



Lewes District Council

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Audit and Standards Committee

Minutes of a meeting of the **Audit and Standards Committee** held in the **Garden Room, Lewes House, 32 High Street, Lewes** on **Monday, 28 January 2013** at 3.30pm

Present:

Councillor I Eiloart (Chair)

Councillors M P Chartier, P L Franklin, J V Harris, C S Lambert and E E J Russell

Officers Present:

B Allen, Principal Audit Manager

A Blanshard, Committee Officer

S Jump, Head of Finance

Also Present:

S Frith, Senior Manager, PKF Accountants & Business Advisers

Minutes

26 Minutes

The Minutes of the meeting held on 3 December 2012 were approved as a correct record and signed by the Chair.

27 Interim Report on the Council's Systems of Internal Control 2012/13

The Committee received Report No 19/13 which informed councillors of the adequacy and effectiveness of the Council's systems of internal control during the first nine months of 2012/13, and summarised the work on which that opinion was based.

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).

The Principal Audit Manager highlighted paragraph 3.1 of the Report, which stated that the opinion of the Head of Audit and Performance was that the overall standards of Internal Control were satisfactory. Table 1, under paragraph 4.2 of the report showed that a total of 548 audit days had been undertaken compared to 565 planned. He advised that the variance of 17 days had been mainly due to preparations for agile working and moving the department to Southover House. It was anticipated that further time would be required for these activities, but that effort would be made to ensure that audit days were nearer to the budget by year end.

Action

Paragraphs 4.3 to 4.12 summarised the main functional areas reviewed and the key audits undertaken in 2012/13.

The Principal Audit Manager highlighted section 4.3 and explained that the work on behalf of PKF to test the Council's subsidy claims for Benefits and National Non-Domestic Rates for 2011/12 had been signed off. Additional testing had been involved, at the request of PKF, which noted errors relating to assessment of payslip information, as a result PKF had issued a letter of qualification.

The Principal Audit Manager explained that paragraph 4.8 outlined the involvement of Internal Audit in the Agile Working project, and that this required more resources than the original 10 days that had been planned, This situation would continue until the end of the year.

Appendix A of the report contained the statement of internal audit work and key issues arising from individual pieces of audit work. The Principal Audit Manager explained the five Audit reports contained in the statement to the Committee.

The second statement regarding the Housing Benefit Subsidy Claim was of particular interest to the Committee. The statement related to the annual testing of the claim by Internal Audit on behalf of PKF. The initial test results had included an error relating to a misinterpretation of a claimants' income, PKF had then requested additional testing be carried out to determine the extent and potential impact of any other errors of this type.

A discussion followed, during which the Committee asked what was being done to ensure that errors like this did not re-occur. The Principal Audit Manager explained that Internal Audit performed checks annually, and that a continuous program of quality testing was carried out by the Revenues and Benefits department. This included random sample checks and more targeted checking for new staff members or following any rule changes. PKF confirmed that the Council ran strong checks, and that in terms of value and number of issues, this had been the smallest qualification letter issued by them.

Resolved:

- 27.1** That the Principal Audit Manager be requested to present a Report detailing the quality testing process of the Revenues and Benefits sections, including frequency and type of checks, error rates detected and the progress in implementing the PKF recommendations to the next meeting of the Audit and Standards Committee; and
- 27.2** That it be noted that the overall standards of internal control during the first nine months of 2012/13, as shown in Section 3 of the Interim Report No 19/13, were satisfactory.

PAM

The Committee considered Report No 20/13 which presented details of recent Treasury Management Activity.

The Council's approved Treasury Strategy Statement required the Committee to review details of treasury transactions against criteria set out in the Strategy and make observations to Cabinet as appropriate.

The Head of Finance highlighted the following points contained within the report:

- The table, set out under paragraph 2.3 on page 17, showed the fixed term deposits held at 31 December 2012 (excluding that with the Icelandic Bank, Landsbanki Islands hf) and identified the long-term and short-term credit rating of each counterparty at the date of investment.
- Under paragraph 2.4, on page 18, the table showed the fixed term deposits that had matured since 1 November 2012, in maturity date order.
- The table at paragraph 2.5, on page 18, showed the use of deposit accounts during the period covered in the report.
- The chart at paragraph 2.6, on page 18, summarised the amounts held in the two Money Markets Funds used by the Council.
- Paragraph 2.8, on page 19, of the report outlined the Council's overall investment position.

The Head of Finance then informed the Committee that the Council had purchased its first Treasury Bill (T-Bill) in December 2012 (as set out in paragraph 2.7 on page 18). The intention was to retain the T-Bill until its maturity date producing a return of 0.19%. He explained that by activating this facility before 31 December 2012, the Council did not have to pay the one-off administration fee of £10,000 chargeable to any custodian facility activated after that date.

The Head of Finance then highlighted section 2.9, on page 19, of the report which outlined the status of the Council's borrowing. There had been no change to the Council's long term borrowing during the reporting period. The Council had only used its overdraft facility on three occasions, each of which had been predetermined and agreed as part of day to day cash management.

Resolved:

- 28.1** That it be confirmed to Cabinet that Treasury Management Activity between 1 November 2012 and 31 December 2012 had been in accordance with the approved Treasury Strategies for that period; and
- 28.2** That Report No 20/13 be noted.

PAM

The Committee received Report No 21/13 which informed councillors of the comparative performance of internal audit departments in local authorities in Sussex for 2012.

The Internal Audit Section at the Council was a member of the Sussex Audit Group (SAG), which was established to enable internal audit functions within public bodies in East and West Sussex to share best practice. SAG comprised 15 internal audit functions from local authorities and a local university. Those seven members of SAG who provided responses for the benchmarking study were listed under paragraph 3.1, on page 22, of the Report.

The Principal Audit Manager highlighted some key points from the benchmarking study, as follows:

- All of the seven members in the benchmarking study were fully staffed for most of 2011/12.
- The Council's Internal Audit staff were among the most qualified.
- The Council enjoyed the second lowest external audit fee of those authorities in the benchmarking study, largely due to the amount of work that the department had done on behalf of PKF.
- The Council's cost per chargeable day (£254.60) was the third lowest as the Council's Internal Audit section generated the highest amount of productive days per team member.
- The Council had the second lowest number of days (200) and the lowest proportion (20%) of time for non audit activities. This was attributed to the fact that the members of the team were very experienced and therefore had virtually no training days.
- The total cost of the Council's audit service including external audit fees was £323,490, a reduction of 5.2% from the 2011 benchmarking exercise.

Full details of the SAG benchmarking results for 2010/11 were set out at Appendix A of the Report.

The Principal Audit Manager explained that the conclusion that could be drawn from the benchmarking study was that the Council's Internal Audit function was adequately resourced and was achieving satisfactory standards of output and efficiency. This conclusion was supported by comments in recent PKF Management Letters and the results of other assessments.

Resolved:

- 29.1** That the benchmarking results from the participating authorities in Sussex, and the conclusion that the internal audit function at Lewes District Council is adequately resourced and is achieving

satisfactory standards of output and efficiency, as set out in Section 3 of Report No 21/13, be noted.

30 Planning Letter 2012/2013

The Committee considered Report No 22/13 relating to the proposed fees and programme of work for the 2012/13 financial year by the Council's external auditor, PKF.

Mr Frith, PKF representative, explained that the Audit Commission had completed its procurement exercise in March 2012 and had secured significant reductions in the cost of audit services. Further savings had been achieved through efficiencies, meaning that they had been able to pass on reductions of 40% in audit fees.

Mr Frith explained that a separate audit plan would be issued in early 2013 once PKF had completed their detailed risk assessment. The report outlined some areas that might impact PKF's proposed approach to the audit of statements for 2012/12, but PKF had decided that none of them constituted a significant audit risk.

The published scale fee for PKF 2012/13 (£60,990) was based on 60 per cent of the actual 2011/12 fee (£103,800).

The Committee asked if Mr Frith thought that the 40% reduction in fees would result in less work being presented by PKF. Mr Frith assured the Committee that this would not be the case; PKF would make its own efficiency savings, but would continue to work to the same level.

Resolved:

30.1 That Report No 22/13 be noted.

31 Grant Claims and Returns Certification

The Committee considered Report No 23/13 which summarised the main issues arising from the certification of grant claims for the financial year ended 31 March 2012. PKF, the Council's external auditor, undertook certification work as an agent of the Audit Commission, in accordance with the Statement of Responsibilities issued by the Commission.

Mr Frith explained that PKF had been satisfied with the accuracy of the preparation of grant claims and returns and had been able to certify all but one without qualification.

Mr Frith highlighted the summary of high level findings, shown on page 1 of the Report. He explained that although a qualification letter had been issued to the Council, in relation to the Housing and Council Tax Benefit Subsidy, it was classed as a medium level priority. The full details of this qualification were contained on pages 3 and 4 of the Report. He added that Appendix A of the Report showed the status of the 2010/11 recommendations. These were followed up in Appendix B of the Report, in the 2011/12 action plan which showed that the Council had accepted the recommendation and had agreed to maintain the high level of quality checks and reinforce training on

the need for accuracy in using income data.

The Committee had discussed the qualification letter earlier in the meeting, but asked Mr Frith what effect he thought the change to Universal Credits scheme might have in the future. Mr Frith explained that in 2012/13 Housing Benefits and Non-Domestic Rates would be audited in the same way. Although the future was unknown, it was anticipated that there might be an increase in error rates when the Universal Credit was introduced, but that in the longer term there would be less scope for errors.

Resolved:

31.1 That Report No 23/13 be noted.

32 Annual Treasury Management Strategy Statement and Investment Strategy 2013/14 – 2015/16

The Committee considered Report No 24/13 which presented the draft Treasury Management Strategy Statement and Investment Strategy 2013/14 - 2015/16.

In accordance with the CIPFA Code of Practice on Treasury Management, the Cabinet approved an updated Annual Treasury Strategy Statement before the start of each financial year. It was appropriate for the Committee to review and comment on the draft Strategy before it was approved by Cabinet as part of the overall budget cycle, rather than to carry out this function after the Strategy had been formally adopted.

The Strategy Statement set out the background to the Council's Treasury Management activity both in terms of the wider economy and the Council's own current and projected financial position.

The Head of Finance explained that there were no changes to the draft Strategy Statement apart from narrative amendments to ensure that it remained current.

The Head of Finance then drew the Committee's attention to paragraphs 1.1 to 1.4 of Appendix 1 (page 47 of the agenda) which summarised the Council's borrowing, debt re-scheduling, accounting for debt and investing. These were detailed further in the Statement.

Resolved:

32.1 That the Head of Finance be requested to add an Introduction paragraph, before the Executive Summary at Section 1, to the Treasury Management Strategy Statement and Investment Strategy 2013/14 to 2015/16 to explain what the Strategy Statement means; and

32.2 That Report No 23/13 be noted.

33 Date of Next MeetingResolved:

- 33.1** That the next scheduled meeting of the Audit and Standards Committee to be held on Monday 18 March 2013 at 3.30pm in the Warren Room, Lewes House, 32 High Street, Lewes be noted.

**All to
note**

The meeting ended at 4.42 pm

I Eiloart
Chair