item on the agenda of BDO's Leadership Team who, in conjunction with the Audit Stream Executive (which works to implement strategy and deliver on the audit stream's objectives), monitor the actions required to maintain a high level of audit quality within the audit stream and address findings from external and internal inspections. BDO welcomes feedback from external bodies and is committed to implementing all necessary actions to address their findings.

We recognise the importance of continually seeking to improve audit quality and enhancing certain areas. Alongside reviews from a number of external reviewers, the AQR (the Financial Reporting Council's Audit Quality Review team), QAD (the ICAEW Quality Assurance Department), the PCAOB (Public Company Accounting Oversight Board who oversee the audits of US public companies) and CPAB (Canadian Public Accountability Board), the firm undertakes a thorough annual internal Audit Quality Assurance Review and as member firm of the BDO International network we are also subject to a quality review visit every three years. We have also implemented additional quality control review processes for audits of listed companies and public interest entities.

More details can be found in our latest Transparency Report at www.bdo.co.uk.

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
Line Kodjo Dutchou Project Manager	Tel: 020 7893 2976 Line.X.KodjoDutchou@bdo.co.uk	Management of the audit
Nigel Perry Senior	Tel: 0794 0497 738 Nigel.X.Perry@bdo.co.uk	Day to day supervision of the on-site audit

Janine is the engagement lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements.

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:

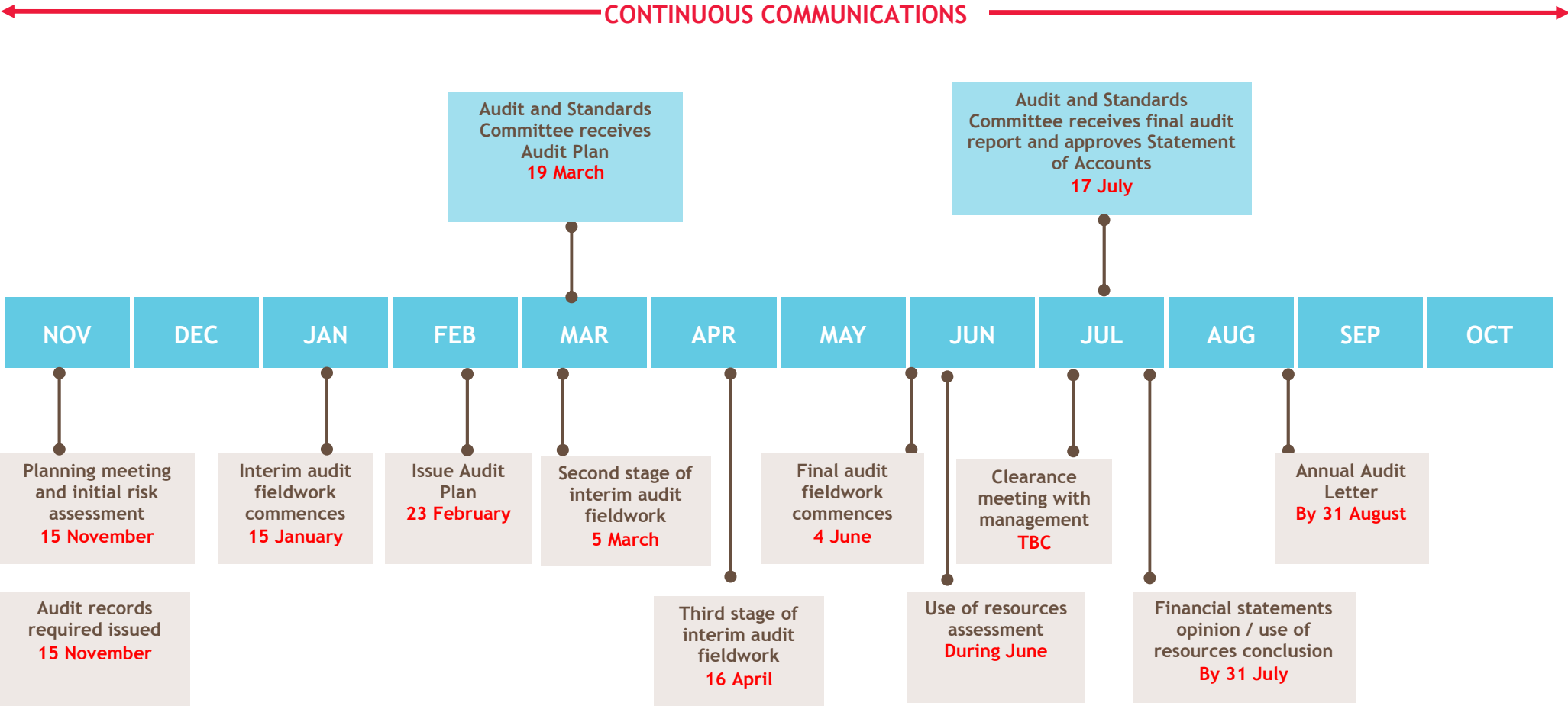
- the financial statements are free from material misstatement, whether due to fraud or error
- the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Janine is responsible for the overall quality of the engagement.

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's (NAO) Code of Audit Practice, International Standards on Auditing (UK) and other guidance issued by the NAO.

To form an opinion on whether:

FINANCIAL STATEMENTS		OTHER INFORMATION	WGA CONSOLIDATION	USE OF RESOURCES
1 The financial statements give a true and fair view of the financial position of the Council and its expenditure and income for the period in question.	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.	3 Other information published together with the audited financial statements is consistent with the financial statements (including the Governance Statement).	4 The return required to facilitate the preparation of Whole of Government Accounts (WGA) consolidated accounts is consistent with the audited financial statements.	5 The Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

ADDITIONAL POWERS AND DUTIES

6 To consider the issue of a report in the public interest. To consider making a written recommendation to the Council.	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.
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MATERIALITY

COUNCIL MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Lewes District Council	£1,700,000	£34,000

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 update 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 visit 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 assess 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 Council 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 (ISA) 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 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.

Management assessment of fraud

We have discussed with management its assessment of the risk that the financial statements may be materially misstated due to fraud and the processes for identifying and responding to the risks of fraud. Management believe that the risk of material misstatement due to fraud in the Council's financial statements is low and that controls in operation would prevent or detect material fraud. We are informed by management that there have not been any cases of significant or material fraud to their knowledge.

We are required to discuss with those charged with governance their oversight of management's processes for identifying and responding to risks of all fraud. We expect Audit and Standards Committee members, as those charged with governance, to let us know if there are any actual, suspected or alleged instances of fraud of which they are aware.

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 auditing standards there is a presumed significant risk of management override of the system of internal controls.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements • Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud • Obtain an understanding of the business rationale for significant transactions that are outside the normal course of business for the Council or that otherwise appear to be unusual. 	Not applicable.
Revenue recognition	<p>Under auditing standards 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 in relation to the existence, accuracy and completeness of fees and charges recorded in the Comprehensive Income and Expenditure Statement (CIES).</p> <p>In the public sector the risk of fraud in revenue recognition is modified by Practice Note 10 (PN10), issued by the Financial Reporting Council. PN10 states that auditors should also consider the risk that material misstatements may occur through the manipulation of expenditure recognition. This risk is identified as being relevant to cut-off of expenditure, where testing will be focussed.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Test an increased sample of fees and charges income to underlying documentation and confirm the existence and accuracy of transactions throughout the year • Test an increased sample of receipts either side of year end, to confirm that income has been recorded in the correct period and that all income that should have been recorded at year end has been • Test an increased sample of expenditure either side of year end, to confirm that expenditure has been recorded in the correct period. 	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
Valuation of non-current assets	<p>Local authorities are required to ensure that the carrying value of non-current assets is not materially different to the current value (operational assets) or fair value (surplus assets, assets held for sale and investment properties) at the balance sheet date.</p> <p>The Council has appointed an external valuer to carry out a year-end desktop review on certain asset classes.</p> <p>Due to the significant value of the Council's non-current assets, and the high degree of estimation uncertainty, there is a risk over the valuation of non-current assets where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at the year-end.</p>	<p>We will:</p> <ul style="list-style-type: none"> 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 Confirm that the basis of valuation for assets valued in year is appropriate, including checking that investment properties and surplus assets have been valued at 'highest and best use' Review the reasonableness of assumptions used in the valuation of non-current assets and the Council's critical assessment of the external valuer's conclusions. 	<p>We will review independent data that shows indices and price movements for classes of assets against the percentage movement applied by the Council. We will follow up valuation movements that appear unusual against indices, or any assets which have not been revalued at the year-end which may have had material movements since the last formal valuation.</p>
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's Pension Fund and the estimated future liability to pay pensions. An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has 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 membership data and cash flows provided to the actuary at 31 March may not be correct, or the valuation uses inappropriate assumptions to value the liability.</p>	<p>We will:</p> <ul style="list-style-type: none"> Agree the disclosures to the information provided by the pension fund actuary Review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data Obtain assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary Check whether any significant changes in membership data has been communicated to the actuary. 	<p>We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.</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
Recharges between the Council and Eastbourne Borough Council	<p>The Council is undergoing a major Joint Transformation Programme (JTP) with Eastbourne Borough Council to merge frontline services and back office functions.</p> <p>In February 2017, the vast majority of the Council's employees were transferred onto Eastbourne Borough Council's payroll. There are recharging arrangements in place for each of the four key service areas (Corporate Management Team, Information Technology, Human Resources and Asset Management) and for employees outside of these services. On a monthly basis Eastbourne Borough Council calculates, based on these arrangements, the amount to be recharged via invoice back to the Council.</p> <p>Legal Services are held within Lewes District Council and the Council recharges Eastbourne Borough Council for these services.</p> <p>We understand that the recharge percentages may change when budgets are realigned in 2017/18.</p> <p>Given that this is the first full year of these recharge arrangements, there remains a risk over the accuracy of expenditure in the Comprehensive Income and Expenditure Statement.</p> <p>There is also a risk that redundancies resulting from the JTP may not be appropriately accounted and disclosed for in line with CIPFA's Code of Practice on Local Authority Accounting 2017/18.</p>	<p>We will:</p> <ul style="list-style-type: none"> Review the reasonableness and accuracy of the recharge arrangements in place between the councils and check that the Council's share of the costs is in line with approved recharge arrangements Review the completeness and accuracy of redundancy accruals and provisions and exit package disclosures. 	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
Group Accounts	<p>The Council has a new wholly owned subsidiary, Lewes Housing Investment Company Limited. It is not yet known whether transactions in this entity will be material in 2017/18 and therefore whether Group Accounts will be required.</p> <p>In addition, the Council has an interest in a new joint housing investment partnership with Eastbourne Borough Council, Aspiration Homes Limited. The Council's share of the joint arrangement depends on the value and timing of transactions in the new company. If material, an assessment will need to be made as to whether the joint arrangement comprises a joint venture or a joint operation under International Financial Reporting Standard 10 <i>Consolidated Financial Statements</i> and Group Accounts will need to be prepared.</p> <p>There is a risk that the Council may need to prepare Group Accounts for the first time.</p>	<p>We will:</p> <ul style="list-style-type: none"> Review the financial statements of Lewes Housing Investment Company Limited and Aspiration Homes Limited and assess whether management has fully considered the need to prepare Group Account for its interests in these entities. If Group Accounts are required and have been prepared, determine whether the Council has appropriately accounted for its interests, based on the nature and underlying substance of the arrangements. 	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
Sustainable finances	<p>The update to the Medium Term Financial Strategy (MTFS) to 2020/21 has forecast further reductions in Government core grant funding, falling New Homes Bonus funding from 2017/18 and annual inflationary and pay award pressures. Budget gaps have been identified in 2017/18 (£641,000), 2018/19 (£913,000), 2019/20 (£605,000) and 2020/21 (£38,000), resulting in an average level of required savings of £549,000 per annum over the four-year period.</p> <p>The Council currently has a number of major development / transformation programmes in place to either help facilitate these savings or create additional revenue streams in the medium term, to close the budget gaps.</p> <p>These programmes include:</p> <ul style="list-style-type: none"> • Joint transformation programme with Eastbourne Borough Council to provide joint services • North Street Quarter development • Newhaven Enterprise Zone • Joint housing investment partnership with Eastbourne Borough Council • Procurement for a joint venture energy scheme with Eastbourne Borough Council • Annual reductions in the fee payable to Wave Leisure Trust. <p>There is a risk that the MTFS does not adequately take account of the investment costs and savings associated with these projects, and that the Council does not have appropriate arrangements to monitor progress in delivering benefits from these projects against the MTFS.</p>	<p>We will review the assumptions used in the MTFS for investment costs and savings associated with major development / transformation programmes.</p> <p>We will review the Council's arrangements for monitoring the progress of these programmes against the budgeted savings targets.</p>	Not applicable

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 2018.

We have not identified any 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 director 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 2018 are:

	2017/18 £	2016/17 £
Audit fee - scale fee	46,418	46,418
Certification fee (Housing benefits subsidy claim)	15,598	15,598
Total audit and certification fees	62,016	62,016
Fees for audit related services (Pooled capital receipts return)	1,500	1,500
TOTAL FEES	63,516	63,516

The indicative scale fee for certification of the housing benefits subsidy claim, as published by Public Sector Audit Appointments Limited, is £11,699 for 2016/17 and £15,598 for 2017/18, which is based on fee outturns in previous years. However, we have not yet completed our work for 2016/17 and we expect our fee to be higher than the indicative scale fee. We have therefore stated our expected fee above at the same level as the 2017/18 indicative scale fee. We will keep the level of certification fee for 2016/17 and 2017/18 under review if additional work is required.

Audit fee invoices will be raised in quarterly instalments of £11,604.50 during 2017/18.

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 Statement of Accounts 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 transaction, 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
Janine Combrinck - Engagement lead	Third year as engagement lead preceded by two years as project manager
Line Kodjo Dutchou - Project manager	First year as project manager



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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