



## Lewes District Council

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### Audit Committee

**Minutes** of a meeting of the **Audit Committee** held in the **Warren Room, Lewes House, 32 High Street, Lewes** on **Monday, 19 March 2012** at 3.30pm

**Present:**

Councillor I Eiloart (Chair)

Councillors R E Allen, J M Harrison-Hicks, C S Lambert, B M Warren and I White

**Officers Present:**

Z Downton, Committee Officer

D Heath, Head of Audit and Performance

S Jump, Head of Finance

**Also Present:**

J Combrinck, Director, PKF Accountants & Business Advisers

### Minutes

	<b>Action</b>
<p><b>47 Minutes</b></p> <p>The Minutes of the meeting held on 23 January 2012 were approved as a correct record and signed by the Chair.</p>	
<p><b>48 Apologies for Absence/Declaration of Substitute Councillors</b></p> <p>Apologies for absence had been received from Councillors M P Chartier, J Stockdale and C Sugarman. Councillor Allen declared that he was substituting for Councillor Chartier and Councillor Lambert declared that she was substituting for Councillor Stockdale.</p>	
<p><b>49 Interim Report on the Council's Systems of Internal Control 2011/12</b></p> <p>The Committee received Report No 55/12 which informed councillors of the adequacy and effectiveness of the Council's systems of internal control during the first eleven months of 2011/12, and summarised the work on which that opinion was based.</p>	

The Internal Audit function at the Council operated in accordance with the Code of Practice for Internal Audit published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Table 1, under paragraph 4.2 on page 2, showed that a total of 714 audit days had been undertaken compared to 686 days planned. The variance of 28 days was due to administration and training being less than anticipated by that stage of the year. It was estimated that the number of audit days undertaken would be close to plan by the year end.

Paragraphs 4.4 to 4.12 of the Report summarised the work undertaken by Internal Audit. It was noted, under paragraphs 4.3 and 4.4, that extra time had been needed for the Main Systems audit because of the additional testing that had been required for the work with PKF (the Council's external auditor) on the main financial systems and the subsidy grant claims. The Head of Audit and Performance highlighted that the corresponding reviews and testing for the 2011/2012 accounts were underway.

Appendix A of the Report contained a statement of internal audit work and key issues for 2011/12, specifically relating to the audit report on Building Maintenance. The Head of Audit and Performance highlighted that Internal Audit had obtained minimal assurance that there was a sound system of internal control covering the cleaning and maintenance of the Council's main corporate properties. Internal Audit's opinion was that controls could be better and concluded that gaps in the control processes placed the system at risk, but the risk to the Council was relatively low because the amounts involved were not material. In response to a councillor's question, the Head of Audit and Performance explained that the control environment would be kept under review by Internal Audit.

The Report provided an update on the current status of outstanding audit recommendations, as set out under paragraphs 4.13 and 4.14. All audit recommendations were followed up to determine whether control issues noted by the original audits had been resolved. A log of significant outstanding recommendations, at March 2012, was set out in Appendix B. The Head of Audit and Performance noted that an action plan for the implementation of the remaining six recommendations regarding the Agresso Security audit report had been agreed with the Head of Finance. The Head of Finance explained that, as detailed under Appendix B of the Report, implementation of the action plan, in conjunction with Hastings and Rother Councils, had begun on 12 March 2012 with confirmation of the revised arrangements for system administrators.

Section 8 of the Report detailed the external assurances received periodically by PKF. The Head of Audit and Performance highlighted to the Committee that external assurance was an important element in the review of the work of the Council to ensure it was meeting its statutory obligations.

Resolved:

**49.1** That it be noted that the overall standards of internal control during the first eleven months of 2011/12, as shown in Section 3 of the Interim Report No 55/12, were satisfactory.

## **50 Strategic Audit Plan**

The Committee considered Report No 56/12 which presented the Strategic Audit Plan for the three year period 2012/2013 to 2014/2015.

The main focus of the planning process was on the first year of the Strategic Audit Plan, which provided the Annual Audit Plan for 2012/2013. The Strategic Audit Plan was reviewed each year so that it could reflect the changing risks and priorities for the Council.

In preparing the Strategic Audit Plan, the Head of Audit and Performance had taken account of the adequacy and outcomes of the Council's risk management, corporate governance and other assurance processes.

The Head of Audit and Performance highlighted the stages in preparing the Plans as detailed in Sections 4 to 7 of the Report; namely, strategic planning assumptions, review of key Council activities, application of the risk assessment model and allocation of staff resources. He brought councillors' attention to the joint protocol with PKF, as detailed under paragraph 4.2, which included an agreement that Internal Audit would undertake the review and testing of the key financial systems every year, thus preventing the duplication of work and resources.

Section 5 of the Report outlined the strategic planning process of updating the database of key areas of Council activity that would need to be audited, known collectively as the 'universe' of audit activities. The review of the database had been based on information from the Budget Book, the Council Plan, the Council's Risk Register, Council Service Plans, Cabinet reports and other known developments, and PKF's Audit Plans. The Head of Audit and Performance highlighted that the Council's commitment to continuing with EMAS as its environmental management system was also taken into account.

Section 6 of the Report summarised the second stage in the planning process whereby the updated database of key audit areas of activity was used to assess the risks in each area. The risk model assessed each activity under six categories; financial materiality, system stability, sensitivity, complexity, inherent risk and the adequacy of internal control.

Table 1, under Section 7, summarised the resources allocated to the main audit areas after making provision for administration, training, leave and sickness, which linked to the audit areas outlined within the Strategic Audit Plan as set out at Appendix 2 of the Report. The Committee asked whether levels of staff sickness were addressed in internal audit work. The Head of Audit and Performance responded that it was a good point to raise as an increase in sickness levels could have an impact on control systems. He advised that internal controls relating to staff sickness levels would be

considered as part of the 'Personnel, Recruitment and Training' audit area due in the 2013/2014 audit plan. Separately, the Council's Employment Committee was also in place to receive reports and updates on sickness levels.

In response to a councillor's question relating to the nature of the audit area of 'Financial Vetting', as set out under the Strategic Audit Plan on page 24, the Head of Audit and Performance explained that it involved assessing the financial stability of companies to provide such information where required to officers as part of the contract tendering process.

Resolved:

- 50.1** That the Annual Audit Plan for 2012/2013, as shown at Appendix 1 of Report No 56/12, be agreed; and
- 50.2** That the three year Strategic Audit Plan for 2012/2013 to 2014/2015, as shown at Appendix 2 of Report No 56/12, be agreed.

**51 Treasury Management Activity**

The Committee considered Report No 57/12 which presented details of recent Treasury Management activity between 1 January 2012 and 29 February 2012. The Council's approved Treasury Strategy Statement 2011/2012 to 2013/2014 required the Committee to review details of Treasury Strategy transactions against the criteria set out in the Strategy and make observations to Cabinet as appropriate.

The Head of Finance highlighted the main points contained within the Report, as follows:

- Details of the fixed term deposits held at 29 February 2012 (excluding that with the Icelandic Bank, Landsbanki Islands hf) were set out at paragraph 2.3. The Head of Finance explained that those deposits were timed to mature by the end of the 2011/2012 financial year with the intention to reduce the level of deposits held to maximise the availability of funds in light of the Housing Revenue Self-financing Reforms which required the Council to make a payment of approximately £56.6m to the Government on 28 March 2012.
- The Council's overall investment position during the accounting period was summarised in the chart under paragraph 2.7 of the Report. The dip in the cash balance levels in February 2012 was due to no Council Tax collections, as expected in that period.
- An update on the Council's deposit with the Icelandic Bank, Landsbanki Islands hf was set out under paragraph 2.8. On 17 February 2012, the Landsbanki winding-up board had made an initial distribution to priority creditors, which included local authorities. On this date the Council had received the first installment of

approximately one third of the £1m deposit with the bank.

In response to a councillor's question, the Head of Finance explained that officers were working on the basis that the Council would be able to reclaim up to 95% of the deposit with Landsbanki Islands hf.

A table which showed the fixed term deposits which had matured since 1 January 2012 was set out at paragraph 2.4. The Committee noted that the Council's list of counterparties did not currently include private companies, as the deposit held with Santander UK plc had matured during the accounting period.

Resolved:

**51.1** That it be confirmed to Cabinet that Treasury Management Activity between 1 January 2012 and 29 February 2012 had been in accordance with the approved Treasury Strategy for that period; and

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**51.2** That Report No 57/12 be noted.

**52 Date of Next Meeting**

Resolved:

**52.1** That the next scheduled meeting of the Audit Committee to be held on Monday 25 June 2012 at 3.30pm in the Warren Room, Lewes House, 32 High Street, Lewes be noted.

**All to note**

The meeting ended at 4.15pm

I Eiloart  
Chair