

Wednesday, 11 March 2015  
at 6.30 pm



# Audit and Governance Committee

Present:-

**Members:** Councillor Ungar (Chairman) Councillors Mattock, Cooke, Hearn (as substitute for Heaps), Taylor and Tester

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## **29 Minutes of the meeting held on 3 December 2014.**

The minutes of the meeting held on 3 December 2014 were submitted and approved and the Chairman was authorised to sign them as a correct record.

## **30 Apologies for absence.**

Apologies for absence were reported from Councillors Ede, Harris and Heaps.

## **31 Declarations of Disclosable Pecuniary Interests (DPIs) by members as required under Section 31 of the Localism Act and of other interests as required by the Code of Conduct.**

None were declared.

## **32 Update: Members and Standards.**

The Committee considered the report of the Monitoring Officer in relation to Member Standards. It was noted that no new formal complaints had been received during this quarter and none remained outstanding.

The Committee also noted that no dispensations had been applied or issued since the last quarterly report.

The Committee was advised that induction sessions for members who were elected in May 2015 was currently being formulated, in addition to a new programme of member training for the next financial year.

The Committee commented on the last induction session held in 2011 where it was felt that there was an overwhelming amount of information relayed to newly elected members in one evening. They suggested that the induction be split into multiple sessions. The Committee also requested that there should be an analysis undertaken of the exact training needs required before a programme was formulated. The Monitoring Officer responded that their comments would be forwarded onto Human Resources.

The Committee enquired about access to information provided by The Chartered Institute of Public Finance and Accountancy (CIPFA) on various

bodies and the Standards Exchange training module. The Monitoring Officer advised that training resources would continue to be reviewed in relation to their benefit for members.

A further update on Standards related matters, particularly in relation to other authorities was contained in the report.

The Monitoring Officer reported that one of the Council's appointed independent persons, Mr Tony Meier had indicated that they would be resigning from his post. The Committee was informed that the remaining two independent persons intended to submit their names to annual Council in May 2015 for re-appointment.

**RESOLVED:** That the information in relation to complaints against members, dispensations issued to members, member training and the update on Standards related matters be noted.

### **33 Update: The Regulation of Investigatory Powers Act (RIPA) and related legislation.**

The Committee considered the report of the Monitoring Officer regarding an update on the Council's usage of its powers under the Regulation of Investigatory Powers Act (RIPA) and related legislation.

The Committee was advised that for the period from December 2014 to March 2015 no applications were made under the Act.

**RESOLVED:** The Committee noted that no application had been made by officers of this authority to engage in activity regulated by the Regulation of Investigatory Powers Act (RIPA) during the quarter leading up to 1 March 2015.

### **34 The Composition of Audit and Governance Committee.**

The Committee considered the report of the Monitoring Officer regarding the composition of the Audit and Governance Committee, in light of the revised best practice guidance.

The Committee was invited to consider its current composition including whether to co-opt an independent member to assist in delivering an independent assurance on risk management, internal controls, the financial reporting and annual governance processes.

The Chartered Institute of Public Finance and Accounting (CIPFA) updated its practical guidance on audit committees in December 2013. The guidance detailed best practice suggestions regarding how to ensure that audit committees were balanced, objective and independent of mind, in addition to being well equipped to discharge its role. Currently there were no statutory requirements in place to dictate the composition of audit committees in England, therefore the recommendations in the guidance were a matter of best practice only.

The guidance also provided best practice guidelines in relation to members of the executive sitting on audit committee. It noted that this practice created a potential risk of the committee being deterred from challenging or holding to account the executive. It recommended that this practice should be avoided unless other compensating arrangements were put in place to ensure independence. It was clear that where an executive member did sit on the audit committee, they should not act as its Chair.

Given the size of the authority and the limited number of elected members available to serve on committees, members of the executive sat on, but did not chair the Audit and Governance Committee.

The Committee's composition would be reviewed following the upcoming council elections, taking into account members' established interests and expertise and whether it fell within the committee's remit.

The guidance stated that the co-option of independent members to audit committees may be beneficial. It noted that "the injection of an external view can often bring a new approach to committee discussions". The guidance also stated that a co-opted member could bring additional knowledge and expertise and reinforce the committee's independent and political neutrality. It did however warn about an over reliance on independents by other committee members and noted that should they not possess organisational knowledge or context this could impact adversely on the usefulness of their contribution.

In terms of the chair of the committee, the guidance stated that the committee should be led by a strong, independently minded Chair but stated that it was not a requirement for this Chair to be co-opted, as opposed to an elected member.

Details of the Audit and Governance Committee's terms of reference were contained in the report. Currently within its existing rules the authority could co-opt an independent member should they determine that doing so would enhance its delivery of a function.

The Monitoring Officer advised the Committee that should they consider co-opting an independent person, regard would need to be given to Section 13 of the Local Government Housing Act 1989 which related to the voting rights of non-elected members. Where decisions were being made by the committee in any capacity other than purely 'advisory' any co-opted member would not be able to vote.

Under the Local Government Act 1972 and in accordance with the constitution of the authority, any member who chaired the committee would have a casting vote in their capacity of chair. Therefore if a co-opted member were appointed Chair they would be able to exercise a casting vote when the Committee was tied. The Monitoring Officer advised that it would be possible to set up a structure where a co-opted Chair would not be permitted to vote, unless the vote was tied and considered to introduce a level of complexity to proceedings that did not necessarily meet the requirement for a Chair to be independently minded.

Should the Committee decide to introduce a co-opted member, the recruitment of such a person would be subject to a dedicated, publicly advertised recruitment process.

All co-optees appointed to a Council committee are members of the authority and would therefore be bound by the same Code of Conduct as elected members.

In response to a question from the Committee, the Monitoring Officer clarified that an existing Council appointed independent person who assisted the Committee in its discharge of its Standards-related matters would be unable to fulfil the post of co-opted member without resigning from their post of independent person.

The Committee discussed the current composition of the Committee, the numerical difficulty of appointing members to the Committee and ensuring that none were executive members. This would potentially become increasingly difficult following the Borough Elections in May 2015. The Committee debated the issue exploring options including moving the Committee's audit functions to the Scrutiny Committee or reverting back to separate committees for audit and standards.

The Committee agreed that co-opting an independent member to the Committee was a measure that it felt would assist them in discharging its responsibilities and noted moreover that this could be done within the existing rules.

As this was the last meeting before the Monitoring Officer left the authority, the Committee unanimously expressed its thanks to her for all her hard work and support to the Committee and wished her the best of luck for the future.

**RESOLVED (Unanimous)** The Committee gave delegated authority to the Senior Head of Corporate Development and Governance, acting in consultation with the Chair of Audit and Governance Committee, to take all steps necessary to recruit and co-opt an independent member to the Committee for a fixed term, in accordance with the guidance.

### **35 Grants Report 2013/14.**

The Committee considered the report of the Council's external auditors, BDO regarding the key findings in respect of the certification of grant claims and returns for the financial year 2013/14.

Ms Janine Combrinck representing BDO was in attendance to present the report and respond to members questions.

BDO had certified two returns on behalf of the Council which included housing benefit subsidy and pooled housing capital receipts. The National non domestic rates did not require certification in 2013/14 following changes to the arrangements for retaining local shares of non-domestic rates income.

BDO had also been asked to certify the Decent Homes Backlog Funding return on behalf of the authority for submission to the Homes and Community Agency (HCA) however this did not form part of the certification regime with the Audit Commission.

The fee for certification work on the housing benefit subsidy in 2013/14 was reduced compared to the previous year, as the claim no longer included the amount for council tax benefits and BDO were able to coordinate the work undertaken by internal audit better.

The key findings were outlined in the report.

Appendix 1 of the report showed the action plan in place to improve the arrangements for preparing grants and other returns as a result of the 2013/14 findings.

**RESOLVED:** That the Grants report for 2013/14 be noted.

### **36 Audit Plan 2014/15.**

The Committee considered the report of BDO regarding the Audit Plan 2014/15 which set out the audit work proposed in respect of the accounts and review of the Council's arrangements for securing value for money for 2014/15.

Ms Janine Combrinck representing BDO was in attendance and presented the key findings.

BDO had identified areas of significant risk that impact on the audit. Under financial statements, the risks identified included the management override of controls, fraud in revenue recognition, benefit claimant data not being accurately transferred due to the Council replacing its housing benefit system and the consolidation suite of accounting standards, which introduced new definitions of control that should be used. For use of resources, the Medium Term Financial Strategy had identified further savings requirement of £0.5 million in each of the three years from 2016/17, which would be met from efficiencies and procurement savings. It was acknowledged that this would be a challenge and require difficult decisions around service provision and alternative delivery models. Further details were contained in the report.

BDO would provide a value of money conclusion by 30 September 2015.

The report detailed that the proposed core audit fee for the year would be £90,374 plus VAT.

**RESOLVED:** That the Annual Audit Plan for 2014/15 be noted.

### **37 Planning Letter 2015/16.**

The Committee considered the report of BDO which detailed the proposed fees and programme of work for the 2015/16 financial year. The fee was based on the work required under the Audit Commission's Code of Audit Practice and an assessment of audit resource required to complete the work.

Ms Janine Combrinck representing BDO was in attendance and presented the report.

The Committee was advised that the proposed fee for 2015/16 totalled £76,078 which was significantly lower than last year's fee. The fee proposed consisted of the code audit fee and certification fee. The code audit fee was set at £67,781 and this covered the audit of the financial statements, value for money conclusion and the whole of government accounts return. The proposed certification fee was proposed at £8,297.

The programme of work undertaken by BDO, including the issuing of reports and opinions over the course of the audit was detailed in the report.

The Committee expressed its satisfaction on the continued decrease in fees which represented the good working partnership between the authority and BDO.

**RESOLVED:** That the report be noted.

### **38 Protecting the Public Purse Fraud Briefing 2014.**

The Committee noted the contents of a presentation from the Council's external auditors BDO on the "Protecting the Public Purse Fraud Briefing 2014" prior to the meeting.

The statistics in the presentation demonstrated the excellent work undertaken by the Council's award winning fraud team in terms of fraud detection.

**NOTED.**

### **39 Internal Audit Report to 31st December 2014.**

The Committee considered the report of the Internal Audit Manager regarding a summary of the activities of Internal Audit for the third quarter of the financial year 2014/15.

A list of all final audit reports issued from 1st April to 31 December 2014 and the level of assurance attained were detailed in the report. The Committee was advised that during this quarter, no reports had been issued with an assurance level of inadequate.

Audit work carried out to date against the audit plan to the end of December 2014 was set out in appendix A. The Internal Audit Manager made reference to the main points from the appendix which was the annual audits for BDO and the review of Government Connect, which was originally carried out as four separate reviews but was later collated into one and took longer than anticipated. Further details were contained in the report.

From the second half of December 2014, work in internal audit focused on the annual audits. The Committee were advised that any time left at the end of the financial year would be spent completing as many reviews from the plan as possible. Any reviews not completed would be automatically moved to the annual plan for the next financial year.

Further information on reports issued in final during the year with an assurance level below excellent was set out in Appendix B, with any issues highlighted in the reviews which informed the assurance level given. The Committee were reassured that these were the assurance level given at the time the final report was issued and did not reflect recommendations that had been addressed.

A brief explanation for a number of outstanding high and medium priority recommendations from audits, reasons why they had not been implemented along with the month when the next follow up date was due was set out in appendix C. Key items from the appendix was set out in the report.

The comments made by the Corporate Management Team and officers following consideration of outstanding high risks was set out in appendix D. Appendix D was designated as confidential to reduce the risk of opportunities to commit fraud.

The Committee was advised that no frauds over £10k were recorded in the third quarter of 2014/15 and only one fraud over £10k had been identified for this year.

The Corporate Fraud Investigations Manager addressed the Committee detailing the Corporate Fraud section of the report. The Committee was advised that all relevant Housing Benefit investigations had been migrated over to the Single Fraud Investigation Service (SFIS) at the Department for Work and Pensions (DWP) before 1 November 2014. 64 allegations of fraud had been reported to DWP since that date. The Council's Single Point of Contact Officer recorded that around 1½ hours were being spent per case.

The Council had been successful in securing three bids for Counter Fraud Funding from the Department for Communities and Local Government, including an East Sussex Fraud Hub which would be project led by Eastbourne, High Risk Intervention work to be undertaken for Council Tax Reduction cases and a country wide Fraud APP project which would allow members of the public to report fraud and learn about fraud trends in their area. Further details were contained in the report.

The Corporate Fraud team had commenced Single Person Discount review checks for the Revenues Department, in addition to other reviews around class L exemptions (mortgage provider in possession) and student discounts.

The Committee was also advised that time had been spent researching the Housing Department's systems and processes, assisting to identify where frauds were most likely to occur, through the processes from homeless application to allocation. As a result four applications for homelessness had been disallowed and withdrawn. A fraud review of the Housing Waiting list had been undertaken and led to two cases of keys being obtained from a tenant, allowing properties to be reallocated.

A brief investigation had been undertaken when a member of the public had used the Town Hall as their correspondence address whilst purchasing a property in France. The conclusion of this investigation resulted in a Single Person Discount being disallowed for 6 months.

The Committee enquired about the new member of staff that had been appointed after the IT Auditor left the authority. The Internal Audit Manager responded that they had recently completed their first audit and three annual reviews to a high standard. The Committee were further advised that another member of the audit team would be retiring and this was equivalent to a full time post.

The Committee recognised with thanks the audit outturns, which demonstrated that despite all the changes occurring through the authority, officers had been diligent in ensuring work had been completed in the correct way.

**RESOLVED:** That the report be noted.

#### **40 Risk Management.**

The Committee considered the report of the Internal Audit Manager regarding an update on progress in respect of the Strategic Risk Register.

The Strategic Risk Register had been taken to Corporate Management Team on 17 February 2015 for the regular quarterly review and the updated register was appended to the report.

It was agreed that with the local and general elections being held in May 2015, the risk level of risk SR\_001 should be raised back to its original score of amber. The risk would be assessed following the elections.

**RESOLVED: (Unanimous)** That the amended Strategic Risk Register as appended to the report be approved.

#### **41 Draft Internal Audit Plan for 2015/16.**

The Committee considered the report of the Internal Audit Manager regarding the draft internal audit plan for 2015/2016.

The internal audit plan for each year began with a calculation of the number of audit days available. Twelve "managed" audits were required to be undertaken this year to satisfy the external auditors and these were detailed in the report.

In addition to the core audits, work was carried out on verifying the National Non-Domestic Rates and Benefits Subsidy Claim. Days were also set aside for unplanned work, special investigations, follow ups, advice and National Fraud Initiative activity.

A risk assessment was carried out on all areas listed in the "Audit Universe", in order for the annual internal audit plan to be produced. The "Audit Universe" was a list of all the areas and systems across the Council which could be audited. The completed risk assessment, included at appendix B to the report had been arranged by the level of risk and by the date the last audit review was undertaken.



The draft plan had been submitted to Corporate Management Team meeting on the 17 February 2014 and no further changes were proposed. The plan was included at appendix C to the report.

Of the three high risk areas identified in the risk assessment, two were subject to follow up reviews after an earlier audit and were therefore not included in the draft plan.

The Committee were informed that two reviews were due to be carried out in Planning, one for the computer system, proposed to be carried out this year and the other for the actual process, which was proposed to be carried out in the next financial year.

All reviews that had not been started during the current financial year would be transferred into the plan for the next financial year. Time would be allocated within contingency for reviews that had been started this year but would be completed next year.

More time had been granted to the review of Procurement with further details contained in the report.

The Committee was advised that the internal audit team had been asked to take on internal audit work for Eastbourne Homes Ltd (EHL) from 1 April 2015. A part time auditor, funded by EHL had been asked to take on extra hours in order to cover the extra work required.

The Committee enquired about the audit of community grants. The Internal Audit Manager responded that the Community Services Manager had produced a questionnaire that was used when an audit of an external organisation took place to ensure they were correctly spending the grant. The Internal Audit Manager added that they were happy with the process in place. It was requested that a follow up review be included in next year's plan.

In response to a question from the Committee on the proposed audit on the robustness and resilience of the Council's IT system and whether this included back-ups etc, the Internal Audit Manager responded that an annual review was undertaken separately of IT and this included testing back-ups.

**RESOLVED: (Unanimous)** That the proposed internal audit plan for 2015/16 be adopted.

#### **42 Vote of Thanks.**

As this was the last meeting of the Audit and Governance Committee before the Borough Council Elections in May 2015, Councillor Ungar expressed his thanks to all officers who had attended, presented reports and given support to the Committee during the last four years, the committee clerk and fellow committee members. Thanks were also expressed to the external auditors BDO for their work in partnership with the authority and the positive reports presented. The vote of thanks was unanimously supported by the Committee.

**NOTED.**

The meeting closed at 8.21 pm

**Councillor Ungar (Chairman)**