

Audit and Standards Committee

Minutes of a meeting of the **Audit and Standards Committee** held in the **Telscombe Room, Southover House, Southover Road, Lewes** on **Monday, 27 January 2014** at 3.30pm

Present:

Councillor I Eiloart (Chair)
 Councillors M P Chartier, S J Gauntlett (Minutes 35 – 39), E C Merry and E E J Russell

Officers Present:

Z Downton, Committee Officer
 D Heath, Head of Audit and Performance
 S Jump, Head of Finance

Minutes

32 Minutes

The Minutes of the meeting held on 2 December 2013 were approved as a correct record and signed by the Chair.

33 Apologies for Absence/Declarations of Substitute Councillors

An apology for absence had been received from Councillor J V Harris.

34 Remit of Audit and Standards Committee

The Committee noted the changes to its Remit which had been agreed at a meeting of Full Council on 4 December 2013.

35 Interim Report on the Council's Systems of Internal Control 2013/2014

The Committee received Report No 22/14 relating to the Internal Audit work of the Audit and Performance department, on the adequacy and effectiveness of the Council's systems of internal control during the first nine months of 2013/2014 and to summarise the work on which that opinion was based.

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's satisfactory opinion on the overall standards of internal control was based on the work of Internal Audit and the Council's external auditors, BDO, and the Council's work on risk

Action

management. In the nine months since the start of the financial year there had been nothing to cause that opinion to change and there had been no instances in which internal control issues had created significant risks for Council activities or services.

Section 4 of the Report summarised the work undertaken by Internal Audit during the reporting period. The Head of Audit and Performance highlighted table 1, under paragraph 4.2, which showed that a total of 561 audit days had been undertaken compared to 582 planned. He advised that the variance of 21 days was largely because of time spent by a team member in supporting the team's move to the Council's new IT systems. He explained that it was unlikely that the audit days would be close to plan by the year end due to a part time member of the Internal Audit team who had taken voluntary severance and would not be replaced.

Paragraph 4.20 detailed a recent case of attempted fraud against the Council. In November 2013, the Council's Payments Team had received a written request to change the bank account details for one of the Council's key suppliers. The requested change was confirmed by the supplier as invalid and no payments were made to the bogus account. The Head of Audit and Performance explained that good control systems and the experience of staff had prevented the fraud from happening and he thanked the Head of Finance and his team for their vigilance.

Appendix A of the Report set out a statement of Internal Audit work and key issues, specifically relating to the audit reports on EMAS (Eco-Management and Audit Scheme): Management and Coordination, EMAS: Pollution Prevention and Control (PPC), and Housing Management.

In response to queries from the Committee concerning the staffing change within the Internal Audit team, the Head of Audit and Performance explained that the impact would be relatively low as the member of staff's main area of work had been the EMAS audit which would not be continued with as planned, as decisions were to be made on the corporate environmental management structure as part of the current exercise to restructure the Council to establish a customer focused organisation. He explained further that the approach to auditing within the Strategic Audit Plan would reflect the organisational restructure.

Resolved:

35.1 That it be noted that the overall standards of internal control during the first nine months of 2013/14, as shown in Section 3 of the Interim Report No 22/14, were satisfactory.

36 Joint Audit Arrangements between Lewes District Council and BDO 2013/14 to 2014/15

The Committee considered Report No 23/14 which presented the draft revised protocol that set out the joint audit arrangements between Lewes District Council and BDO, the Council's external auditor.

The reasons for the need to update the original protocol were set out under section 4 of the Report. A key development, highlighted by the Head of

Audit and Performance, was revisions to the international standards on (external) auditing issued by the Financial Reporting Council in 2013, which required the relationship between internal and external audit to fully reflect the independence of internal audit, and which had been indicated within the protocol.

The Head of Audit and Performance brought to the councillors' attention new elements to the protocol, such as references to Public Sector Internal Audit Standards under sections 2.4 – 2.7, and work on the review of fraud and corruption under section 2.10.

The Committee noted that the updated protocol, as shown under Appendix 1, had been agreed by BDO.

The Committee suggested that the wording of the third bullet point, under section 4.2 of the protocol headed 'Effectiveness Testing', relating to a minimum sample could be re-phrased. The Committee suggested that it would be helpful to define the parameters such as 'a sample of 20% with a minimum of 4 and a maximum of 20'. The Head of Audit and Performance confirmed that he would make amendments to that particular bullet point, with consideration to the suggested wording.

HAP

Resolved:

36.1 That, subject to amendment of the text under section 4.2 (Effectiveness Testing) on page 28, the draft revised protocol between Lewes District Council and BDO, the Council's external auditor, as set out in Appendix 1 of Report No 23/14 be approved; and

HAP

36.2 That Report No 23/14 be noted.

37 Treasury Management

The Committee considered Report No 24/14 which presented details of recent Treasury Management activity between 1 November 2013 and 31 December 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 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 December 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 set out the fixed term deposits that had matured during the reporting period, in maturity date order. At no stage did the total amount held by any counterparty exceed the

approved limit as set out in the Council's Investment Strategy.

- The Council had made use of deposit accounts between 1 November 2013 and 31 December 2013, as shown under paragraph 2.5, with the average amount held being £4,363,500 generating interest of approximately £2,600. It was noted that the average amount held in the Co-operative Bank deposit account was skewed by a balance of £274,000 overnight on 30 December 2013 during the Christmas office closure period.
- An update on the reclaim of funds held with the Landsbanki Islands hf (LBI) bank was detailed under paragraph 2.8. The total amount received to date from the LBI winding-up board was approximately £552,000.
- There had been no change to the Council's long term borrowing in the reporting period, which remained at £56.673m, as stated under paragraph 2.10. The Council had an average overdrawn balance of £0.198m on its Co-operative Bank current account during the reporting period.

Resolved:

37.1 That it be confirmed to Cabinet that Treasury Management activity between 1 November 2013 and 31 December 2013 had been in accordance with the approved Treasury Strategy for that period; and

DF

37.2 That Report No 24/14 be noted.

38 Annual Treasury Management Strategy Statement and Investment Strategy 2014/2015 to 2016/2017

The Committee considered Report No 25/14 which presented the draft Treasury Management Strategy Statement and Investment Strategy 2014/2015 to 2016/2017.

In accordance with CIPFA's (Chartered Institute of Public Finance and Accountancy) Code of Practice, the Cabinet approved an updated Annual Treasury Strategy Statement before the start of each financial year, which included an Investment Strategy for the year ahead. It was appropriate for the Audit and Standards 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 draft Strategy Statement was set out at Appendix 1. The Committee's attention was drawn to three changes in the approach to borrowing or investments compared with the current Strategy, as detailed under paragraph 2.1 of the Report.

The Committee endorsed the first change relating to the inclusion of potential counterparties of Registered Providers of Social Housing (with a minimum long term rating A). In response to the other changes, the Committee discussed the potential risk of investing in MMFs (Money Market

Funds) if the European Union (EU) proposals, which would in all probability result in the withdrawal of the AAA credit rating status, were implemented. The Committee then questioned whether it was advisable at this point to increase the maximum amount able to be held in MMFs when it was not known if, or when, the EU proposals would come into force. The Committee agreed that, on the assumption the proposals were adopted and in the consequent absence of the credit ratings which currently aided the appraisal of MMFs as a suitable category of investment, further consideration should then be given to the security of placing funds in MMFs.

The Audit and Standards Committee Recommended that the following comment should be drawn to the attention of Cabinet:

- 38.1** That the maximum amount able to be held in a Money Market Fund (MMF) should remain at £1m until such time as the proposed EU regulatory reforms to MMFs have come into effect, at which point the Council could determine with more certainty the appropriate amount to be held in such funds.

DF/HF

The Audit and Standards Committee Resolved:

- 38.2** That the draft Treasury Management Statement and Investment Strategy 2014/2015 to 2016/2017 be noted; and

- 38.3** That Report No 25/14 be noted.

39 Date of Next Meeting

Resolved:

- 39.1** That the next scheduled meeting of the Audit and Standards Committee to be held on Monday 17 March 2014 at 3.30pm in the Telscombe Room, Southover House, Southover Road, Lewes be noted.

All to note

The meeting ended at 4.40pm.

I Eiloart
Chair