

Wednesday, 22 June 2016  
at 6.00 pm



# Audit and Governance Committee

Present:-

**Members:** Councillor Swansborough (Chairman) Councillor Sabri (Deputy-Chairman) and Councillors Choudhury, di Cara, Dow, Holt, Smethers and Taylor

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## **1 Minutes of the meeting held on 9 March 2016.**

The minutes of the meeting held on 9 March 2016 were submitted and approved and the Chairman was authorised to sign them as a correct record.

## **2 Apologies for absence.**

None were reported.

## **3 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.

## **4 Grants Report 2014-2015.**

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 2014/15. For this year only the housing benefit subsidy claim was included.

The key findings, along with other certification work and a summary of the fees charged were outlined in the report.

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

The Deputy Chief Executive added that work was ongoing with the Department for Work and Pensions (DWP) regarding any further amendments to housing benefit subsidy claims.

**RESOLVED:** That the Grants report for 2014/15 be noted.

## **5 Audit Materiality 2015-2016.**

The Committee considered the report of the Council's external auditors, BDO regarding audit materiality for 2015/16.

When BDO previously presented its 2015/16 planning report, the Committee requested a review of the materiality level chosen for the audit and a report indicating the impact of a change in materiality level from £2 million to £1 million.

The report outlined the concept of materiality, BDO's justification for the chosen level and potential impact of the change. A reduction in materiality to £1 million would result in income and expenditure on trading operations being brought into the scope of the audit, an increase of 60% in the number of sample items tested and an increase by 21% in the audit fee.

Issues identified in BDO's 2014/15 audit were also outlined in the report. The Committee was advised that should similar issues be noted in the current year's audit, a change in materiality level would not impact BDO's reporting or audit opinion.

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

The Committee discussed the option of reducing the Council's materiality level. A motion was proposed by Councillor Taylor and seconded by Councillor Swansborough that a recommendation be made to Cabinet to set the Council's materiality level for BDO's audit at £1 million. This was lost by 6 votes to 2.

**RESOLVED: (By 6 votes to 2)** That the Council's materiality level for BDO's audit remain at £2 million.

## **6 Planning Letter 2016-2017.**

The Committee considered the report of the Council's external auditors, BDO regarding the proposed fees and programme of work for the 2016/17 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.

The Committee was advised that the proposed fee for 2016/17 totalled £77,578, which was lower than last year's fee due to the removal of the BDO tax subscription service. The fee proposed consisted of the code audit fee, certification fee and audit related services. Further details were contained in the report.

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

The Council would be required to make a local appointment for external audit services from 2018/19 due to the current contracts negotiated by the Audit Commission being extended for one year.

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

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

## **7 Internal Audit Report to 31st March 2016.**

The Committee considered the report of the Internal Audit Manager regarding a summary of the activities of Internal Audit for the financial year 2015/16.

A list of all final audit reports issued from 1 April 2015 to 31 March 2016 and the level of assurance attained were detailed in the report. The Committee was advised that the assurance levels were given at the time of the initial report and did not reflect the findings at follow up.

During the fourth quarter of the year, one report (Business Continuity Planning) had been issued with an assurance level of performing inadequately.

Audit work carried out to date against the audit plan to the end of December 2015 was set out in appendix A. Main points from the appendix were summarised in the report.

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 was reassured that this status was the assurance level given at the time the final report was issued and did not reflect recommendations that had been addressed.

Appendix C detailed the outstanding recommendations and client comments of reviews that had been given an inadequate assurance level after follow ups. Comments from the Corporate Management Team (CMT) and Heads of Service had also been included.

Victor Benney, IT Programme Manager addressed the Committee in response to the IT inadequacies that had been raised at the previous meeting due to a lack of testing of the Council's current Disaster Recovery Plan.

The Committee were given an overview of the Council's current Disaster Recovery Planning and advised that testing of this plan would be undertaken later this year.

He reiterated that work was ongoing on creating a joint and robust Disaster Recovery Plan with Lewes District Council, where each authority would host each other's IT system. Implementation and testing of this would be in place by mid-point next year.

The Committee addressed the inadequate rating of Licences (Entertainment and Taxi). Councillor Dow, Chairman of Licensing Committee reiterated that he was meeting regularly with the newly appointed Senior Specialist Advisor (Thriving Business) and reassured the Committee that steps were being taken to address the issues detailed in the report.

The Committee was advised that should issues continue to arise, the Senior Specialist Advisor (Thriving Business) could be invited to attend and address a future meeting of the Committee.

In response to a question from the Committee regarding the inadequate rating of Procurement, the Internal Audit Manager advised that a follow up was currently in progress. Any further issues would be reported back to the Committee at a future meeting. The Committee were advised to speak to the Head of Projects and Performance if they required any more information around procurement.

Work undertaken by the Corporate Fraud team and East Sussex Counter Fraud Hub was detailed in the report along with The Chartered Institute of Public Finance and Accountancy's (CIPFA) code of practice on Managing the Risk of Fraud and Corruption.

The Internal Audit Manager advised that the work referred to in the report had been used as the basis for the opinion of the overall effectiveness and adequacy of the internal control environment, in addition to other ad hoc work undertaken by the auditors. It was the opinion of the Internal Audit Manager that internal controls across the authority were generally found to be sound, apart from the continuing lack of business continuity plans across the authority. CMT had been asked to consider that this issue be reported in the Annual Governance Statement.

The Public Sector Internal Audit Standards assessed the work of Internal Audit for compliance annually. The Committee was advised that the Internal Audit function was generally conforming to the standards with a 99.05% rating. Areas of partial compliance were detailed in a table at the end of the report. Progress was ongoing to address these issues.

A peer review of the Council, as required by these standards was currently being undertaken and this would be reported back at the next meeting.

**RESOLVED: (Unanimous)** That the report be noted.

## **8 Annual Governance Statement.**

The Committee considered the report of the Internal Audit Manager regarding the Annual Governance Statement, which detailed the key elements of the systems and processes of the Council's governance arrangements.

The Annual Governance Statement was a report produced at the end of the year on the control environment of the Council and was a statutory document that accompanied the statutory Statement of Accounts once adopted. The Statement provided a structure in which to consider the Council's governance arrangements and their effectiveness. This ensured that major control issues were identified and action would be taken to address those issues.

Appendix 1 of the report detailed the framework for gathering the assurances and how that affected the relationship with partners,

stakeholders and the community. Following the framework should ensure that the Council met the six principles of corporate governance.

A timetable for the gathering of assurances to produce the Annual Governance Statement was set out in Appendix 2 of the report.

Appendix 3 showed the Manager's Assurance Statement which included coverage of the Bribery Act, Safeguarding, Regulation of Investigatory Powers Act 2000 (RIPA) and frauds over £10K. The statement was intended to cover the operational, project and partnership responsibilities of the Heads of Service. It could also be used to highlight any concerns and subsequent actions required to improve governance throughout the Council.

Once these statements had been completed by the relevant Heads of Service they were passed through the Chief Executive and Deputy Chief Executive. The comments made on the statements were considered for inclusion in the Annual Governance Statement.

The sources used to compile the governance issues and subsequent action plan were detailed in the report. The Internal Audit Manager advised that completed Managers' Assurance Statements had been returned from all Heads of Service and from Eastbourne Homes Limited. Four Assurance Statements returned from Managers raised minor concerns around capacity and capability of staff.

Details of the Council's Joint Transformation Programme with Lewes District Council and its benefits were also detailed in the report. Work carried out by the Internal Audit team during the year had raised the issue of the ongoing lack of business continuity plans. After discussions with Corporate Management Team (CMT) it was not considered to be a significant governance issue and would be addressed as a project across both authorities.

An additional section on Managing the Risk of Fraud and Corruption had been added to the Annual Governance Statement and this was detailed in the report. It was considered that the Council had adopted a response that was appropriate for its fraud and corruption risks and committed to maintaining its vigilance in tackling fraud.

Once the Statement had been approved by the Audit and Governance Committee it would be given to the Chief Executive and Leader of the Council to sign before it is published alongside the Statement of Accounts.

**RESOLVED: (Unanimous)** That the Annual Governance Statement for 2015/16 as appended to the report be approved.

## **9 Risk Management.**

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

The Strategic Risk Register had been taken to Corporate Management Team on 31 May 2016 for the regular quarterly review and the updated register was appended to the report.

It was agreed that the original risk score for risk SR\_005 relating to culture sustainability should be amended to reflect the current changes. The Council's Cabinet had recently agreed the Joint Transformation programme with Lewes District Council and there was movement towards mobilisation and change between the two authorities.

The Committee discussed political factors outside of the authorities control and its potential risk to investment and projects in Eastbourne, should there be a drastic change in the economic environment. The Deputy Chief Executive advised that risks SR\_001 and SR\_002 were relevant to this point and they were detailed in the report, in addition to the internal controls in place. He added that based on the current risks, the settlement set out in the last Budget should carry the Council through to 2020.

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

The meeting closed at 7.02 pm

**Councillor Swansborough**  
**(Chairman)**