



**Lewes District Council**

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## **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, 23 September 2013** at 3.30pm

### **Present:**

Councillor I Eiloart (Chair)

Councillors R E Allen, M P Chartier, P L Franklin, S J Gauntlett, J V Harris and C Sugarman

### **Officers Present:**

B Bird, Temporary Principal Accountant (Projects)

Z Downton, Committee Officer

D Heath, Head of Audit and Performance

S Jump, Head of Finance

### **Also Present:**

R Bint, BDO

S Frith, BDO

## **Minutes**

## **Action**

### **12 Committee Membership**

It was noted that Councillor E C Merry had been appointed as a member of the Audit and Standards Committee for the remainder of 2013/2014. The Committee now had a full membership of 7 councillors.

### **13 Minutes**

The Minutes of the meeting held on 24 June 2013 were approved as a correct record and signed by the Chair.

### **14 Apologies for Absence/Declarations of Substitute Councillors**

Councillor Allen declared that he was substituting for Councillor E C Merry who had sent an apology for absence. Councillor Franklin declared that he was substituting for Councillor E E J Russell who had sent an apology for absence.

### **15 Urgent Items**

The Chair advised that he had agreed, in accordance with Section 100B(4)(b) of the Local Government Act 1972, that Report No 149/13 entitled "Annual Financial Report 2012/2013" (Agenda Item 13 refers) and

Report No 150/13 entitled “BDO’s Draft Report to the Audit and Standards Committee” (Agenda Item 14 refers), be considered as matters of urgency in order that the Committee could take its decisions based on the most recent information which was available.

## **16 Annual Report on the work of the Audit and Standards Committee 2012/13**

The Committee considered Report No 143/13 which presented to councillors the work of the Audit and Standards Committee for the year 2012/13.

The Chair highlighted the change in nature of the committee, set out under paragraph 1 of the Report, that in 2012 the Audit Committee was merged with the Standards Committee. As such, the Report covered the work of the last meeting of the Audit Committee in June 2012 and the four meetings of the Audit and Standards Committee held in 2012/2013. It was noted that the Committee had received no standards related matters to date.

Paragraph 18 of the Report detailed the Committee’s endorsement on the conclusions on the effectiveness of Internal Audit, in that the service had achieved its aim, objectives and expected outcome, had operated in accordance with the Internal Audit strategy that had been approved by the Committee and had met with best practice standards, including compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice.

Paragraphs 19 and 20 of the Report set out the Committee’s endorsement of the opinion of the Head of Audit and Performance that the Council’s overall standards of internal control were satisfactory. That opinion was based on the work of Internal Audit, other internal reviews and external assurance bodies, and the Council’s work on risk management. The risk management process had identified that most risks were mitigated by the effective operation of controls or other measures.

### Resolved:

- 16.1** That Report No 143/13, be noted;
- 16.2** That the conclusion on the effectiveness of Internal Audit at Lewes District Council, as set out in paragraph 18 of Report No 143/13, be endorsed;
- 16.3** That the opinion on the Council’s internal control, environment and risk management arrangements, as set out in paragraphs 19 and 20 of Report No 143/13, be endorsed;
- 16.4** That the Audit and Standards Committee should review its terms of reference during 2013/14 and present a report to the Council’s Constitution Working Party accordingly; and
- 16.5** That the Audit and Standards Committee should review CIPFA’s “Audit Committees – Practical Guidance for Local Authorities (ii)”, as

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part of its training programme.

## **17 Interim Report on the Council's Systems of Internal Control 2013/14**

The Committee received Report No 144/13 relating to the Internal Audit work of the Audit and Performance Division for the first five months of 2013/14 and on the adequacy and effectiveness of the Council's systems of internal control.

The Internal Audit function at the Council operated in accordance with the common set of Public Sector Internal Audit Standards (PSIAS) that applied from 1 April 2013.

The Head of Audit and Performance highlighted table 1, under paragraph 4.2 of the Report, which showed that a total of 322 audit days had been undertaken compared to 321 planned. He advised that the variance of 1 day was not significant at that stage, and it was estimated that the audit days would be close to plan by the year end.

Paragraphs 4.3 to 4.12 summarised the main functional areas reviewed and the key audits undertaken during 2013/14 to date. In response to a councillor's question relating to the audit of Housing Management, under paragraph 4.5, the Head of Audit and Performance advised that the draft report was expected to be completed in the next few weeks and by the next meeting of the Committee in December 2013.

The annual report on risk management, presented to Cabinet at its meeting in July 2013 and which confirmed the strategic risks faced by the Council, was shown under Appendix A of the Report.

### Resolved:

- 17.1** That it be noted that the overall standards of internal control during the first five months of 2013/14, as shown in Section 3 of the Interim Report No 144/13, were satisfactory.

## **18 Internal Audit Performance Indicators (PIs)**

The Committee considered Report No 145/13 which informed councillors of the results of research undertaken into performance indicators (PIs) for internal audit departments, and which included proposals for a revised set of indicators for Internal Audit at the Council.

The Head of Audit and Performance highlighted that he had previously advised the Audit and Standards Committee that he would explore possible alternative or additional PIs that would extend the range of performance data available to the Committee and give greater insight into activities and how Internal Audit was managing its time.

The Internal Audit Section at the Council was a member of the Sussex Audit Group (SAG). The Head of Audit and Performance explained that he felt it would be useful to provide more PIs, in conjunction with SAG's annual benchmarking exercise which compared internal audit performance across

a range of PIs and other measures.

The proposed PIs for Internal Audit at the Council for 2013/14 were set out under Appendix A of the Report. In response to a query by the Committee regarding the necessity for PI Nos 6, 11 and 12, the Head of Audit and Performance explained that those PIs provided essential figures for Internal Audit on how time and workload was apportioned across different areas.

Resolved:

- 18.1** That the results from the research into performance indicators currently applied to public and private sector organisations, as shown under Section 2 of Report No 145/13, be noted;
- 18.2** That the proposed set of performance indicators for Internal Audit at Lewes District Council, noting that the proposed indicators combine some of the previous set of indicators at the Council and selected items from the benchmarking exercise with other internal audit departments at local authorities in Sussex, as set out in Section 3 and Appendix 3 of Report No 145/13, be approved; and
- 18.3** That the continuation of two separate performance reports being presented to the Audit and Standards Committee, as set out in Section 4 of Report No 145/13, be approved.

**19 Annual Report on the Council's work to combat Fraud and Corruption 2012/13**

The Committee received Report No 146/13 which informed councillors of the adequacy and effectiveness of the Council's systems to combat fraud and corruption during 2012/13.

The Head of Audit and Performance highlighted that the Council had established a framework of appropriate strategies and policies in order to maintain a strong anti-fraud and corruption culture, as detailed under paragraph 3.1 of the Report. Internal Audit assessed the risk of fraud and corruption every year as part of its annual and strategic planning processes covering the Council's key systems and the Benefit Fraud Investigation Team undertook pro-active, anti-fraud work to combat benefits fraud.

The Head of Audit and Performance advised the Committee that issues of fraud arose primarily in Housing Benefit. Except for those cases relating to benefits, as outlined under paragraph 6.2 of the Report, there were no reported instances of fraud or corruption at the Council during the year. The Committee commented that it would be useful to have year-on-year figures over the last 10 years to gain a better overview of reported cases of fraud and corruption. The Head of Audit and Performance responded that he would include a graph to show this information where available, when the Report was next presented to the Committee.

In response to queries relating to the work of the Council's Benefit Fraud Investigation Team during 2012/13, as detailed under paragraph 6.2, the Head of Audit and Performance explained that the 28 cases of proven Housing Benefit and Council Tax Benefit fraud during the year was a very

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small number in the context of the overall number of claimants.

Resolved:

- 19.1** That Report No 146/13, and the measures that are in place to prevent fraud and corruption, as set out in Section 3, be noted;
- 19.2** That the measures to report and investigate suspected cases of fraud and corruption, as set out in Section 4 of Report No 146/13, be noted;
- 19.3** That the absence of fraud and corruption at the Council, except for those cases of benefits fraud identified and actioned by the Fraud Investigation Team within Revenues and Benefits, as set out in Section 6 of Report No 146/13, be noted; and
- 19.4** That the Council's zero tolerance to fraud and corruption be reaffirmed.

## **20 Annual Governance Statement 2013**

The Committee considered Report No 147/13 which presented the draft Annual Governance Statement 2013, as set out at Appendix A of the Report.

The Head of Audit and Performance explained that the Chartered Institute of Public Finance and Accountancy/Society of Local Authority Chief Executives (CIPFA/SOLACE) in their report, 'Delivering Good Governance in Local Government (2007)', issued guidance on the form and content of the Annual Governance Statement (AGS). That guidance had been followed in compiling the Council's AGS.

Section 3 of the Report set out the CIPFA/SOLACE framework which defined the form and content of the AGS. The information required included:

- Scope of responsibility;
- The purpose of the governance framework;
- The governance framework;
- The review of effectiveness; and
- Significant governance issues.

The Head of Audit and Performance explained that most of the content of AGS had been presented to the Committee throughout the year as part of the regular reports on the work of Internal Audit, and the annual report on the systems of internal control which included an opinion on the internal control environment.

The local Code of Corporate Governance was reviewed annually by the Head of Audit and Performance and senior officers. The review for 2012/13 concluded that the Council continued to have satisfactory arrangements in

place for corporate governance, as reported at the June 2013 meeting of the Audit and Standards Committee.

The Committee felt that it should be made clearer that there had been no reported cases of a District Councillor being found in breach of the Council's Code of Conduct and that the wording within the AGS should be amended suitably.

Resolved:

**20.1** That paragraph 5, on page 6 of the draft Annual Governance Statement 2013, as set out at Appendix A of Report No 147/13, be amended to include the text in bold to read as follows;

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(a) 'There have been no cases where the Audit and Standards Committee has found a District Councillor to be in breach of the Council's Code of Conduct **and no cases have been reported.**'; and

**20.2** That, subject to Resolution 20.1 above, the draft Annual Governance Statement 2013, as set out at Appendix A of Report No 147/13, be approved;

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## **21 Treasury Management**

The Committee considered Report No 148/13 which set out 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, showed the fixed term deposits held at 31 August 2013 (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, the table showed the fixed term deposits which had matured since 1 June 2013, in maturity date order.
- The Council's use of deposit accounts was set out in paragraph 2.5. The average amount held during the reporting period being £3,680,435 generating interest of approximately £4,426.
- As set out under paragraph 2.8, the Council was expecting to receive a fourth distribution from the Landsbanki Islands hf (LBI) winding-up board. The expected value (following conversion of € and \$ amounts into £) was approximately £52,000, which would bring the total amount received to date to approximately £552,000.

- During the reporting period, the Council had an average overdrawn balance of £0.213m with the Co-operative Bank.

In response to a councillor's question, the Head of Finance explained that money was not held in the Co-operative Bank's overnight account, or funds placed with the bank for periods of time in order to minimise risk levels. This was in line with advice received from the Council's appointed Treasury Adviser, Arlingclose. It was noted that Arlingclose would be continuing their series of local briefing sessions on 26 September 2013, to which all councillors were invited.

There followed a discussion on the associated risk levels of continued banking with the Co-operative Bank. The possibility of the Council switching banks after the current 3 year contract with the Co-operative Bank ended in 2015 and the processes that would need to be undertaken were also discussed. The Head of Finance explained that changing the Council's bank was a lengthy process which involved a tendering process. He explained further that in 2012, when the process was last undertaken, two banks had expressed interest in the Council's business. The Committee felt that it would be of interest to receive more detailed information to aid further discussion on the matter.

Resolved:

- 21.1** That the Head of Finance be requested to collate the following information in relation to the Council's daily holdings with the Co-operative Bank and the prospect for the Council to switch banks after its current contract with the Co-operative Bank expires:
- (a) Details of previous tenders from interested banks in 2012;
  - (b) Details of any A+ (or better) rated lending institutions;
  - (c) A chart illustrating the typical daily profile of the Council's holdings with the Co-operative Bank, monitored over the period of one week;
- and to report back to a future meeting of the Audit and Standards Committee;
- 21.2** That it be confirmed to Cabinet that Treasury Management activity between 1 June 2013 and 31 August 2013 had been in accordance with the approved Treasury Strategy for that period; and
- 21.3** That Report No 148/13 be noted.

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## **22 Annual Financial Report 2012/2013**

The Committee considered Report No 149/13 which presented the Annual Financial Report 2012/2013 for approval, following the audit of the Statement of Accounts.

The Account and Audit Regulations 2011 required that the Director of Finance and councillors certified and approved an audited set of accounts

for publication by no later than 30 September each year.

The Chair of the Committee explained that he would have preferred to receive the urgent items, as detailed in Minute 15 above, at the same time as the other reports on the agenda and for amendments to be presented at the meeting, in order for members of the Committee to have time to fully prepare for the meeting. The Head of Finance responded that he would take on board those comments for next year. The Chair also questioned the accuracy of the wording on the covering letter which accompanied the urgent items and this was noted by the Committee Officer for the future.

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The Head of Finance took councillors through the Report. He explained that, as reported at the meeting of the Committee on 24 June 2013, the Director of Finance would approve a draft Annual Financial Report by 30 June 2013 and present it to the Council's external auditors (BDO) for audit. That had taken place and BDO had commenced their audit at the beginning of July 2013.

As explained under paragraph 2.6 of the Report, BDO's report set out in detail the results of their accounts audit work. In some cases (particularly in respect of the accounting treatment of Housing Revenue Account improvements, and the acquisition of and work to The Crest, Newhaven) BDO considered that the information provided within the draft accounting statements and accompanying notes departed from the expected accounting practice and presentation. Although those departures had no impact on the Council's overall financial performance during the year, or its useable reserves and balances, this had led to further complexities which delayed the availability of the Annual Financial Report 2012/2013 prior to the meeting.

An overview of the Annual Financial Report 2012/2013 was set out at Appendix 1 and the Audited Annual Financial Report 2012/2013 was shown under Appendix 2.

Resolved:

**22.1** That the Annual Financial Report 2012/2013, incorporating the Statement of Accounts, with the Chair of the Audit and Standards Committee having signed them on behalf of the Committee, be approved; and

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**22.2** That Report No 149/13 be noted.

**23 BDO's Draft Report to the Audit and Standards Committee**

The Committee considered Report No 150/13 which set out the significant findings from BDO's audit of the financial statements of the Council for the year ended 31 March 2013.

Mr Frith, BDO, expressed his apologies for the delay in the availability of the Report prior to the meeting, but explained that the amendments which had arisen from their audit work were significant and material. He also stated that he would pass comments back to colleagues regarding the formatting



of the Report, which had resulted in poor reading and printing quality.

Mr Frith highlighted key points from the Report, as follows:

- BDO's satisfactory conclusions on the two significant risk areas were detailed on page 5.
- BDO reported no concerns in relation to the five areas of material accounting estimates identified as having high estimation uncertainty or which were subject to a significant degree of judgement by management, as set out on pages 6-8.
- Under the 'Misstatements' section on page 8, BDO reported that it had identified a number of departures from the expected presentation of the financial statements, or where notes and other disclosures had not been presented in accordance with the Code and requested management correct these in order to achieve compliance. Council officers had subsequently spent a significant amount of time in re-accounting the financial statement.
- BDO proposed issuing an unqualified value for money conclusion, as detailed on page 15.
- BDO were required to bring to the Council's attention the unadjusted audit differences, as shown under Appendix II on page 18.
- The Draft Representation Letter, required to be signed by the Director of Finance and the Chair of the Audit and Standards Committee was set out under Appendix VIII on page 24. Mr Frith would arrange directly with the Director of Finance and the Chair of the Committee for an appropriate time to gain those signatures.

The Chair thanked officers, BDO representatives and members for attending the meeting.

Resolved:

**23.1** That Report No 150/13 be noted.

**24 Date of Next Meeting**

Resolved:

**24.1** That the next scheduled meeting of the Audit and Standards Committee to be held on Monday 2 December 2013 at 3.30pm in the Telscombe Room, Southover House, Southover Road, Lewes be noted.

**All to  
note**

The meeting ended at 5.15pm

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Chair