

AUDIT AND STANDARDS COMMITTEE

26 June 2017

Minutes of the Audit and Standards Committee held at the Town Hall, Bexhill-on-Sea on Monday 26 June 2017 at 6:30pm.

Committee Members present: M. Mooney (Chairman), J. Barnes, R.K. Bird, R.C. Carroll, K.P. Dixon and S.H. Earl (in part).

Advisory Officers present: Executive Director of Resources (in part), Service Manager – Finance and Welfare, Service Manager – Corporate and Human Resources (in part), Audit Manager and Democratic Services Manager.

Parish/Town Council Representative: Councillor T.A. Stainsby (Part A Only).
Independent Person: Mrs J. Gray (Part A Only).

The Chairman welcomed all those present to the meeting and confirmed that there were now two parts to the meeting, Part A, for Standards related matters and Part B for Audit related matters.

AS17/04. MINUTES

The Chairman was authorised to sign the minutes of the meeting of the Standards Committee held on 5 December 2016, the Audit Committee held on 27 March 2017 and the Audit and Standards Committee held on 15 May 2017 as correct records of the proceedings.

AS17/05. APOLOGIES

Apologies for absence had been received from Councillors A.K. Azad, T.W. Graham and the Financial Services Manager. It was noted that Councillor Earl and the Executive Director of Resources would be late.

PART A – STANDARDS REPORTS

PART I – RECOMMENDATIONS TO COUNCIL

AS17/06. INDEPENDENT PERSONS – RECRUITMENT (5.4)

At the last meeting, the Committee were advised of the need to appoint two Independent Persons (IPs) to assist with the standards complaints process in accordance with the Localism Act 2011. The Committee had nominated two Members of the Committee together with the Monitoring Officer to comprise a panel to interview suitable applicants and make a recommendation, via the Committee to full Council on 10 July 2017.

The IP vacancies were advertised on the Council's website and notified to all Councillors and all Parish and Town Councils within the Rother area. At the closing date, eight applications had been received and five candidates were invited to attend for an interview on 21 June 2017.

An updated report was tabled by the Monitoring Officer that advised on the outcome of the interviews; a number of good candidates had applied and the interview process had gone well. In light of regulations introduced in 2015 around investigation of allegations against Statutory Post Holders, which involved the IPs and for succession planning purposes, it was recommended that three IPs be appointed. It was noted that it was not considered best practice to appoint IPs for more than two terms (eight years).

The Committee were invited to recommend to Council that the two current IPs, Susan Fellows and Jan Gray be re-appointed for a further term of office and Robert Tye be appointed as an additional new IP. It was noted that the appointments needed to be approved by a majority of the Members of the Council.

RECOMMENDED: That the names of Susan Fellows, Jan Gray and Robert Tye be submitted to Council to be appointed as this Council's Independent Persons in accordance with Chapter 7, Section 28 of the Localism Act 2011, for a term of four years commencing from 11 July 2017 until July 2021.

PART II – DECISIONS TAKEN UNDER DELEGATED POWERS

AS17/07. INTRODUCTION TO STANDARDS (5.1)

Given that this was the Committees' first merged meeting, the Monitoring Officer (MO) took the opportunity to introduce all Committee Members to the standards regime and the routine reporting that would be brought before the Committee. The Council's Standards responsibilities covered the 38 District Councillors and the 260 Parish and Town Councillors across the district and was specifically about the standards expected of individual Councillors, not parish councils, which was often misunderstood by complainants.

It was confirmed that the Council's basis for standards work stemmed from the 2011 Localism Act which significantly revised and streamlined Local Government Standards work. The report detailed the background to the current Code of Conduct adopted by the Council in July 2012 and it was noted that under the Localism Act, the Parish and Town Councils across the district were at liberty to adopt their own code. Whilst they were encouraged to adopt Rother's Code in 2012, a number adopted a much streamlined version produced by the National Association of Local Councils and it was against their own Codes that any complaints against Parish Members were assessed.

The report gave details of the complaints process, the majority of which related to the declaration of interests at meetings, how complaints were initially assessed and the possible outcomes. Should an investigation be needed, the MO appointed an Investigating Officer (IO) to

investigate and report on the complaint. Where an IO concluded that the Subject Member had failed to comply with the Code of Conduct, and following consultation with one of the IPs, the MO could decide that the matter should be dealt with before a Hearing Panel. To date this had not happened under the new standards regime.

RESOLVED: That the report be noted.

AS17/08.
(5.2)

REVIEW OF ARRANGEMENTS FOR DEALING WITH MEMBER COMPLAINTS, INVESTIGATIONS AND HEARING PROCEDURES

Following the merger of Audit and Standards Committee it was necessary to review the current procedures for dealing with Member complaints to ensure that they were in line with the new Committee structure. The procedures subject to review were the Arrangements for Dealing with Member Complaints and the Investigation and Hearing Procedures.

It was considered that no amendments were needed to the Arrangements for Dealing with Member Complaints procedure which was introduced in 2011 in line with the Localism Act.

With regard to the Investigation and Hearing Procedures, the majority of changes were cosmetic; however should it be necessary to convene a Hearing Panel it was recommended that any three elected Members should be appointed not on a political basis, i.e. any three Members of the Audit and Standards Committee, dependent on availability and not political group. It was noted that to date it had not been necessary to convene a meeting of the Hearing Panel.

Some Members were concerned that the public perception of a fair Panel may be compromised if three Members from the same political group passed judgement on a fellow group Member; other Members would be reluctant to take part in a Panel which did concern a fellow group colleague. The Monitoring Officer reassured Members that Panel Members would be selected in a fair and balanced way to ensure impartiality and a fair hearing.

RESOLVED: That:

- 1) the make-up of Hearing Panels be drawn from any three Members of the Committee, not appointed in accordance with the political balance rules; and
- 2) the report be noted.

AS17/09.
(5.3)

CODE OF CONDUCT COMPLAINTS MONITORING

The Committee received the report of the Monitoring Officer (MO) which set out brief details of the Code of Conduct complaints received since the last meeting. As agreed by the former Standards Committee, the identity of Members and complainants would only be published where there had been informal action taken or an investigation and

subsequent hearing that had concluded that a Member had breached the Code of Conduct.

The MO advised that complaint C16-04 had now been resolved and informal action had been taken on part of the complaint and the formal investigation on the remainder of the complaint had found no fault on the part of the Councillors and this complaint was now closed.

One further complaint had been received since the last meeting (C17-01) and this had resulted in informal action.

RESOLVED: That the report be noted.

(Councillor Barnes declared a personal interest in relation to this matter as his wife, Councillor Mrs M.L. Barnes, had been one of the subject Members within complaint C16-04 although he did not intend speaking to this item; in accordance with the Code of Conduct, Councillor Barnes remained in the room during the consideration thereof).

AS17/10.
(5.5)

OMBUDSMAN COMPLAINTS MONITORING

Members considered the report of the Executive Director of Resources that set out the details and outcome of eight complaints made to the Local Government Ombudsman (LGO) since the last meeting of the Standards Committee held in December 2016.

The eight complaints spanned a number of Council services including homelessness services, planning, parking fines, repayment of benefit overpayment and the Council's Standards Investigation process. Three cases were still under investigation (homelessness, planning and Standards Investigation processes) and the Ombudsman had determined in the remaining five cases that it would not investigate. No complaints had been upheld against the Council.

With regard to complaint 16 016 145, Councillor Barnes felt that the "competent person scheme", allowing tradesmen to self-certify certain types of building work instead of getting building regulations approval provided a paradox, if the "competent person" was not competent after all and carried out substandard work; it was requested that this matter be brought to the attention of the Local Government Association, in consultation with the Service Manager – Strategy and Planning, if considered appropriate. It was clarified that the Council's actions with regard to this complaint were not at fault.

With regard to complaint 17 000 421, it was noted that this was linked to Standards Complaint (C16-4) which concerned the determination of a planning application at Sedlescombe and the Council's handling of the Standards complaint was still being investigated by the LGO.

RESOLVED: That

- 1) the report be noted; and

- 2) the concerns with regard to the “competent person scheme” be brought to the attention of the Local Government Association in consultation with the Service Manager – Strategy and Planning, if considered appropriate.

PART B – AUDIT REPORTS

PART I – RECOMMENDATIONS TO COUNCIL

AS17/11. LOCAL CODE OF CORPORATE GOVERNANCE (7.3)

It was advised that the Council’s revised Local Code of Corporate Governance had been amended to comply with changes introduced by CIPFA/SOLACE. The new CIPFA/SOLACE Framework, in the main mirrored the last CIPFA/SOLACE Guidance Framework and applied to annual governance statements prepared for the financial year 2016/17 onwards; the main changes from the previous Code were highlighted within the report.

The concept underpinning the framework was that it helped local government in taking responsibility for developing and shaping an informed approach to governance, aimed at achieving the highest standards in a measured and proportionate way. By applying the seven principles in the Local Code, the Council committed itself to discharging its services to Rother residents in a way that demonstrated accountability, transparency, effectiveness, integrity and inclusivity. The seven principles were:

- A. Behaving with integrity, demonstrating commitment to ethical values and respecting the rule of law;
- B. Ensuring openness and comprehensive stakeholder engagement;
- C. Defining outcomes in terms of sustainable economic, social and environmental benefits;
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes;
- E. Developing the entity’s capacity, including the capability of its leadership and the individuals within it;
- F. Managing risks and performance through robust internal control and strong public financial management; and
- G. Implementing good practices in transparency, reporting and audit, to deliver effective accountability.

As with the previous Local Code, the Council was required to provide evidence how it met all aspects of the Local Code. The revised Local Code was appended to the report along with the evidence relied upon to demonstrate compliance. The Service Manager – Finance and Welfare went through the issues to be addressed arising from the review, as summarised within the Appendix. It was noted that a progress report on these issues would be brought back to Members in due course.

The arrangements continued to be regarded as fit for purpose in accordance with the governance framework which was integral to

demonstrating to Rother residents and businesses the legitimacy of decisions made by the Council and the actions it undertook.

RECOMMENDED: That the revised Local Code of Corporate Governance be approved.

PART II – DECISIONS TAKEN UNDER DELEGATED POWERS

AS17/12. FEE LETTER 2017/18 (6.1)

Consideration was given to the independent external auditor's (BDO) Fee Letter which illustrated the proposed audit fees and programme of work for the 2017/18 financial year. Mr Lloyd-Thomas, Engagement Lead from BDO was unable to attend the meeting and the Service Manager – Finance and Welfare outlined the report for Members and agreed to take any questions back to Mr Lloyd-Thomas.

It was confirmed that the proposed audit fees were based on the work required under the Code of Audit Practice and covered the audit of the financial statements and value for money conclusion. Members were pleased to note that following consultation undertaken by the Public Sector Audit Appointments Limited (PSAA) in October 2016, the 2017/18 fees would not increase and were set at the same level as 2016/17.

RESOLVED: That the report be noted.

AS17/13. INTERNAL AUDIT REPORT TO 31 MARCH 2017 (7.1)

The Audit Manager led Members through the internal audit report to 31 March 2017 that reported on audit matters and any emerging issues, not only in relation to audit, but risk management and corporate governance. The report also included an annual report on the performance of the Internal Audit Service and an overall assessment of the Council's internal control systems to help inform the Council's Annual Governance Statement. The report was also required to incorporate: an opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control; a summary of the work that supported the opinion; and a statement on conformance with the Public Sector Internal Audit Standards (PSIAS) and the results of the Quality Assurance and Improvement Programme.

The Internal Audit team had successfully completed the majority of the work for 2016/17 but a management decision not to proceed with one project (Frontier HR21 Self Service Computer System) meant that not all of the work could be carried out. However, all Governance Audits had been completed which was key for External Audit in terms of its reliance on the work of Internal Audit.

The report gave details of the ten audits completed in the final quarter, a summary of all audit reports completed in 2016/17 and progress made on implementing audit recommendations.

Appendix C to the report provided a summary of progress made on implementing the audit recommendations reported at previous meetings. It was reported that only a handful of recommendations made during the period 2012/13 to 2015/16 remained outstanding. However, this still included the high risk recommendations for Asset Management and Data Protection, both of which were flagged for inclusion in the Annual Governance Statement.

The Service Manager – Strategy and Planning had submitted a separate update (Appendix D to the report) concerning the findings of the Community Infrastructure Levy (CIL) and Section 106 audit following Members' concerns raised at the last meeting. The Audit Manager was satisfied that progress was being made and confirmed that a further CIL audit would take place in a few months' time and be included within the usual quarterly report to Members.

The Internal Audit team had also carried out some Counter Fraud duties during 2016/17 and this work had focused on identifying properties within the district that could be liable for business rates but which had not previously been rated. With support from the Revenue and Benefits team, several cases had been identified resulting in additional income of £25,328. The Audit Manager was also in the process of developing a Counter Fraud Strategy to help further develop the Council's counter fraud response and this would be finalised in due course following evaluation of the existing counter fraud arrangements.

In addition to providing management with assurance on the adequacy of its control environment, routine audit work carried out in 2016/17 also resulted in the identification of £23,027 in confirmed savings/extra income through various means, including the miscalculation of monies paid to a contractor, uncollected income in respect of Section 106 inflation uplift, and the incorrect application of an empty property exemption marker on a National Non-Domestic Rates (NNDR) account.

The Audit Manager was pleased to report that evaluation of the Internal Audit team's conformance with the PSIAS to assess the efficiency and effectiveness of the service had concluded that there was a high level of overall effectiveness. Internal Performance Measures set for the Audit Team also demonstrated that most of the targets for 2016/17 had either been met or exceeded.

Under the Accounts and Audit Regulations 2015, ultimate responsibility for maintaining a sound system of internal control rested with the Council; this had been delegated to the Service Manager – Finance and Welfare (Section 151 officer). The assessment of the control environment was made by reviewing the recommendations made in Internal Audit reports and by the production of the Annual Governance Statement (AGS). Two areas had been identified for inclusion in the AGS by the Audit Manager because the internal control environment had not been satisfactory, namely Asset Management and Data Protection as highlighted above. It was noted that only limited assurance could be given with regard to CIL also, as highlighted above.

Areas of emerging risk included: joint waste contract, new computer systems and cash collection contract. Members queried whether in light of the Grenfell Tower disaster this posed any emerging risks for the Council in terms of building control capacity / housing. The Executive Director of Resources confirmed that the Council was not a stock holding authority but did house people; the two main Registered Social Landlords that worked with the authority had confirmed that none of their blocks were at risk; there were relatively very few high rise flats within the Rother District within the public sector. There were some flats that were in private ownership and the onus would be on their owners to make their own inspection arrangements.

Taking into account all the factors within the report and the routine quarterly reports, it was confirmed that the Internal Audit assessment of the Council's framework of governance, risk management and control was that it was adequate and effective; this assessment was without qualification.

The PSIAS required the development and adoption of an Internal Audit Charter to define the purpose, authority and principal responsibilities of the Internal Audit Service; the existing charter was last revised in September 2015 and needed to be updated to incorporate enhancements suggested by the recent peer review and few other minor amendments. A revised Internal Audit Charter was therefore provided at Appendix E to the report consideration and approval.

RESOLVED: That

- 1) the Internal Audit report to 31 March 2017 be noted;
- 2) the overall assessment of the Council's internal control systems and opinion on the control environment be approved; and
- 3) the revised Internal Audit Charter shown in Appendix E to the report be approved.

AS17/14.
(7.2)

INTERNAL AUDIT – PEER REVIEW

As previously reported, it was a requirement of the Public Sector Internal Audit Standards (PSIAS) that an external review of the Internal Audit Service was carried out at least once every five years. When the standards came into effect in April 2013, in order to avoid financial costs, the Sussex Audit Group (East and West Sussex local authority Audit Managers) agreed to carry out peer reviews on a reciprocal basis. The review was carried out by the Chief Internal Auditors at Arun and Horsham District Councils and their findings reported in April 2017.

The first part of the peer review looked at policies and procedures, an assessment of the section's purpose and positioning, its structure and resources, and its working methods against accepted good practice. The second part of the process involved the Audit Manager reviewing and responding to the Assessment Team's draft report and findings

and adding his own assessment of how well the Internal Audit team was performing.

The Assessment Team's final report had now been issued and was attached as Appendix A to the report. The overall outcome of the review was a good one, with no significant issues found. The Assessment Team concluded that "the Internal Audit Service of Rother District Council generally conforms with the PSIAS and general good practice for the profession".

The peer review made a total of nine recommendations all of which were relatively minor in nature but provided some useful suggestions for how the Internal Audit Service could work towards full conformance with the PSIAS. An additional four recommendations were added by the Audit Manager in response to customer feedback. It was confirmed that with the exception of two recommendations (B and C), all of the points made in the report had been accepted and would be implemented.

The action plan produced following the latest self-assessment exercise in March 2017 (Minute AU16/32 refers) had subsequently been updated in light of the peer review findings and all recommendations that still needed to be implemented had been incorporated into a revised action plan at Appendix B to the report. The Chairman of the Committee was delighted with the outcome of the Peer Review and thanked the Audit Manager and his Team for all their hard work and diligence.

RESOLVED: That the report be noted.

AS17/15.
(7.4)

ANNUAL GOVERNANCE STATEMENT

The Accounts and Audit Regulations required the Council to review, at least annually, its governance arrangements and, following this review, to agree an Annual Governance Statement (AGS). It was also a requirement for the Council to demonstrate awareness of where weaknesses existed within the governance arrangements and to develop and implement appropriate improvement plans.

The AGS comprised an assessment of governance arrangements and internal controls across the whole organisation against the Council's Code of Corporate Governance and whether these were supported by robust assurance processes. The review included:

- the robustness of the Council's risk management, performance management, financial management, legal and regulatory, IT and human resources processes and having the evidence to support that these were in place;
- the governance arrangements in place for the management of partnerships;
- the work and effectiveness of the internal audit function; and
- assurances from those managing the business (i.e. Service Managers) that the processes within their areas were robust and complied with.

The outcome of the review was set out within the Statement and the significant governance issues were summarised within the report as follows:

Areas of activity to be reviewed during 2017/18 as a result of the review:

- To produce a Counter Fraud Strategy
- Response to the increase requirements under the new General Data Protection Regulations (GDPR)
- Provision of ethical training
- Revised Communication Strategy
- Revised Procurement Strategy
- Update to the Council Workforce Plan

Internal Audit Reviews Showing Unacceptable Internal Control Environment:

- (i) Asset Management
- (ii) Data Protection

Other Issues that may impact on the Council:

Further Reductions in Government Funding
Business Rate Retention Scheme
New Homes Bonus Grant and Reserves
Capital Programme
Joint Working
Agresso Financial System Partnership
Joint Waste Contract
ICT Code of Compliance

Emerging Areas of Risk:

General Data Protection Regulation (GDPR)
Local Government Recruitment
New Computer Systems
Cash Collection Contract

The report showed the robust approach the Council took to ensuring good governance. The issues highlighted through inspection, both internal and external, provided assurance that the controls and procedures in place provided Members with a high degree of assurance. The report highlighted the areas where improvement was required and highlights the risks to the Council and its partners resulting from the poor economic climate and the associated impact on funding in the public sector.

RESOLVED: That:

- 1) the Annual Governance Statement be approved; and
- 2) the Statement be signed by the Leader of the Council and the Head of Paid Service.

TREASURY MANAGEMENT REPORT – 2016/17 OUTTURN

Cabinet had approved the Council's 2016/17 Investment Strategy in February 2016; under the Local Government Act 2003, the Council was required to produce an Annual Treasury Report, reviewing treasury management activities and the actual prudential and treasury indicators for 2016-2017. The report met the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

The regulatory environment placed responsibility on Members for the review and scrutiny of treasury management policy and activities and the report provided detail of the outturn position for treasury activities and highlighted compliance with the Council's policies, previously approved by Members. In order to support Members' scrutiny role, it was noted that Member training on treasury management issues would be undertaken on 5 July 2017 and was necessary for Members of this Committee in order to fulfil its statutory obligations.

The report provided an update on a number of areas including the Council's Capital Expenditure and Financing, borrowing, a review of investment performance and overall investment return for 2016/17. The following points were noted:

- the capital expenditure outturn for 2016/17 was £2,619,000 financed by £30,000 receipts and £2,589,000 grants and contributions with no capital expenditure charged to revenue;
- the Council had not entered into any actual new borrowing activity since becoming debt free in April 2002;
- the expectation for interest rates for 2016/17 anticipated low but rising Bank Rate, starting in quarter 4 of 2017 and gradual rises in medium and longer term fixed borrowing rates during 2016/17;
- the Council's temporary lending was carried out solely by Finance staff during 2016/17 which earned interest of £171,913 which equated to an average interest rate of 0.65%. This compared to a budgeted income of £135,000;
- the Council invested £2.25 million in the Churches, Charities, Local Authorities' (CCLA) Property Investment Fund in 2016/17 and a further £2.75 million was invested at the end of April 2017 with a current dividend yield as at April 2017 of 4.58%; and
- the Council also retained the Government Gilt which would be held until maturity or traded if a significant capital gain was achieved. The value of the Gilt at 31 March 2016 was £1,115,961 against a purchase price of £1,100,000. The gilt earned the additional interest of £13,750 in the financial year.

Members were reminded of the mandatory Treasury Management training being held on Wednesday 5 July to which all Members of the Audit and Standards Committee were required to attend; it was noted that the Chairman was unable to attend due to a prior engagement and separate arrangements would be made for a 1:1 session.

RESOLVED: That the investment outturn performance for 2016/17 be noted.

AS17/17. **DRAFT STATEMENT OF ACCOUNTS 2016/17**
(7.6)

The Accounts and Audit Regulations 2015 came into force on 1 April 2015 and introduced earlier deadlines for publication of the accounts bringing forward current dates by one month from 30 June to 31 May for the unaudited statement of accounts and by two months from 30 September to 31 July for the audited statement of accounts. From 2018 the Council was required to publish unaudited accounts by the end of May and the Audit and Standards Committee would need to approve audited accounts by the end of July. In order to meet these proposed timescales, the Council planned to quicken the production and subsequent publishing of the draft and audited accounts.

The Financial Services Manager and her Team had produced the draft unaudited accounts, attached as Appendix A to the report, in time for the new reporting requirements that would be in place next year. The Service Manager – Finance and Welfare encouraged Members to read through the draft accounts ahead of the training session arranged on Monday 18 September for all Councillors to specifically look at the Council's Statement of Accounts; it was noted that Councillors Bird and Dixon were unable to attend this training. The audited Statement of Accounts would then be presented to the Committee for formal approval at the meeting to be held on Wednesday 27 September.

RESOLVED: That the Council's 2016/17 draft Statement of Accounts be noted.

AS17/18. **WORK PROGRAMME**
(7.7)

Consideration was given to the Work Programme which contained details of the reports to be considered by the Audit and Standards Committee meetings for the remainder of the 2017/18 municipal year.

RESOLVED: That the Work Programme at Appendix A be approved.

CHAIRMAN

The meeting closed at 7:40pm

as170626/ljc

**WORK PROGRAMME
AUDIT AND STANDARDS COMMITTEE**

WORK PROGRAMME 2017 – 2018	
DATE OF COMMITTEE	SUBJECT
Wednesday 27 September 2017	<p>Part A – Standards Reports (none scheduled)</p> <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • BDO – Annual Governance Report 2016-17 • Statement of Accounts 2016-17 • Internal Audit Report to 30 June 2017 • Treasury Management Report
Monday 11 December 2017	<p>Part A – Standards Reports</p> <ul style="list-style-type: none"> • Code of Conduct Complaints Monitoring; and • Local Government Ombudsman Complaints Monitoring and Annual Review 2016-2017 <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • BDO – Annual Audit Letter 2016-17 • Internal Audit Report to 30 September 2017 • Annual Risk Management Update • Treasury Management Update Report
Monday 26 March 2018	<p>Part A – Standards Reports (none scheduled)</p> <p>Part B – Audit Reports</p> <ul style="list-style-type: none"> • BDO – Grant Claim Certification for the year ended 31 March 2017 • BDO – Audit Plan 2017-18 • Internal Audit Report to 31 December 2017 • Internal Audit Plan 2018-19 • Review of Internal Audit 2017-18 • Treasury Management Report