

Audit and Standards Committee

Minutes of a meeting of the **Audit and Standards Committee** held in the **Warren Room, Lewes House, 32 High Street, Lewes** on **Monday, 18 March 2013** at 3.30pm

Present:

Councillor I Eiloart (Chair)

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

Officers Present:

B Allen, Principal Audit Manager

A Blanshard, Committee Officer

Also Present:

S Frith, Senior Manager, PKF Accountants & Business Advisers

Minutes

Action

35 Minutes

The Minutes of the meeting held on 28 January 2013 were approved as a correct record and signed by the Chair.

36 Apologies for Absence/Declaration of Substitute Members

An apology for absence had been received from Councillor C Sugarman.

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

The Committee received Report No 48/13 which informed councillors of the adequacy and effectiveness of the Council's systems of internal control during the first eleven 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 674 audit days had been undertaken compared to 690 days planned. He advised that the variance of 16 days had been mainly due to preparations for agile working and moving

the department to Southover House.

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

The Principal Audit Manager drew the Committee's attention to paragraph 4.19 of the Report explaining that the Head of Audit and Performance had reviewed with the Corporate Management Team the impact on the control environment of the savings achieved so far under the Council's phased programme of savings following the Government's national deficit reduction plan. The Head of Audit and Performance had obtained assurance that there had been no adverse effect on the operation of controls. This exercise would be ongoing while the programme of savings continued.

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 took the Committee through the two Audit Reports contained in the statement.

The first Audit Report regarded the Newhaven Enterprise Centre (NEC). The audit work had given Internal Audit substantial assurance that there was a sound system of internal control covering the NEC. There was regular contact between the Council and the NEC operator, Basepoint. The audit had shown that the centre was secure, well run and that assets were adequately safeguarded. The Principal Audit Manager explained that while Basepoint had been successful in meeting the current objective of achieving full occupancy, there was a desire from the Property, Regeneration and Enterprise Department to explore the potential of the NEC to encourage small and starter businesses by seeking ways to have more established businesses move out to other premises. There was a need for the Council to agree the future direction of the Letting Strategy, including, if appropriate, formal negotiations on a revised strategy with Basepoint.

The Committee then discussed whether the Council was currently assisting business to move on from the NEC. It commented that the work of the NEC was impressive and that the support given to businesses meant that some were receiving assistance and help whilst paying a preferential rent past the time when they might need it. The Committee agreed that there may be ways in which the Council and Basepoint could encourage businesses to move on and thereby encourage turnover of tenants.

The Committee heard from the Principal Audit Manager that the NEC had been experimental when it was established and that the main aim then had been for the centre to achieve full occupancy. The Committee expressed an interest in hearing in more detail about the NEC, its waiting lists, and the aims of the Property, Regeneration and Enterprise Department with regard to the Centre.

The second Audit Report covered Council partnerships. The audit work during this review gave Internal Audit substantial assurance that there was a sound governance framework for the Council's partnerships. It found that controls were in place and in most respects there was reasonable compliance with mandatory guidance. The governance arrangements for

each Strategic Alliance/Partnership were adequate, however, there were some points that indicated there was scope to strengthen and streamline the ways in which the procedures were operated.

Resolved:

- 37.1** That the Principal Audit Manager be requested to present a report detailing the current figures and details of the Newhaven Enterprise Centre to the next meeting of the Audit and Standards Committee;
- 37.2** That an Officer from the Property, Regeneration and Enterprise department be requested to attend the next meeting of the Audit and Standards Committee to inform members of the aims the department has to work with Basepoint to encourage small and startup businesses by seeking ways to encourage more established businesses to move on from the Newhaven Enterprise Centre; and
- 37.3** That it be noted that the overall standards of internal control during the first eleven months of 2012/13, as shown in Section 3 of the Interim Report No 48/13, were satisfactory.

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38 Strategic Audit Plan

The Committee considered Report No 49/13 which presented details of the Strategic Audit Plan for the three year period 2013/14 to 2015/16.

The Internal Audit function at the Council operated in accordance with the auditing guidelines published by CIPFA. CIPFA, along with the other governing bodies that set auditing standards for the public sector, had adopted a common set of Public Sector Internal Audit Standards (PSIAS) that would apply from 1 April 2013.

The 2013 PSIAS showed some changes from the 2006 CIPFA Code of Practice that previously guided the Internal Audit function at the Council. These changes were outlined in Report No 50/13.

The 2013 PSIAS required the Head of Audit and Performance to prepare a strategic statement of how the Internal Audit service would be delivered and for there to be a risk based plan setting out the priorities for Internal Audit activity. As in previous years the strategic statement document and the audit plan would be combined into a Strategic Audit Plan, presented to the Audit and Standards Committee for approval.

The main focus of the planning process was on the first year of the Strategic Audit Plan, which provided the Annual Audit Plan for 2013/2014. The Strategic Audit Plan was reviewed each year so that it could reflect the changing risks and priorities for the Council.

The Principal Audit Manager explained that when 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. A list of the statements on

which the Strategic Audit Plan was based was contained under paragraph 4.1 of the Report. The Principal Audit Manager informed the Committee that these points were unchanged from last year.

The Principal Audit Manager also explained that Internal Audit and PKF operated in accordance with a joint protocol which ensured an integrated audit approach that made efficient use of resources and prevented duplication of work.

The Principal Audit Manager highlighted the stages in preparing the Plans, shown in Sections 5 to 7 of the Report, namely a review of key Council activities, application of the risk assessment model and allocation of staff resources. He explained to the Committee that there had been some changes between this year and last regarding the review of key Council activities, under section 5 of the Report. These included increased time for audits of key financial systems, the merger of the IT security and IT Network audits, and the removal of the audit of departmental contracts.

The Principal Audit Manager informed the Committee that Appendices 1 and 2 of the Report contained the planned audit days and priority rating for each audit area for both the Annual Audit Plan and the Strategic Audit Plan. He explained that Appendix 3 listed the low risk activities that had been excluded from the Strategic Audit Plan, but emphasised that it was a rolling plan and that audits could be brought back in at any time.

The Committee suggested that in the future the previous year's figures be listed on both the Annual and Strategic Audit Plans to ensure that comparisons could be made easily.

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Resolved:

- 38.1** That the Annual Audit Plan for 2013/2014, as shown at Appendix 1 of Report No 49/13, be agreed; and
- 38.2** That the three year Strategic Audit Plan for 2013/2014 to 2015/2016, as shown at Appendix 2 of Report No 49/13, be agreed.

39 Changes to the Public Sector Internal Audit Standards (PSIAS) 2013

The Committee received Report No 50/13 which informed Councillors of the key changes in the Public Sector Internal Audit Standards (PSIAS) 2013 and the ways in which the changes would impact on the Council's Internal Audit Section.

The Principal Audit Manager advised the Committee that CIPFA had adopted a common set of standards that would apply from 1 April 2013. He explained that the Head of Audit and Performance had reviewed the PSIAS for their impact on Internal Audit and the Council and was advising the Committee of the outcome of that review.

In many areas of the revised PSIAS the working practices at the Council already met the new standards, and no further changes would be required other than minor textual changes to documents. However, there were some areas of the new standards that required consideration. The Principal Audit

Manager explained that the necessary changes had been made and a revised version of the Charter for Internal Audit was shown in Appendix 1 to the Report. The revised Charter would be accessible to the public via the Council's website. The PSIAS required that the Head of Audit and Performance periodically review the Charter for Internal Audit and present it to the Audit and Standards Committee, the Section 151 Officer and the Monitoring Officer. This had been standard practice at the Council since 2002.

The Committee was informed that the PSIAS included a revised definition of Internal Auditing, which recognised that as well as the primary role of providing assurance, a significant role of the Internal Audit function was to provide advice on governance and control.

The Principal Audit Manager informed the Committee that the Code of Ethics, shown at section 11 of the revised Charter at Appendix 1 to the Report, was a mandatory element of the PSIAS. He explained that the Council's existing Charter for Internal Audit was very similar in terms of standards of conduct to that of the PSIAS, but that it would be updated to include specific principles and rules of conduct set out in the PSIAS.

The Principal Audit Manager then explained to the Committee that within the PSIAS the terms 'Board', 'Senior Management' and 'Chief Audit Executive' were used to describe key elements of an organisation's governance. The PSIAS required these terms to be defined in the context of governance arrangements for each organisation in order to safeguard Internal Audit's independence and objectivity. It was recommended to the Committee that the Council applied the following interpretations, as set out in section 8 of the Report:

- 'Board' – in the context of overseeing the work of Internal Audit at the Council, this was the Audit and Standards Committee.
- 'Senior Management' – in order to ensure effective, independent liaison of Internal Audit and senior officers, this would be the Section 151 Officer (Director of Finance) and the Monitoring Officer (Corporate Head – Legal and Democratic Services). This definition would not effect the consultation between Internal Audit and Corporate Management Team in formulating the Strategic Audit Plan and agreeing the scope of internal audits. Neither would it change the responsibility of the Chief Executive and the Leader of the Council to sign the Annual Governance Statement.
- 'Chief Audit Executive' – in the context of the officer responsible for managing the Internal Audit service, and its relationship with the Audit and Standards Committee, senior officers and other Council bodies, this would be the Head of Audit and Performance.

The Principal Audit Manager then drew the Committee's attention to sections 12 to 14 of the Report which outlined the requirement of the PSIAS on the Head of Audit and Performance to develop and maintain a quality assurance and improvement programme that covered all aspects of Internal Audit activity. He explained that the PSIAS also set new requirements in

terms of external assessments. These must be conducted at least every five years by a qualified, independent assessor (or assessment team) from outside the Council. An option for this external assessment, shown in paragraph 10.7 of Appendix 1 to the Report, is whether it could be conducted through peer reviews by members of the regional audit group the Sussex Audit Group (SAG). The Head of Audit and Performance would investigate the practicality of this proposed approach. The Principal Audit Manager suggested that the Head of Audit and Performance bring the results of his discussion with the SAG to a meeting of the Audit and Standards Committee.

The Committee discussed whether assessments might be made every four years, thereby subjecting each Council administration to the same external scrutiny. The Principal Audit Manager suggested that if the periodic review was conducted every four years it should be mid-term to avoid election periods.

The Committee requested that, in future versions of the Charter, shown at Appendix 1 to the Report, the bullet points be replaced with numbering to avoid confusion.

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The Committee asked that point 9 of the Rules of Conduct, paragraph 11.5 of Appendix 1 of the Report, be amended to replace 'anything' with 'gifts or offers'.

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The Principal Audit Manager explained that the PSIAS required that Internal Audit be independent, with no restrictions on the reporting of their findings and opinions to officers and Councillors. The Principal Audit Manager agreed with the Chair that this independence could be emphasised by all future reports to the Committee from Audit and Performance being presented by the Head of Audit and Performance rather than the Director of Finance.

Resolved:

- 39.1** That the Report No 50/13 be noted;
- 39.2** That the proposed definitions of the terms 'Board', 'Senior Management' and 'Chief Audit Executive' that are used to describe key elements of the Council's governance, and the ways in which they interact, as shown in paragraphs 7 and 8 of Report No 50/13, be approved;
- 39.3** That the proposed revised version of the Charter for Internal Audit, as shown in paragraphs 9 and 10 and Appendix 1 of Report No 50/13, be approved;
- 39.4** That the revised version of the Guide to Internal Audit, as shown in paragraph 11 and Appendix 2 of Report No 50/13, be noted;
- 39.5** That the proposed arrangements for an external assessment of Internal Audit activity in accordance with PSIAS requirements, as shown in paragraph 12 to 14 of Report No 50/13, be noted;

- 39.6** That the all bullet points in the revised version of the Charter for Internal Audit, as shown in Appendix 1 of Report No 50/13, be replaced with numbering;
- 39.7** That the text at point 9 of the Rules of Conduct, as shown in paragraph 11.5 of Appendix 1 of Report No 50/13, be amended to replace 'anything' with 'gifts or offers'.

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40 Quality Assurance Checks Applied to Applications for Housing and Council Tax Benefit 2012/13

The Committee received Report No 51/13 which detailed the results of a review of the quality assurance checks that were applied to benefit applications.

The Principal Audit Manager explained that at the meeting of the Audit and Standards Committee on 28 January 2013, the Committee considered Report Nos 19/13 and 23/13, by the Director of Finance and PKF respectively, that dealt with the results of the annual testing of the Housing Benefit Subsidy Claim by Internal Audit on behalf of PKF. Following a discussion of the controls applied to benefit applications and the quality testing within the Revenues and Benefits Team it was requested that a further Report be presented to the Audit and Standards Committee. This Report was to detail the quality processes within Revenues and Benefits, including the frequency and type of checks, error rates detected and the progress of implementing the PKF recommendations.

Quality assurance checks on the processing of benefit applications had been introduced in 2001 as part of government initiatives to reduce the number of fraudulent benefit claims, including the Verification Framework (VF). Quality checks were introduced to confirm the correct processing of minimum evidence. The VF was abolished in 2006, but the minimum evidence standards and quality checks had been retained as controls over the processing of applications.

The Principal Audit Manager explained that quality checks were carried out daily using a two part checklist. Part one covered checks on the assessment of new applications and part two checked the assessment of changes of circumstances. Part one contained 22 separate checks requiring Yes/No answers and part two contained 5 checks, also requiring Yes/No answers. A list of examples was shown at section 7 of the Report. The Principal Audit Manager informed the Committee that for both parts of the checklist, the recording of a 'No' answer meant the accuracy issue must be recorded and returned to the original assessor for remedial action.

The Principal Audit Manager explained that quality checks were carried out by staff in the Revenues Support Group. The volume of checks varied according to circumstances, as shown in sections 9 to 11 of the Report. He informed the Committee that since their introduction the volume of quality checks at the Council had exceeded the target of 10% set by the Benefit Fraud Inspectorate (BFI), often operating at between 15 – 20% of new and amended claims. If errors were noted in an assessors' processing of applications, the assessor received specific guidance on the issue and the

checks on the assessor increased. There was also group training in response to legislative changes and also covering specific issues arising from quality checks.

The Principal Audit Manager drew the Committee's attention to Appendix 1 of the Report which showed the results of quality assurance checks for the period April 2012 to January 2013. The key results to note were:

- The volume of checks was always in excess of the 10% target set by the BFI.
- The high levels of checks (in excess of 20%) in April, May, July and September 2012 reflected management assessment of risk.
- There had been gradual improvement in error rates over the period, with errors below 4% since October 2012.

The Committee heard that PKF had signed off the 2010/11 subsidy claim in November 2011 without qualification, but because of errors in the handling of claimant income information in some claims PKF recommended a review of the effectiveness of quality assurance. When the 2011/12 subsidy claim had been examined by PKF the re-occurrence of errors in the handling of claimant income information justified a qualification of the 2011/12 claim. It was this qualification and two further recommendations to review checking processes that had been presented to the Audit and Standards Committee in January 2013.

The Principal Audit Manager explained that Internal Audit was of the opinion that the Head of Revenues and Benefits had responded effectively to the PKF recommendation of December 2011 with changes to quality checks and a greater focus on claimant income. He explained that it was too soon to make any further procedural changes as a result of the January 2013 recommendation.

Mr Frith, PKF, explained that an error had been found in a sample and it had not been possible to determine the extent of the error in the population as a whole. With the risk of potentially more errors of the same type in the population PKF were unable to give an unqualified opinion on that aspect of the claim.

The Committee thanked the Principal Audit Manager and the Head of Revenues and Benefits for producing the Report.

Resolved:

- 40.1** That Report No 51/13 be noted;
- 40.2** That the satisfactory response of the Head of Revenues and Benefits to the PKF recommendation of December 2011, as shown in paragraphs 13 and 15 of Report No 51/13, be noted; and
- 40.3** That the current levels of quality checks in excess of the 10% target and the improvement in error rates, as shown in paragraph 16 and

Appendix 1 of Report No 51/13, be noted.

41 Treasury Management

The Committee considered Report No 52/13 which presented details of recent Treasury Management activity between 1 January 2013 and 28 February 2013.

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 Principal Audit Manager highlighted the following points contained within the Report:

- The table at paragraph 2.4 showed the fixed term deposits that had matured since 1 January 2013, in maturity date order.
- The table at paragraph 2.5 showed the use of deposit accounts during the period covered in the Report. The Principal Audit Manager explained that on 31 January 2013 the Treasury Strategy limit of £1,000,000 for amounts held with the Co-op had been exceeded. This was corrected as part of the next day's activity. This was shown in the table at paragraph 2.4 under references 209912 and 211212.

The Principal Audit Manager informed the Committee that the Council had purchased its second Treasury Bill (T-Bill) on the 18 February 2013. It was the Council's intention to hold both T-Bills until maturity.

Resolved:

41.1 That it be confirmed to Cabinet that Treasury Management activity between 1 January and 28 February 2013 had, with one exception corrected on the next day, been in accordance with the approved Treasury Strategy for that period; and

41.2 That Report No 52/13 be noted.

42 2012/2013 Audit Plan

The Committee considered Report No 53/13 which informed councillors of the work PKF proposed to undertake in respect of the audit of Lewes District Council's financial statements and to review its arrangements for securing value for money for the 2012/2013 financial year. The information and fees in the Audit Plan would be kept under review and any significant changes would be Reported to the Audit and Standards Committee.

Mr Frith, PKF, explained that there are some key risks that must be covered in all audits of financial statements, and these are the risk of management override of controls and the risk of fraud in revenue recognition. These are unlikely to be significant risks for the Council, but PKF must presume the existence of the risk and test accordingly. The risk assessments were set out in detail in section 3 of the Report.

Mr Frith explained to the Committee that the Council's financial resilience was relatively strong, and that whilst it was a challenging time for the public sector the Council was in a comparatively good situation.

Mr Frith informed the Committee that the Audit Fee, as set out in section 5 of the Report, was unchanged from that contained in the planning letter that had been before the Committee at its meeting on 28 January 2013. He explained that the fee reflected the effective cooperation with Internal Audit, and PKF's reliance on Internal Audit's work. He explained that, although limited, there was some scope to reduce the fee further, in addition to the 40% reduction already applied, through more timely responses to audit queries raised and improving the processes for preparing the Whole of Government Accounts consolidation pack and papers.

Resolved:

42.1 That the Audit Plan 2012/2013, as set out in Report No 53/13 be approved; and

42.2 That Report No 53/13 be noted.

43 Date of Next Meeting

Resolved:

43.1 That the next scheduled meeting of the Audit and Standards Committee to be held on Monday 24 June 2013 at 3.30pm in the Warren Room, Lewes House, 32 High Street, Lewes be noted.

All to note

The meeting ended at 5.28 pm

I Eiloart
Chair