

Audit and Standards Committee

Minutes of a meeting of the **Audit and Standards Committee** held in the **Ditchling Room, Southover House, Southover Road, Lewes** on **Monday, 26 September 2016** at 10.00am

Present:

Councillor M Chartier (Chair)
 Councillors S Catlin, N Enever, S Gauntlett, I Linington, R Robertson and T Rowell

Officers Present:

B Bird, Principal Accountant
 Z Downton, Committee Officer
 D Heath, Head of Audit, Fraud and Procurement
 S Jump, Head of Finance
 C Knight, Assistant Director of Legal and Democratic Services (Minutes 17 to 22)
 A Osborne, Deputy Chief Executive (Minutes 21 to 25)

Also Present:

J Combrinck, BDO

Minutes

		Action
17	<p>Committee Membership 2016/2017</p> <p>The Committee noted the appointment of Councillor Stephen Catlin on the Audit and Standards Committee membership for the remainder of the municipal year. The Chair welcomed Councillor Catlin to the Committee.</p>	
18	<p>Minutes</p> <p>The Minutes of the meeting held on 20 June 2016 were approved as a correct record and signed by the Chair.</p>	
19	<p>Interim Report on the Council's Systems of Internal Control 2016/2017</p> <p>The Committee received Report No 127/16 which informed councillors on the adequacy and effectiveness of the Council's systems of internal control during the first five months of 2016/2017 and which summarised the work on which that opinion was based.</p> <p>The Internal Audit function at the Council operated in accordance with the common set of Public Sector Internal Audit Standards (PSIAS) that applied from 1 April 2013, and which had been updated in April 2016. The Head of</p>	

Audit, Fraud and Procurement explained that the updated PSIAS 2016 were materially the same as those that had been in place since 2013. The two changes, namely the introduction of a mission statement for Internal Audit and core principles for the professional practice of internal auditing were set out under Section 7 of the Report.

The Head of Audit, Fraud and Procurement's satisfactory opinion on the overall standards of internal control was based on the work of Internal Audit and the Council's external auditors, BDO, and the Council's work on risk management. In the five months since the start of the financial year there had been nothing to cause that opinion to change and there had been no instances in which internal control issues had created significant risks for Council activities or services. Prompt corrective action had been taken to address issues noted during an internal audit of the Council's Right to Buy processes, as shown under Appendix A1.

The Council had an active Investigations Team whose main focus in 2016/2017 had been in continuing to address tenancy fraud, as detailed under paragraph 8.5. The Head of Audit, Fraud and Procurement brought to the attention of the Committee that due to the work of the Investigations Team, two properties had been returned to the Council's housing stock during July and August 2016.

The Head of Audit, Fraud and Procurement highlighted table 1, under paragraph 4.2 of the Report, which showed that a total of 287 audit days had been undertaken compared to 264 planned. He advised that the variance of 23 days was not significant and it was estimated that the audit days would be closer to plan by the year end.

Appendix A1 of the Report set out a Statement of Internal Audit work undertaken and key issues. As part of its audit work on the Council's Right to Buy (RTB) processes, Internal Audit had identified weaknesses in control systems, the most significant of which was that property sale prices had not always reflected a correct assessment of the allowed discount. The Head of Audit, Fraud and Procurement assured the Committee that managers had responded quickly to resolve the matters raised by Internal Audit. In response to a councillor's query, the Head of Audit, Fraud and Procurement advised that the amount the Council had lost as a result of incorrect sale prices was being investigated and he would bring further information on that to a future meeting of the Committee. The Assistant Director of Legal and Democratic Services advised that in any case the money could not be recouped as it was down to the Council's error and not due to fraudulent activity.

HAF&P

Resolved:

- 19.1** That it be noted that the overall standards of internal control during the first five months of 2016/17, as shown in Section 3 of the Interim Report No 127/16, were satisfactory; and
- 19.2** That the impact of the revised Public Sector Internal Audit Standards (PSIAS) that were published in April 2016, as shown in

Section 7 of Report No 127/16, be noted.

20 Annual Report on the work of the Audit and Standards Committee 2015/16

The Committee considered Report No 128/16 in relation to the work of the Audit and Standards Committee during 2015/2016 and which summarised activity in the key area of corporate governance and provided assurance that the oversight of governance, risk and internal control was operating effectively.

The Head of Audit, Fraud and Procurement took councillors through the Report that provided background information about the Committee, its purpose and membership. He highlighted, under paragraph 4, that the Committee conformed to best practice as set out in the Chartered Institute of Public Finance and Accountancy's 'Audit Committees – Practical Guidance for Local Authorities', and operated in accordance with the Remit of the Audit and Standards Committee that was shown in Part 11, Section 4 of the Council's Constitution.

The Committee noted, under paragraph 8, that Councillor Giles was a member of the majority group, and not the minority group as the Report stated, during 2015/2016 when he served as a member on the Committee.

The table, shown under Appendix A1, set out the various reports which were presented to the Audit and Standards Committee at each of the five meetings during the 2015/2016 municipal year.

Resolved:

- 20.1** That Report No 128/16 be noted;
- 20.2** That the conclusions on the effectiveness of Internal Audit, as set out in paragraph 16 of Report No 128/16, be endorsed;
- 20.3** That the opinion on the Council's Internal Control Environment and Risk Management Framework, as set out in paragraphs 17 and 18 of Report No 128/16, be endorsed; and
- 20.4** That it be noted that the Audit and Standards Committee has discharged all of the duties outlined and complied with the Terms of Reference in all respects, as shown under paragraph 19 of Report No 128/16.

21 Lewes District Council – Audit for the year ended 31 March 2016

The Committee considered Report No 129/16 which detailed BDO's, the Council's external auditors, key findings arising from its audit for the year ended 31 March 2016. The Report formed a key part of BDO's communication strategy with the Council; a strategy that was designed to promote effective two way communication throughout the audit process.

Ms Janine Combrinck, BDO, took councillors through the Report. Page 27 of the Report summarised the scope and objectives of the audit and the

anticipated audit opinion of BDO. Ms Combrinck explained that BDO had substantially completed its audit work procedures in accordance with the planned scope and its objectives had been achieved, subject to the resolutions of the outstanding matters as shown on page 19 of the Report.

Ms Combrinck clarified that those amendments arising since the Report had been produced were not materially significant. She advised the Committee that BDO would circulate the final version of the Report to Members in the coming days for final approval by the Chair of the Committee. Ms Combrinck explained that, subject to the successful resolution of those outstanding matters, BDO anticipated issuing an unqualified opinion on the financial statements for the year ended 31 March 2016. She further explained that BDO were also satisfied that the Council had adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources and BDO anticipated issuing an unqualified value for money conclusion for the reporting period.

The key audit and accounting matters, as set out on pages 6 to 18 of the Report, detailed BDO's findings in relation to the areas of significant audit risks which it had previously highlighted within its audit planning report presented to the meeting of the Committee on 24 February 2016.

As part of the audit work carried out, BDO had not identified any significant deficiencies in the Council's internal control environment, though its observations and recommendations in relation to other deficiencies were set out on pages 22 to 24 of the Report.

BDO's findings in respect of the efficiency and effectiveness in the Council's use of resources (value for money) were set out on pages 26 to 31 of the Report. Ms Combrinck highlighted the section on the New Homes Project, under the use of resources audit work on page 30 of the Report. Following its review of the Council's governance and decision making processes, BDO had been satisfied that the Council had followed its own internal processes in making decisions about the Project, and legal advice had been sought on key decisions made. BDO had identified scope for improvement in arrangements underpinning the New Homes Project and had agreed an action plan with officers for lessons learnt from the Project to be applied to future projects of similar size and nature. Ms Combrinck drew the Committee's attention to the recommendations raised by BDO in respect of the New Homes Project, as shown under Appendix III of the Report (pages 39 to 43), namely:

- Earlier disclosure of potential development sites;
- Public consultation in preliminary stages;
- Updating the Property Strategy and Asset Management Plan; and
- More structured approach to carrying out due diligence checks.

In response to a Councillor's question, Ms Combrinck explained that the New Homes Project had been considered by BDO as part of its audit work for 2015/2016, and not previously, as the Council had entered into, and had

subsequently terminated, the contract within that reporting period. In light of the Project's termination, BDO had identified a risk to its use of resources opinion if due processes had not been followed by the Council, hence its subsequent investigations and discussions with management.

The Committee queried the impact of the termination of the New Homes Project on the Council's financial statements and how this would be accounted for. The Deputy Chief Executive explained that the effect on the Council's capital expenditure had been reviewed in 2015/2016 and that the review process was undertaken periodically. He advised the Committee that an explanatory note would be added to the Narrative Report that accompanied the Council's Statement of Accounts 2015/2016 that was being presented later in the meeting.

Deputy
Chief
Executive/
HF

The Committee expressed its thanks to Ms Combrinck and BDO.

Resolved:

21.1 That the Chair of the Audit and Standards Committee, on behalf of the Committee, be delegated to approve the final BDO Report on its audit work for the year ended 31 March 2016; and

21.2 That the contents of Report No 129/16 be noted.

22 Annual Report on the Establishment and Maintenance of a Register of Interests 2016/2017

The Committee received Report No 130/16 which confirmed that the Register of Interests was being maintained in accordance with the law and the Council's Constitution. At the request of the Monitoring Officer, the Report also outlined the number and nature of Standards Complaints received during the 2015/2016 municipal year in respect of breaches of the Code of Conduct by Lewes District, Town or Parish Council councillors.

The Assistant Director of Legal and Democratic Services highlighted, under paragraph 5, that all 41 councillors had submitted returns for the current year, however she explained that Democratic Services had spent considerable time in chasing individual councillors to update their register of interest forms as part of the annual review.

The Assistant Director of Legal and Democratic Services drew to the Committee's attention the importance of returning the form, or advising Democratic Services of no changes to an existing form. She explained that it was a legal requirement to do so and the onus was on the councillor, and not on the Council's officers, to fully complete the form and to ensure that obvious interests, such as their home or rental address, were declared.

The Committee noted that it was a councillor's personal responsibility to notify the Monitoring Officer or Democratic Services team in writing of any change to their registered interests during the year.

Resolved:

22.1 That Report No 130/16 be noted.

23 Treasury Management

The Committee considered Report No 131/6 which presented details of recent Treasury Management activity between 1 June 2016 and 31 August 2016.

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

The Head of Finance highlighted the following points contained within the Report:

- The table, under paragraph 2.4, showed the fixed term deposits which had matured since 1 June 2016, in maturity date order. The Head of Finance highlighted that the recent change in the Bank of England's base rate to 0.25% had affected the interest rate on certain counterparty investments, for example with the Debt Management Office which had lowered from 0.25% to 0.15%. Also the Lloyds Bank Corporate Account interest rate had fallen from 0.4% to 0.15%, under the Use of Deposits shown at paragraph 2.5.
- In terms of diversifying the Council's investment options, the Head of Finance had sought the advice and gained support from Arlingclose, the Council's Treasury Advisor, ahead of the purchase of a Certificate of Deposit (CD) with Rabobank, as shown under paragraph 2.9. The CD was a fixed term, trade-able deposit and the intention was to keep this CD until maturity.

In respect of the Council's borrowing, the Committee discussed the Council's £5m loan from Barclays Bank plc that was advanced in April 2004 with a maturity date in April 2054. Paragraph 2.11 outlined that Barclays Bank had changed the terms of the original loan agreement by fixing the rate of interest, currently at 4.5%, thereby waiving its right to review the rate every 4 years. The Committee queried whether it would cost less to pay off the loan in the short term, albeit incurring an additional debt premium charge, against the cost of repaying the loan until its maturity date. The Head of Finance would look into the current loan redemption value against the cost of repayments until the loan maturity date in April 2054 and provide further details at the next meeting of the Committee.

Resolved:

23.1 That it be confirmed to Cabinet that Treasury Management activity between 1 June 2016 and 31 August 2016 had been in accordance with the approved Treasury Strategy for that period; and

23.2 That Report No 131/16 be noted.

HF

Deputy
Chief
Executive

24 Statement of Accounts 2015/2016

The Committee considered Report No 132/16 which presented the Council's Statement of Accounts 2015/2016 for approval, following the audit by BDO (the Council's external auditors).

The Accounts and Audit Regulations 2015 required the Deputy Chief Executive and councillors to certify and approve an audited set of accounts for publication by no later than 30 September each year.

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

The Head of Finance explained that at the time of writing the Report, the Council's appointed auditor, BDO LLP was yet to complete the audit of the accounts. He advised the Committee that some technical adjustments to the Statement of Accounts document, as shown under Appendix 2 of the Report, may be required on completion of the audit and would be undertaken in consultation with the Chair of the Committee.

Resolved:

- 24.1** That the Statement of Accounts 2015/2016, as shown under Appendix 2 of Report No 132/16, be approved, with the Chair signing on behalf of the Audit and Standards Committee; and
- 24.2** That it be agreed to delegate authority to the Deputy Chief Executive to make technical and presentational amendments to the Statement of Accounts 2015/2016 ahead of signature by the Chair of the Audit and Standards Committee.

Deputy
Chief
Executive

25 Date of Next Meeting**Resolved:**

- 25.1** That the next scheduled meeting of the Audit and Standards Committee to be held on Monday 28 November 2016 at 10.00am in the Ditchling Room, Southover House, Southover Road, Lewes be noted.

**All to
note**

The meeting ended at 11.30am.

M Chartier
Chair