



**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, 20 March 2017** at **10:00** which you are requested to attend.

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

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

09/03/2017

Catherine Knight  
Assistant Director of Legal and Democratic Services

## **Agenda**

- 1 Committee Membership 2016/2017**  
To note the appointment of Councillor Andy Loraine on the Audit and Standards Committee membership for the remainder of the current municipal year.
- 2 Minutes**  
To approve the Minutes of the meeting held on 16 January 2017 (copy previously circulated).
- 3 Apologies for Absence**
- 4 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.
- 5 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.

**6 Written Questions**

To deal with written questions from councillors pursuant to Council Procedure Rule 12.3 (page D8 of the Constitution).

**7 Interim Report on the Council's Systems of Internal Control 2016/17 (page 3)**

To receive the Report of the Head of Audit, Fraud and Procurement (Report No 59/17 herewith).

**8 Annual Audit Plan 2017/18 (page 13)**

To consider the Report of the Head of Audit, Fraud and Procurement (Report No 60/17 herewith).

**9 Treasury Management (page 24)**

To consider the Report of the Deputy Chief Executive (Report No 61/17 herewith).

**10 Audit for the year ending 31 March 2017 (page 29)**

To consider the Report of BDO Accountants and Business Advisers (Report No 62/17 herewith).

**11 Date of Next Meeting**

To note that the next meeting of the Audit and Standards Committee is scheduled to be held on Monday, 19 June 2017 in the Ditchling Room, Southover House, Southover Road, Lewes commencing at 10:00am.

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

**Distribution:** Councillors M Chartier (Chair), S Catlin, N Enever, S Gauntlett, A Loraine and T Rowell

*(Members of the Committee who are unable to attend this meeting or find a substitute councillor to attend on their behalf should notify Zoe Downton, Committee Officer, [zoe.downton@lewes.gov.uk](mailto:zoe.downton@lewes.gov.uk))*

**Agenda Item No:** 7 **Report No:** 59/17

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

**Report To:** Audit and Standards Committee **Date:** 20 March 2017

**Ward(s) Affected:** All

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

**Contact Officer**

**Name:** David Heath

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

**E-mail:** [David.Heath@lewes.gov.uk](mailto:David.Heath@lewes.gov.uk)

**Tel no:** 01273 484157

---

### **Purpose of Report:**

To inform Councillors on the adequacy and effectiveness of the Council's systems of internal control during the first ten months of 2016/17, and to summarise the work on which this opinion is based.

### **Officers Recommendation(s):**

- 1 To note that the overall standards of internal control were satisfactory during the first ten months of 2016/17 (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 applied from 1 April 2013. The Head of Audit, Fraud and Procurement (HAFP) advised the Audit and Standards Committee of the effect of the standards at its March 2013 meeting.
- 2.2 The PSIAS have been updated, with new standards published in April 2016. The impact of the new standards was reported to the September 2016 meeting of the Committee.

- 2.3** The PSIAS 2016 continue to specify the requirements for the reporting to the Audit and Standards Committee and senior management by HAFP. These requirements are met via a series of reports, including interim reports to each meeting of the Committee.
- 2.4** Each interim report includes a review of the work undertaken by Internal Audit compared to the annual programme, an opinion of HAFP on the internal control, risk management and governance environment at the Council, together with any significant risk exposures and control issues, in the period since the beginning of the financial year. Each interim report 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.

### **3 Internal Control Environment at Lewes District Council**

- 3.1** The Annual Report on the Council's Systems of Internal Control for 2015/16 included the opinion of HAFP that the overall standards of internal control are satisfactory. This opinion was based on the work of Internal Audit and the Council's external auditors, BDO, and the Council's work on risk management. In the ten months since the start of the financial year there has been nothing to cause that opinion to change and there have been no instances in which internal control issues created significant risks for Council activities or services. Prompt corrective action was taken to address issues noted during an internal audit of the Council's Right to Buy (RTB) processes (see also 4.9).

### **4 Internal Audit work 2016/17**

- 4.1** This section of the report summarises the work undertaken by Internal Audit during the first ten months of the year, compared to the annual plan that was presented to the Audit and Standards Committee in March 2016. Further information on each of the audits completed since the previous meeting of the Committee is given at Appendix A.
- 4.2** Table 1 shows that a total of 554 audit days have been undertaken compared to 528 planned.

Table 1: Plan audit days compared to actual audit days for April 2016 to January 2017

Audit Area	Actual audit days for the year 2015/16	Plan audit days for the year 2016/17	Actual audit days to date	Pro rata plan audit days to date
Main Systems	360	290	287	
Central Systems	57	70	82	
Departmental Systems	68	70	86	
Performance and Management Scrutiny	27	45	8	
Computer Audit	2	45	-	
Management Responsibilities/Unplanned Audits	88	116	91	
<b>Total</b>	<b>602</b>	<b>636</b>	<b>554</b>	<b>528</b>

Note: The 'Pro rata plan audit days to date' provides a broad guide to the resources required to carry out planned audits. The actual timing of the individual audits will depend on a variety of factors, including the workloads and other commitments in the departments to be audited.

- 4.3 The variance of 26 days has largely been due to HAFP being involved in more direct audit work at this stage of the year than was originally envisaged. It is estimated that the audit days will be closer to plan by the year end, partly because of the staff change outlined below.
- 4.4 One of the Senior Auditors at LDC retired in January 2017. The intention is for the vacancy to be filled at Auditor level - the recruitment process will commence shortly and there will be a reduction in the days available for audit work in the latter months of 2016/17. The Audit Manager at EBC has carried out audit work at LDC during the year, but this arrangement is no longer in place.
- 4.5 **Main Systems:** The initial work was 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 2015/16. A final report was issued. The corresponding work for 2016/17 is underway.
- 4.6 The work on behalf of BDO to test the Council's subsidy claim for Housing Benefits (HB) for 2015/16 has been completed. BDO's initial planning for this work had set out the standard testing requirements and identified the likely need for significant additional testing to address the issues noted in the previous year's claim. The standard testing was completed, and the test samples for the additional testing were confirmed in late October. 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 the extra work that has been required. The claim is expected to have been submitted the time of the Committee meeting.
- 4.7 **Central Systems:** Some outstanding issues from the audit of Electoral Registration and Elections were being examined prior to confirmation of the draft report – that work is complete and the draft report has been issued. Final reports have been issued for the audit of Ethics, Newhaven Business Centre, Insurance, and for the priority audit of Business Continuity Planning (BCP). The results of the joint review of the EBC/LDC Leisure Trusts have been discussed with CMT, and a draft report has been issued. The current audit of Ethics is underway.
- 4.8 **Departmental Systems:** The final reports from the audits of Right to Buy (RTB), Private Sector Housing and Cemeteries have been issued. The audit of Estates Management, incorporating work on the corresponding function at EBC, began in January 2017.
- 4.9 The final report from the audit of RTB included an estimate of the impact of the discounting errors in completed and ongoing RTB sales in the period 2012/13 – 2015/16. The estimated loss to LDC was approximately £100,000. Immediate action was taken to correct the prices of ongoing sales, as was reported to the September 2016 meeting of the Committee. The effect is that the loss to LDC has been reduced to £88,000.
- 4.10 **Performance and Management Scrutiny:** The main work in this category has been in reviewing the data that supported the Annual Governance Statement (AGS), and specific tasks related to the Internal Audit aspects of the Council's Joint Transformation Programme (JTP).
- 4.11 **Computer Audit:** Internal Audit has examined the IT aspects of the main financial systems (see 4.5 above).

**4.12 Management Responsibilities/Unplanned Audits:** This category provides resources for activities such as support for the Audit and Standards Committee, managing the Fraud Investigations Team, liaison with BDO, and meeting requests for unplanned work.

**4.13** There has been one unplanned audit that has been completed - a small scale exercise to review cash handling procedures at the Lewes Tourist Information Centre, and there were no significant outcomes.

## **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 2016/17 was on confirming the implementation of the recommendations that had been agreed in the previous year. The results of this work were reported separately to the June 2016 meeting of the Committee. The work to follow up the recommendations made during 2016/17 is underway.

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

**6.1** The results of the Internal Audit quality reviews, customer satisfaction surveys and PIs for 2015/16, and the targets for 2016/17, were reported to the June 2016 meeting of the Committee. The results enabled the HAFP to report that the Internal Audit service at Lewes is fully effective, is subject to satisfactory management oversight, achieves its aims, and objectives, and operates in accordance with the Internal Audit Strategy as approved by the Committee.

## **7 Review of 2016/17 Audit Plan**

**7.1** As part of the report to the March 2016 meeting of the Committee that detailed the Annual Audit Plan, HAFP advised that there would be a nine month review of the Audit Plan for 2016/17 to assess whether any significant changes are necessary.

**7.2** That review has taken place and the results of the review are now presented to the Committee. The review takes 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 retirement of the Senior Auditor and the extra audit days worked by HAFP. There has been little overall impact on the number of days available to complete the audit programme for 2016/17, but there has been a need to re-assign some tasks.

**7.3** HAFP advises that all significant aspects of the annual audit plan will be covered. The exceptions are:

- As previously reported, the planned audit of IT Security and Networks will not be possible because of the retirement of the Senior Auditor who was the specialist computer auditor. The audit will be scheduled for a future date in the audit cycle.
- The planned audit of Members Allowances and Expenses is scheduled into the Annual Plan for 2017/18 that is presented separately to the Committee.

Other audits in the programme for 2016/17 that are planned or underway will continue to a normal conclusion.

## **8 Combatting Fraud and Corruption**

- 8.1** The Annual Report on the Council's work to combat Fraud and Corruption 2015/16 was presented to the June 2016 meeting of the Committee. That report was a detailed statement of the strategies and structures that in place to counter fraud and corruption, and the information within the report is still accurate and relevant. Below are updates that outline the main developments since the start of 2016/17.

### **Local developments**

- 8.2** The Investigation Team maintains its membership 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. A sub group of seven authorities within ESFOG are working together in a 'Hub' approach to coordinate new counter fraud initiatives across East Sussex and Brighton.
- 8.3** The Hub has funded training, the implementation of a shared case management system, a housing support system that uses tenancy data to help improve tenancy management and highlight fraud risks, and a programme of counter fraud publicity work by the private sector company PRG.

### **LDC Investigations Team**

- 8.4** The Council has in place an agreement with DWP for the management of cases of HB fraud, and officers work with local DWP teams to help ensure efficient operation of the processes covered by the agreement. The major work on each case is the responsibility of the national Single Fraud Investigation Service (SFIS) within DWP. The Council retains a role in referring cases of suspected HB fraud to SFIS and handling requests for information. In an agreement with the Investigation Team at EBC a member of that team has, since mid-August 2016, taken over the Council's SFIS liaison work. Since 1 April 2016, 110 HB cases have been passed to SFIS, and 64 information requests have been actioned.
- 8.5** The LDC Investigations Team retains responsibility for dealing with the cases of suspected Council Tax Reduction Scheme (CTRS) fraud that are often linked to HB cases, and administering the penalties for cases that are not subject to prosecution. Nine cases are currently under review and one case is being investigated.
- 8.6** The main focus of the team's work in 2016/17 has been in continuing to address tenancy issues. The team's approach has included obtaining best practice guidance from other authorities, and maintaining effective referral arrangements with officers in LDC Housing Services. Four properties have been returned to the Council's housing stock, and a number of cases have been closed. Seven suspected cases of abandonment or subletting are being investigated or are undergoing pre-investigation review.
- 8.7** Since July 2016, the Investigation Team has been operating a new regime of checks on Right to Buy (RTB) applications to prevent and detect fraud, and protect the Council against money laundering. To date, 24 RTB applications have been withdrawn after intervention by the Investigations Team. Two cases of suspected RTB fraud are being investigated – one involves an ongoing application, and the other involves one of the withdrawn applications. The team is assessing a number

of the other withdrawn RTB applications because the cases could indicate potential fraud.

### **National Fraud Initiative (NFI)**

- 8.8** Internal Audit continues to coordinate the Council's work on NFI data matching exercises. Council services submitted the various data ranges in mid-October 2016 and have dealt with a number of queries since then.
- 8.9** Internal Audit, the Investigations Team and service managers have been preparing for the receipt of the reported matches, which arrived in late January 2017. There are 1,838 matches detailed across 81 reports. Each report sets out different types of potential frauds among benefit claimants, housing tenants, and anyone receiving payments or discounts from the Council. Council departments have nominated officers to investigate matches in their service areas. The exercise involves analysis of the matches to weed out those that are the result of error or coincidence, and then the examination of the remaining matches to assess the likelihood of fraud.
- 8.10** The major work will be in examining 930 reported matches involving HB. The staff in Revenues and Benefits will seek to recover benefits that have been incorrectly claimed, with more significant cases of suspected HB fraud being passed to SFIS for investigation in the normal way (see 8.4 above). A further priority is the examination of a new series of matches involving entries on the Housing Register.

## **9 Risk Management**

- 9.1** Cabinet approved the Risk Management Strategy in September 2003. Since then risk management at the Council has been the subject of ongoing development, 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.
- 10** In response to reductions in Government funding for local authorities, the Council has been making significant savings each year in its General Fund budget (which covers all services except the management and maintenance of Council owned homes) since 2011/12.
- 11** The General Fund budget for 2016/17 included a savings target of £0.685m including £0.4m to be generated from the JTP with EBC, of which Phase One (creating a single team of leaders and managers across LDC, EBC and Eastbourne Homes) is the main driver. This target is expected to be achieved, although because the new JTP Phase One management restructure will not be fully completed until June 2017, some of the savings will be deferred into 2017/18.
- 12** General Fund savings continue to be required over the next four years, with net expenditure to reduce by £2.2m from £13.2m to £11.0m by 2020/21 - £0.9m is to be

generated from the remaining elements of the JTP. In 2017/18, the JTP is required to deliver General Fund savings of £0.3m.

- 13** 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.

#### **14 System of management assurance**

- 14.1** 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 2015/16. At its meeting on 3 May 2016 CMT confirmed that there were no significant governance issues to report. There has been nothing in the first ten months of the financial year to change these assessments.

#### **15 Corporate governance**

- 15.1** In March 2016, HAFP reviewed the Council's Local Code of Corporate Governance, and concluded that the arrangements remain satisfactory and fit for purpose. These results were reported to the March 2016 meeting of the Committee. The corresponding review for 2017 is underway and the results will be presented to the June 2017 meeting of the Committee.

- 15.2** The Council is required to produce an Annual Governance Statement (AGS), which outlines the main elements of the Council's governance arrangements and the results of the annual review of the governance framework including the system of internal control. The draft AGS for 2016 was presented to the June 2016 meeting of the Committee, and the final version of the AGS was presented to the September 2016 meeting of the Committee with the Statement of Accounts for 2015/16. The draft AGS for 2017 will be presented to the June 2017 meeting of the Committee.

#### **16 External assurance**

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

- 16.2** Annual Audit Letter for 2015/16 (October 2016) – This report summarised the key issues from the work carried out by BDO during the year, and was presented to the November 2016 meeting of the Committee. The key issues were:

- BDO issued an unqualified true and fair opinion on the financial statements for the period ended 31 March 2016.
- BDO identified a number of misstatements on the Cash Flow Statement and in the classification of short term investments. These were corrected before completion of the financial statements.

- BDO were satisfied that the Narrative Report, which local authorities include in the Statement of Accounts to offer interested parties guidance on the most significant matters, was consistent with the financial statements.
- BDO did not identify any significant deficiencies in the Council's framework of internal controls, but did report on areas where improvements in controls could be made including declarations of related party transactions, the documentation of Council Tax discounts, and access to some IT systems.
- BDO were satisfied that the Annual Governance Statement (AGS) was not misleading or inconsistent with other information they were aware of from their audit work.
- BDO issued an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- BDO found that the Council has adequate arrangements for budget setting and budget monitoring, and the Council has identified sufficient savings over the next four years to balance its budget.
- BDO noted that many of the savings will arise from the Joint Transformation Programme with EBC, and BDO were satisfied that there are effective governance arrangements in place to oversee delivery of the project.
- 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. This was submitted on 7 October 2016 ahead of national deadline.
- BDO reported that the review of grant claims and returns for 2015/16 is in progress, and the results will be reported on completion.
- BDO reviewed the governance arrangements for Council's New Homes Project, and made a number of recommendations for improvement that should be applied to future projects.

**16.3 Grant Claims and Returns Certification for year ended 31 March 2015 (April 2016).** The report was presented to the June 2016 meeting of the Committee. The key points were:

- The audit identified a high level of errors within the cases tested, which required a significant amount of extra testing by BDO and the Council. No amendments were made to the final claim submitted to DWP.
- The main errors were in the administration of benefits involving non-HRA rent rebates and rent allowances. There were a small number of cases of incorrect classification of expenditure as non-HRA, when the expenditure should have been classified as HRA rent rebates.
- The audit identified deficiencies in the Council's systems and controls around the identification of prior year uncashed payments, resulting in an under claim of £556.
- As a result of the errors found in administering benefits, BDO qualified the claim across all benefit expenditure types. The additional work required to be completed by the Council and BDO meant that the audited claim was submitted to DWP in March 2016, four months after the deadline date.
- The certification of the returns for the Pooling of Housing Capital Receipts was completed satisfactorily without amendment of certification. The main reported issue was the need for the Council to have in place appropriate plans to use retained receipts by certain milestone dates, otherwise the receipts must be paid to DCLG.

**16.4** As was reported to the June 2016 meeting of the Committee, DWP made a marginal adjustment to the submitted claim which was agreed at a total value of approximately £35.8m.

## **17 Financial Appraisal**

**17.1** There are no additional financial implications from this report.

## **18 Sustainability Implications**

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

## **19 Risk Management Implications**

**19.1** 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.

## **20 Legal Implications**

**20.1** There are no legal implications arising from this report.

## **21 Equality Screening**

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

## **22 Background Papers**

**22.1** [Annual Audit Plan 2016/17](#)

## **23 Appendices**

**23.1** There is no Statement of Internal Audit work and key issues (normally Appendix A1) for this report.

**23.2** Appendix A2: Table of abbreviations.

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

## **APPENDIX A1**

### **Statement of Internal Audit work and key issues**

No statement for this report.

## **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  
HAFP – Head of Audit, Fraud and Procurement  
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  
NFI – National Fraud Initiative  
PIs – Performance Indicators  
PSIAS – Public Sector Internal Audit Standards  
QAIP – Quality Assurance and Improvement Programme  
RTB – Right to Buy  
SFIS – Single Fraud Investigation Service  
WGA – Whole of Government Accounts

**Agenda Item No: 8**

**Report No: 60/17**

**Report Title: Annual Audit Plan 2017/18**

**Report To: Audit and Standards Committee      Date: 20 March 2017**

**Ward(s) Affected: All**

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

**Contact Officer**

**Name: David Heath**

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

**E-mail: [David.Heath@lewes.gov.uk](mailto:David.Heath@lewes.gov.uk)**

**Tel no: 01273 484157**

**Purpose of Report:**

**To present to Councillors the Annual Audit Plan for 2017/18.**

**Officers Recommendation(s):**

- 1** To agree the Annual Audit Plan for 2017/18 (as shown at Appendix 1)
- 2** To note that the plan recognises the specific circumstances arising from the Joint Transformation Programme (JTP), via which Lewes District Council (LDC) will integrate its staff and services with Eastbourne Borough Council (EBC) (as shown at Section 2).

---

**Reasons for Recommendations**

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

**Information**

**1 Background**

**1.1** The Internal Audit function at Lewes operates in accordance with the auditing guidelines published by the Chartered Institute of Public Finance and Accountancy (CIPFA). CIPFA, with the other governing bodies that set auditing standards for the various parts of the public sector, adopted a common set of Public Sector Internal Audit Standards (PSIAS) that were issued in April 2013 and updated in April 2016.

**1.2** The PSIAS require the Head of Audit, Fraud and Procurement (HAFFP) 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** LDC and EBC have agreed to a Joint Transformation Programme (JTP). A number of services have already integrated, or are in the process of integration, to deliver shared services. Other LDC teams are at an early stage in the move towards integration but are expected to make significant progress during 2017/18.
- 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 are being made as integration moves forward are likely to be such that Internal Audit is not be able to prepare a meaningful programme of audits for the second and third years of the Strategic Audit Plan.
- 2.3** HAFP is therefore proposing that only the Annual Audit Plan for 2017/18 is presented to the Audit and Standards Committee. The draft Annual Audit Plan for 2017/18 is given at Appendix 1.
- 2.4** As part of the overall integration process, HAFP is working towards a shared service for Audit and Fraud at LDC and EBC. It is anticipated that, by April 2017, there will have been significant progress towards full integration, and the Annual Audit Plan includes a number of joint audits and other shared work. It is intended that the Annual Audit Plan for 2018/19 will be a joint plan with EBC.

## **3 Aims and Objectives for Internal Audit and 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. The PSIAS 2016 introduced a Mission Statement for Internal Audit as follows

'To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.'

- 3.2** The Core Principles for the Professional Practice of Internal Auditing, which were introduced as part of the updated PSIAS in April 2016, have been incorporated into the Charter for Internal Audit but do not affect the service objectives or the processes that support this plan.
- 3.3** The Internal Audit and Fraud service for 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 Council's Annual Audit Plan.
- To provide an efficient and effective Investigations Team that supports the Council's Anti-Fraud and Corruption Strategy by carrying out a planned programme of work to help prevent and detect fraud, and provide resources to investigate suspected fraud cases.

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

## **4 Planning Assumptions**

**4.1** In preparing the Annual Audit Plan, HAFP has taken account of the adequacy and outcomes of the Council's risk management, corporate governance and other assurance processes. The Annual Audit Plan has been drawn up on the basis that the Internal Audit and 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 departmental systems at least once in the three year cycle based upon a detailed risk assessment.
- Examine key aspects of the procedures and controls that support the Council's Transformation Project and provide a quality assurance role for individual projects on request.
- Carry out a programme of specialist computer audits.
- Undertake follow up work to determine whether agreed recommendations have been implemented.
- Provide advice on corporate management activities such as risk management, corporate governance and performance management and to review their effectiveness within the Council.
- Provide advice to managers on financial and control issues, and the measures to prevent and detect fraud.
- Include an element of contingency to cover assignments that could not have reasonably been foreseen, and to meet management requests for investigations or reviews.
- Carry out a programme of planned and responsive work to prevent, detect and investigate fraud across all Council services and activities (except Housing Benefits).

## **5 Relationship with BDO**

- 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** Internal Audit decides the scope and content of the work on the key financial systems that will be required to obtain the necessary assurance for the purposes of the AGS. This arrangement will continue in 2017/18 and, through negotiation, Internal Audit will ensure that the BDO requirements for information on the adequacy of controls will continue to be met.
- 5.3** During 2017/18 Internal Audit will work with BDO in carrying out testing of the Housing Benefits 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 these audits remain proportionate, Internal Audit will limit coverage to those parts of the systems that must be verified for the grant claims and the annual system testing.

## **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 HAFP. 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, community initiatives or linked policy commitments will be accounted for under Council Transformation within Performance and Management Review.

- 7.3** HAFP 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 2017/18 after nine months to assess whether any significant changes are necessary in response to the ongoing restructuring of the Council. A report on the results of the review will be presented to the January 2018 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 2016/17 exercise is underway. To help in the planning and monitoring of the reviews of the key financial systems, the resource requirements are shown against each key system with only the time required for the management and coordination of the overall exercise shown under the heading Managed Audit.
- 7.6** 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 with Audit and Fraud at EBC**

- 7.7** The Annual Plan includes a number of joint audits to be carried out at both authorities by Internal Audit staff at EBC and LDC working together. These audits are:
- Regulation of Investigatory Powers Act (RIPA)
  - Safeguarding
  - IT Change Control
  - IT Service Contract with Sopra Steria
  - Joint Ventures and Council owned companies
  - Contract Management and Monitoring
- 7.8** These joint audits will be led by HAFP, the Principal Audit Manager at LDC or the Audit Manager at EBC, with staffing support from either authority as appropriate. The Annual Plan at Appendix 1 shows the time allocated to the joint audits by Internal Audit at LDC, but the audits will cover both authorities equally.
- 7.9** Audits in the Annual Plan that are being carried out by LDC Internal Audit staff may examine services that are already merged (eg HR - Training) or which become merged during the year depending on the progress of the JTP.
- 7.10** The Principal Audit Manager at LDC works closely with the Fraud Manager at EBC to support the working of the East Sussex Counter Fraud Hub (see Section 9). The resources required for this work at LDC are accounted for under Management Responsibilities.

**7.11** 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 Investigations Team at EBC. The intention is for this arrangement to continue in 2017/18, and only a small provision for this work is shown at Appendix 1.

## **General**

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

**7.13** There has been consultation with CMT on the content of the Annual Plan for 2017/18.

## **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 2017/18 are shown. Some activities occur every year and are not subject to the risk assessment process. These include the work on Risk Management/Corporate Governance, and Council Transformation that are shown under Performance and Management Review. There are also ongoing Management Responsibilities such as the support to the Audit and Standards Committee, Data Matching 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 2017/18 (at Appendix 1) shows the assignments categorised as High, Medium or Low priority.

## **9 Investigations Team**

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

- 9.2** The initial priority was to develop a methodology for dealing with housing tenancy abandonment and the different types of tenancy fraud. 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 next development priority for the team 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. The resources required to manage the Investigations Team are shown as Fraud Team Planning and Review under Management Responsibilities.
- 9.4** 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.
- 9.5** A group of seven neighbouring authorities are working together in the East Sussex Counter Fraud Hub to coordinate counter fraud initiatives across East Sussex and Brighton. The Hub has funded an ongoing programme of training and the implementation of shared systems to help in managing joint activities.

## **10 Allocation of Staff Resources**

### **Internal Audit**

- 10.1** The current level of staffing (3.1FTE) has been assumed for the Annual Audit Plan 2017/18. The Annual Audit Plan includes a 60/40 apportionment of the time of HAFP between internal audit work and other activities such as corporate governance and risk management. This additional HAFP time for internal audit work will make good the time lost as a result of other staff changes.

### **Investigations Team**

- 10.2** The current level of staffing (1.5 FTE) has been assumed for the Annual Audit Plan 2017/18.

### **Summary**

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

## **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 2017/18

Appendix 2 - Table of abbreviations

## Appendix 1

### LEWES DISTRICT COUNCIL: ANNUAL AUDIT PLAN 2017/18

Audit Area	2017/ 2018 Days	Priority
<b>Key Financial Systems</b>		
Cash and Bank	10	HIGH
Council Tax	10	HIGH
Council Tax Reduction Scheme	10	HIGH
Expenditure and Creditors	15	HIGH
Fixed Assets	10	HIGH
Grant Claims	160	HIGH
Housing Benefit	10	HIGH
Housing Rents	10	HIGH
Income and Debtors	10	HIGH
Investments and Investment Income	10	HIGH
Main Accounting System	10	HIGH
Managed Audit	10	HIGH
NNDR	10	HIGH
Payroll and Employment Costs	10	HIGH
	<b>295</b>	
<b>Central Systems</b>		
Contract management and monitoring (Note A)	5	MEDIUM
Ethics	10	HIGH
Joint ventures and Council owned companies (Note A)	20	HIGH
Legal Services (Note C)	20	MEDIUM
RIPA (Note A)	8	HIGH
Safeguarding (Note A)	2	HIGH
	<b>65</b>	
<b>Departmental Systems</b>		
Housing Needs	20	MEDIUM
Licensing	15	MEDIUM
Members Allowances & Civic Expenses	15	LOW
Training	15	MEDIUM
	<b>65</b>	
<b>Performance &amp; Management Review</b>		
Review - Council Transformation	10	
Review - Risk Management/Corporate Governance	20	
Review – JTP Assurance Panel	15	
	<b>45</b>	
<b>Computer Audit</b>		
IT Change Control	Note B	MEDIUM
IT Service Contract with Sopra Steria	Note B	MEDIUM
IT Managed Audit	5	HIGH
	<b>5</b>	

<b>Audit Area</b>	<b>2017/ 2018 Days</b>	<b>Priority</b>
<b>Management Responsibilities</b>		
Audit and Standards Committee	15	
Audit Planning	10	
Data Matching	20	
Financial Vetting	2	
Follow Up	5	
ESFOG/Hub/Sussex Audit Group	20	
Fraud Team Planning and Review	15	
Liaison with External Audit	3	
	<b>90</b>	
<b>Unplanned Audits / Investigations</b>		
Unplanned Audits / Investigations	57	
	<b>57</b>	
<b>Internal Audit Total</b>	<b>622</b>	
<b>Investigations Team</b>		
Council Tax Reduction Scheme Fraud	20	MEDIUM
Data Matching/Other Fraud	20	MEDIUM
Housing Benefit Fraud	5	LOW
NDR Fraud	114	HIGH
Procurement Fraud	5	LOW
Tenancy Fraud	115	HIGH
Fraud Management Responsibilities	20	MEDIUM
<b>Investigations Team Total</b>	<b>299</b>	
<b>Internal Audit and Investigations Team Total</b>	<b>921</b>	

### Notes

Note A - The Draft Annual Audit Plan above shows the time allocated to the joint audits by Internal Audit at LDC, but the audits will cover both EBC and LDC equally.

Note B – These audits will cover both EBC and LDC equally, but all resources are being provided by EBC Internal Audit.

Note C - These audits will cover both EBC and LDC equally, but all resources are being provided by LDC Internal Audit.

The tasks shown under Management Responsibilities and Performance and Management Review 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  
HAFP – Head of Audit, Fraud and Procurement  
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  
NFI – National Fraud Initiative  
PIs – Performance Indicators  
PSIAS – Public Sector Internal Audit Standards  
QAIP – Quality Assurance and Improvement Programme  
RTB – Right to Buy  
SFIS – Single Fraud Investigation Service  
WGA – Whole of Government Accounts

**Agenda Item No:** 9 **Report No:** 61/17  
**Report Title:** Treasury Management  
**Report To:** Audit and Standards Committee **Date:** 20 March 2017  
**Ward(s) Affected:** All  
**Report By:** Alan Osborne, Deputy Chief Executive  
**Contact Officer(s)-**

**Name(s):** Stephen Jump  
**Post Title(s):** Head of Finance  
**E-mail(s):** [steve.jump@lewes.gov.uk](mailto:steve.jump@lewes.gov.uk)  
**Tel No(s):** 01273 471600

---

**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 2017 has been in accordance with the approved Treasury Strategy for that period.
- 

**Reasons for Recommendations**

**1 Treasury Management Activity**

- 1.1 The Council's approved Treasury Strategy Statement requires the Audit and Standards Committee to review details of Treasury Strategy transactions against the criteria set out in the Strategy and make observations to Cabinet as appropriate.
- 1.2 The timetable for reporting Treasury Management activity in 2016/2017 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
20 March 2017	1 January to 28 February 2017

### 1.3 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held at 28 February 2017 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.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
232016	Thurrock Borough Council	28/11/16	30/05/17	183	3,000,000	0.35	*
233516	Nationwide Building Society	13/12/16	13/06/17	182	1,000,000	0.42	A
234516	Debt Management Office	15/02/17	01/03/17	14	<u>2,000,000</u>	0.15	*
					<u>6,000,000</u>		

\*UK Government body and therefore not subject to credit rating

### 1.4 Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured since 1 January 2017, 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 £22.75m over this period.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term rating
230916	Nationwide Building Society	18/08/16	20/02/17	186	1,000,000	0.40	A
231316	Thurrock Borough Council	05/10/16	04/01/17	91	1,750,000	0.25	*
231716	Thurrock Borough Council	21/10/16	23/01/17	94	500,000	0.25	*
233616	Coventry Building Society	15/12/16	16/01/17	32	2,000,000	0.22	A
233916	Debt Management Office	03/01/17	04/01/17	01	3,000,000	0.15	*
234016	Debt Management Office	03/01/17	09/01/17	06	2,500,000	0.15	*
234116	Debt Management Office	03/01/17	13/01/17	10	2,000,000	0.15	*
234216	Debt Management Office	09/01/17	19/01/17	10	2,000,000	0.15	*
234316	Debt Management Office	16/01/17	09/02/17	24	4,000,000	0.15	*
234416	Coventry Building Society	17/01/17	17/05/17	31	2,000,000	0.22	A
234616	Debt Management Office	17/02/17	20/02/17	03	<u>2,000,000</u>	0.10	*
	<b>Total</b>				<u>22,750,000</u>		

\*UK Government body and therefore not subject to credit rating

At no stage did the total amount held by any counterparty exceed the approved limit set out in the Investment Strategy. The average rate of interest earned on deposits held in the period 1 January and 28 February 2017 was 0.29%, above the average bank base rate for the period of 0.25%. Those made during the period averaged 0.17%.

## 1.5 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following interest bearing accounts in the period covered by this report, with the average amount held being £1m generating interest of approximately £300.

	Balance at 28 Feb '17 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	Nil	137	0.05%
Lloyds Bank Corporate Account	844	864	0.15%

## 1.6 Use of Money Market Funds

Details of the amounts held in the two Money Market Fund (MMF) accounts used by the Council are shown overleaf. The approved Investment Strategy allows a maximum investment of £3m in each fund, and at no time was this limit exceeded.

	Balance at 28 Feb '17 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	3,000	2,659	0.38%
Deutsche Managed Sterling Fund	3,000	2,885	0.38%

## 1.7 Purchase of Treasury Bills (T-Bills)

The table below shows the T-Bills held at 28 February 2017 and activity in the period. It is the Council's intention to hold T-Bills until maturity.

	Maturity Date	Purchased in period	Purchase date	£'000	Disc %
<b>Held at 28 February 2017</b>					
UK Treasury Bill 0%				£Nil	
<b>Matured in Period</b>					
UK Treasury Bill 0%	03 Jan 17		04 Jul 16	1,000	0.42

The average discount (ie the gross return) achieved on T-Bills held in the period was 0.42%. No T-Bills were purchased during the period.

## 1.8 Secured Investments

The investments overleaf are secured against the assets of the bank. The interest rate can vary, by reference to changes in the 3 month 'London Interbank Offered Rate (LIBOR)'.

Ref	Counterparty	Date From	Date To	Days	Principal £	Current Rate %	Long Term Rating
XS0769914218	Abbey National Treasury	12 May 16	05 Apr 17	328	1,000,000	0.68	AAA
XS113251472	Bank of Nova Scotia	22 Jul 16	02 Nov 17	414	2,000,000	0.57	AAA
					<u>3,000,000</u>		

## 1.9 Tradeable Investments

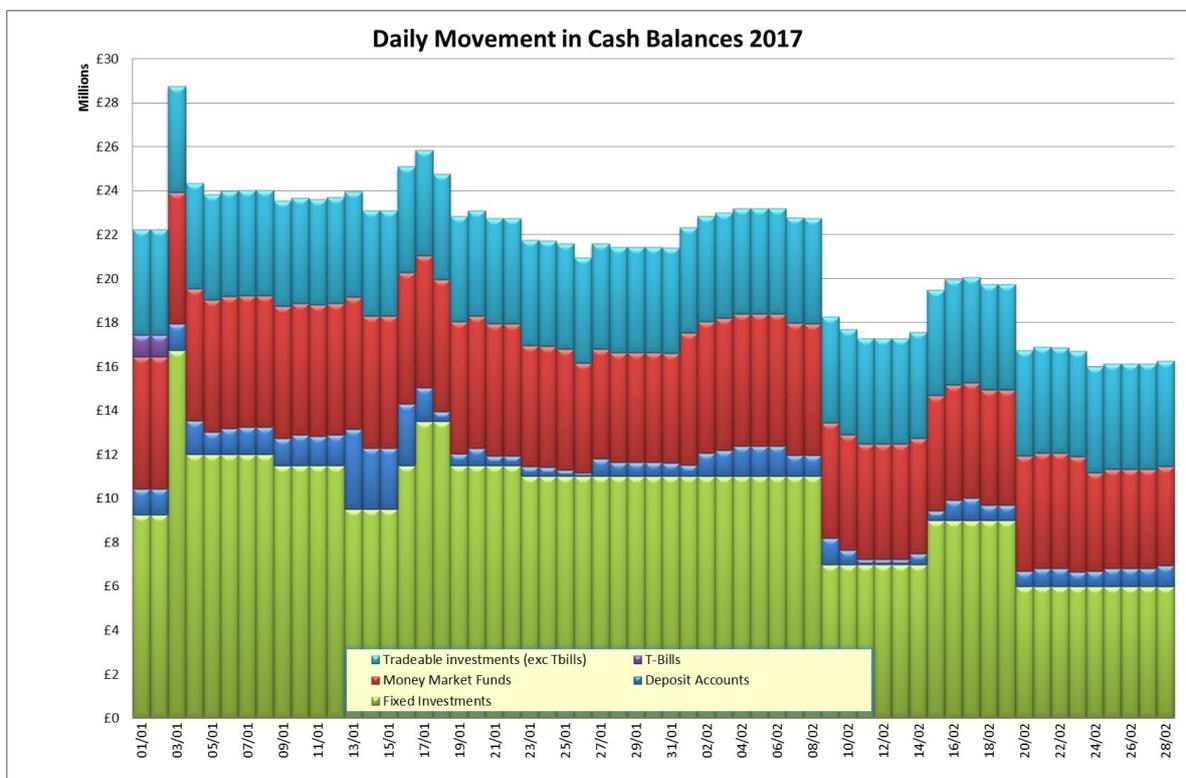
The table below shows the Tradeable Investments held at 28 February 2017 and activity in the period. It is the Council's intention to hold investments until maturity.

Ref	Counterparty	Date From	Date To	Days	Principal £	Rate %	Long Term Rating	
<b>Held at 28 February 2017</b>								
XS0966280561	Svenska Handelsbanken	FB	11 Nov 16	29 Aug 17	291	618,000	0.62	AAA
XS0434423926	Unilever Plc	FB	11 Nov 16	16 Jun 17	217	<u>1,110,000</u>	0.48	AAA
					<u>1,728,000</u>			

FB – Fixed Bond

## 1.10 Overall investment position

The chart below summarises the Council's investment position over the period 1 January to 28 February 2017. It shows the total sums invested each day as Fixed Term deposits, T-Bills, amounts held in Deposit accounts, MMFs and Tradeable Investments.



### **1.11 Deposits with the Debt Management Office**

At the end of February the Government's Debt Management Office changed the interest rate for new DMADF deposits with immediate effect. The interest rate for deposits from overnight to six months is now 0.10%. The previous rates were 0.15% for overnight to three month deposits, and 0.10% for four month to six month deposits. Officers place money with the Debt Management Office only on those occasions when there is no alternative option within the approved Treasury Strategy.

### **1.12 Borrowing**

No temporary borrowing has been undertaken and the current account with Lloyds Bank remained in credit throughout 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**

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

### **Risk Management Implications**

- 3 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**

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

### **Legal Implications**

- 5 None arising from this report.

### **Background Papers**

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



# LEWES DISTRICT COUNCIL

PLANNING REPORT TO THE AUDIT AND STANDARDS COMMITTEE  
Audit for the year ending 31 March 2017

Date of issue: 27 February 2017

# CONTENTS

INTRODUCTION .....	1
YOUR BDO TEAM .....	2
ENGAGEMENT TIMETABLE .....	3
AUDIT SCOPE AND OBJECTIVES.....	4
MATERIALITY .....	5
OVERALL AUDIT STRATEGY .....	6
KEY AUDIT RISKS AND OTHER MATTERS .....	7
INDEPENDENCE .....	14
FEES .....	15
APPENDIX I: MATERIALITY.....	16
APPENDIX II: INDEPENDENCE.....	18

# INTRODUCTION

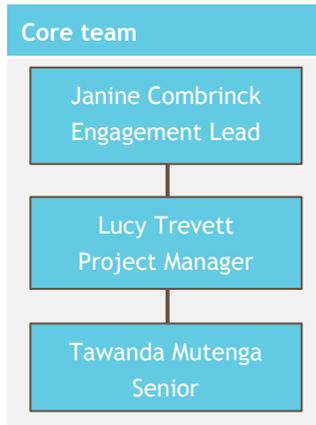
## PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements and use of resources of the Council for the year ending 31 March 2017. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

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

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

# YOUR BDO TEAM



Name	Contact details	Key responsibilities
<b>Janine Combrinck</b> Engagement Lead	Tel: 020 7893 2631 Janine.Combrinck@bdo.co.uk	Oversee the audit and sign the audit report
<b>Lucy Trevett</b> Project Manager	Tel: 020 7034 5878 Lucy.Trevett@bdo.co.uk	Management of the audit
<b>Tawanda Mutenga</b> Senior	Tel: 01473 320711 Tawanda.Mutenga@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:

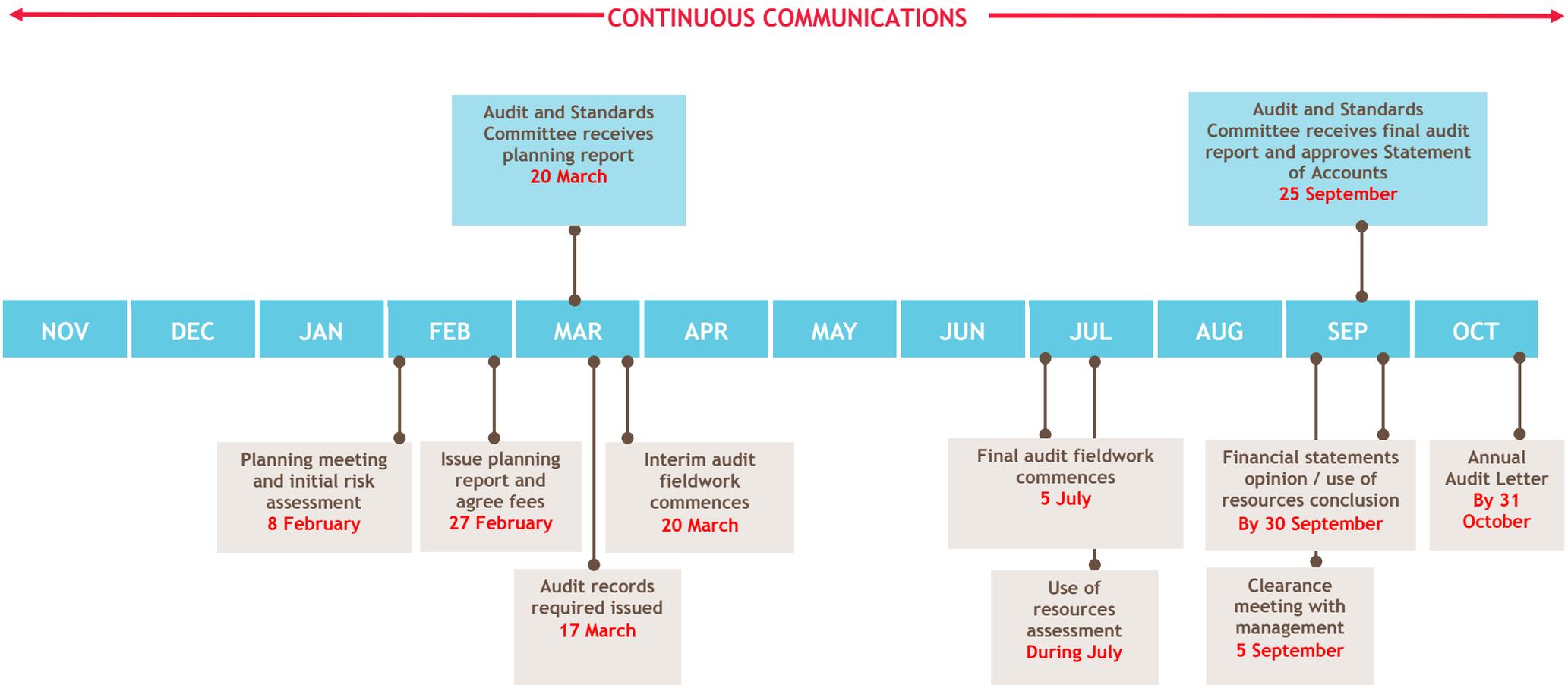
- the financial statements are free from material misstatement, whether due to fraud or error
- the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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 Ireland) and other guidance issued by the NAO.

To form an opinion on whether:

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

## ADDITIONAL POWERS AND DUTIES

**6** To consider the issue of a report in the public interest.  
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.

# MATERIALITY

## COUNCIL MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Lewes District Council	£1,400,000	£28,000

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

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

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

# OVERALL AUDIT STRATEGY

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

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

Our starting point is to document our understanding of the Council's business and the specific risks it faces. We discussed the changes to the business and management's own view of potential audit risk during our planning 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 wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

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

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

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

## **Internal audit**

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

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

# KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk ■ Other Issue

## AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Management override	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.</p> <p>Under International Standards on Auditing (UK and Ireland) 240, there is a presumed significant risk of management override of the system of internal controls.</p>	<p>We will test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</p> <p>We will review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud.</p> <p>We will 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.</p>	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 and completeness of fees and charges recorded in the Comprehensive Income and Expenditure Statement (CIES).</p>	<p>We will test an increased sample of fees and charges income to underlying documentation and confirm that income has been recorded in the correct period and that all income that should have been recorded has been recorded.</p>	Not applicable.

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Changes in the presentation of the financial statements</p>	<p>The Code of Practice on Local Authority Accounting requires a change to the presentation of some areas of the financial statements. This includes:</p> <ul style="list-style-type: none"> <li>• Change to the format of the Comprehensive Income and Expenditure Statement (CIES) based on the Council's directorate structure and reporting to members</li> <li>• Change to the format of the Movement in Reserves Statement (MIRS)</li> <li>• New Expenditure and Funding Analysis (EFA) note</li> <li>• Change to the Segmental Reporting note</li> <li>• New Expenditure and Income analysis note.</li> </ul> <p>These changes will require a restatement of comparative figures.</p> <p>There is a risk that these presentational changes are not correctly applied in the financial statements.</p>	<p>We will review the draft financial statements and check these against the CIPFA Disclosure Checklist to ensure that all of the required presentational changes have been correctly reflected within the financial statements.</p>	<p>Not applicable.</p>

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p><b>Valuation of non-current assets</b></p>	<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 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.</p> <p>We will confirm that the basis of valuation for assets valued in year is appropriate. We will confirm that an instant build modern equivalent asset basis has been used for assets valued at depreciated replacement cost and that investment properties and surplus assets have been valued at 'highest and best use.'</p> <p>We will review valuation movements against indices of price movements for similar classes of assets and 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>	<p>We will review independent data that shows indices and price movements for classes of assets against the percentage movement applied by the Council.</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
<b>Recharges between the Council and Eastbourne Borough Council</b>	<p>The Council is currently in the process of 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 Lewes District Council employees were transferred onto Eastbourne Borough Council's payroll and there are recharging arrangements in place for each of the five service areas (Corporate Management Team, Legal Services, Information Technology, Human Resources and Asset Management).</p> <p>There is a risk over the completeness and accuracy of the payroll information transferred from the Lewes payroll system (Midland Trent) onto the Eastbourne payroll system (Chris21).</p> <p>On a monthly basis Eastbourne Borough Council will calculate, based on these arrangements, the amount to be recharged via invoice back to the Council. There is a risk over the completeness and accuracy of these recharges.</p> <p>As the risks and rewards of these arrangements are shared by both Councils, the transactions should be accounted for on a net basis within each Council's financial statements. There is a risk that these transactions may not be correctly presented in the Council's financial statements, thereby overstating income and expenditure.</p> <p>Manual adjustments will be required by the Council in calculating the senior officers' remuneration disclosures. There is a risk over the completeness and accuracy of these disclosures.</p>	<p>We will review the work performed by internal audit to test the migration of data from the Lewes to Eastbourne payroll systems, and associated reconciliations. We will carry out further testing as necessary to obtain assurance over the completeness and accuracy of the employee data transferred.</p> <p>We will review the reasonableness and accuracy of the recharge arrangements in place between the Councils and the presentation of recharged costs in the Council's accounts.</p> <p>We will review the senior officer's remuneration note to ensure that the disclosures for senior managers and employees earning over £50,000 are complete and accurate and that the Council's share of the costs are in line with the relevant recharge arrangement.</p>	<p>Not applicable.</p>

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
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.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is 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 valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p>	<p>We will agree the disclosures to the information provided by the pension fund actuary.</p> <p>We will review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.</p> <p>We will obtain assurance from the auditor of the pension fund over the controls for providing accurate membership data to the actuary.</p> <p>We will check whether any significant changes in membership data has been communicated to the actuary.</p>	<p>We will agree the disclosures to the report received from the actuary.</p> <p>We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.</p>
Fraud and Error	<p>We are required to discuss with you the possibility of material misstatement, due to fraud or error, and to reassess this throughout the audit.</p> <p>We are informed by management that there have not been any cases of material fraud or error, to their knowledge.</p>	<p>We will continue to consider throughout the audit process and discuss with management.</p>	<p>Not applicable.</p>

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - USE OF RESOURCES

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Sustainable finances	<p>The update to the Medium Term Financial Strategy (MTFS) to 2019/20 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 2016/17 (£400,000), 2017/18 (£763,000), 2018/19 (£756,000) and 2019/20 (£617,000), resulting in an average level of required savings of £634,000 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"> <li>• Joint transformation programme with Eastbourne Borough Council to provide joint services</li> <li>• Northern Street Quarter development</li> <li>• Newhaven Enterprise Zone</li> <li>• Income generation from waste credits</li> </ul> <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

# KEY AUDIT RISKS AND OTHER MATTERS

## Continued

### AUDIT RISK AREAS - USE OF RESOURCES

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Informed decision making on major capital projects</p>	<p>As part of the 2015/16 audit of use of resources, we reviewed the governance and arrangements relating to the “New Homes” project and identified scope for improvement in arrangements underpinning the project. We agreed an action plan with officers for lessons learnt to be applied to future projects of this size and nature including:</p> <ul style="list-style-type: none"> <li>• Earlier disclosure of potential development sites</li> <li>• Public consultation in preliminary stages</li> <li>• Updating the Property Strategy and Asset Management Plan</li> <li>• More structured approach to carrying out due diligence checks.</li> </ul> <p>The Council has a number of ongoing major capital projects, including regeneration of the Northern Street Quarter in Lewes town centre.</p> <p>There is a risk that the Council has not applied the lessons learnt from the New Homes project in planning for, and informing, its decision making on other significant capital projects.</p>	<p>We will follow up on progress made in addressing the action plan agreed as part of the 2015/16 use of resources audit in respect of significant capital projects.</p>	<p>Not applicable</p>

# INDEPENDENCE

## INDEPENDENCE

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

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ending 31 March 2017.

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 2017 are:

	2016/17	2015/16
	£	£
Audit fee - scale fee	46,418	46,418
Audit fee - additional fee*	1,000	4,470
Certification fee (Housing benefits subsidy claim)**	15,598	14,960
<b>Total audit and certification fees:</b>	<b>63,016</b>	<b>65,848</b>
Fees for audit related services (Pooled capital receipts return)	1,500	1,500
Fees for non-audit services	-	-
<b>TOTAL FEES</b>	<b>64,516</b>	<b>67,348</b>

\* An additional fee of £4,470 was agreed with management in respect of additional work carried out in our review of governance around the New Homes project in our 2015/16 audit, following concerns raised with us by a local elector. This additional fee is still subject to approval by Public Sector Audit Appointments (PSAA) Limited and will be billed when it has been approved. A further additional fee of £1,000 is proposed for our follow up of the Council's progress in addressing recommendations from this review, as applicable to other significant capital plans, as part of our 2016/17 audit. This additional fee is subject to approval by PSAA and will be billed on completion of the work.

\*\* Our certification work on the 2015/16 Housing benefits subsidy claim is in progress. Our fee in the planning letter is £14,960 and we will discuss additional fees with management upon completion of this work.

Audit fee invoices will be raised in quarterly instalments of £11,694.50 during 2016/17.

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	ROTATION TO TAKE PLACE IN YEAR ENDED
Janine Combrinck - Engagement lead	2 <sup>nd</sup> year as engagement lead and 2 years as project manager	31 March 2019
Lucy Trevett - Project manager	1 <sup>st</sup> year as project manager	31 March 2027



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.

BDO LLP is a corporate establishment under the Limited Liability Partnership Act 2000 and a UK Member Firm of BDO International. BDO Northern Ireland, a separate partnership, operates under a licence agreement. BDO LLP and BDO Northern Ireland are both separately authorised and regulated by the Financial Conduct Authority to conduct investment business.

Copyright ©2017 BDO LLP. All rights reserved.

[www.bdo.co.uk](http://www.bdo.co.uk)

