

## 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, 23 June 2014** at 3.30pm

### **Present:**

Councillor S J Gauntlett (Chair on election)  
Councillors R E Allen, P F Gardiner, J V Harris, I A Nicholson, E E J Russell and C Sugarman

### **Officers Present:**

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

### **Also Present:**

S Frith, BDO

Minutes		Action
<b>1</b>	<b>Election of Chair</b>  <u>Resolved:</u>  <b>1.1</b> That Councillor Gauntlett be elected as Chair of the Committee for the duration of this meeting.	
<b>2</b>	<b>Committee Membership 2014/2015</b>  <u>Resolved:</u>  <b>2.1</b> That Councillor I A Nicholson has replaced Councillor E C Merry on the Audit and Standards Committee membership for the municipal year 2014/2015 be noted.	
<b>3</b>	<b>Minutes</b>  The Minutes of the meeting held on 17 March 2014 were approved as a correct record and signed by the Chair.	
<b>4</b>	<b>Apologies for Absence/Declarations of Substitute Councillors</b>  Councillor Gardiner declared that he was substituting for Councillor I Eiloart who had sent an apology for absence.  Councillor Allen declared that he was substituting for Councillor M P	

Chartier who had sent an apology for absence.

## 5 Urgent Item

The Chair advised that it had been agreed, in accordance with Section 100B(4)(b) of the Local Government Act 1972, that Report No 88/14 entitled '2013/2014 Audit Plan' be considered as a matter of urgency in order that the Committee could take its decisions based on the most up to date information.

## 6 Annual Report on the Council's Systems of Internal Control 2013/14

The Committee considered Report No 83/14 relating to the adequacy and effectiveness of the Council's systems of internal control for 2013/14.

The Head of Audit and Performance explained that the satisfactory opinion on the overall standards of Internal Audit, as set out in Section 3 of the Report, was based on the work of Internal Audit, other internal reviews and external assurance bodies, and the Council's work on risk management. Whilst recommendations have been made to improve procedures and controls in some areas, there were no instances in which internal control problems created significant risks for Council activities or services. The Report outlined the work on which that opinion was based, including high level summaries of the external review processes and their results.

In response to a councillor's question, the Head of Audit and Performance clarified, under paragraph 5.3 of the Report, that he had gained assurance from the Council's senior officers, including the Head of Finance, that there had been no adverse effect on the internal control environment resulting from the Council's phased programme of savings in response to the Government's national deficit reduction plan. In response to a suggestion from the Committee, he added that he would make it clearer who he had obtained assurances from when reporting in the future.

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The Committee questioned why the figure for the Housing and Council Tax Benefit Subsidy claim differed from £41million, under paragraph 8.2 of the Report, to £43.15million, under paragraph 8.3. Mr Frith, BDO, confirmed that due to the timing of their reports, it appeared that the figures used had been taken from BDO reports from two reporting years, namely 2011/2012 and 2012/2013, hence the difference. It was noted that the £43.15million figure, under paragraph 8.2, was the accurate value.

### Resolved:

- 6.1 That the Annual Report by the Head of Audit and Performance, as set out in Report No 83/14, be noted;
- 6.2 That it be noted that the overall standards of internal control were satisfactory during 2013/14, as shown in Section 3 of Report No 83/14;
- 6.3 That it be noted that the satisfactory opinion on internal control be taken forward into the Council's Annual Governance Statement 2013/14 that is to be published with the Statement of Accounts

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2013/14 and presented to the September 2014 meeting of the Audit and Standards Committee; and

- 6.4** That the overall standards of the Council's systems of internal control be reported to the Cabinet.

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**7 Annual Report on Internal Audit Performance and Effectiveness 2013/14**

The Committee received Report No 84/14 relating to the Internal Audit work of the Audit and Performance Division for 2013/14 and the outcome of the review of the effectiveness of Internal Audit for 2013/14.

The remit of the Committee included a duty to consider the annual report by the Head of Audit and Performance, and to keep the work of Internal Audit under review to ensure that it was able to discharge its functions effectively.

The Head of Audit and Performance reminded the Committee that the Internal Audit function at the Council had previously operated in accordance with the Code of Practice for Internal Audit published by the Chartered Institute of Public Finance and Accountancy (CIPFA). CIPFA had, with the other governing bodies that set auditing standards for the various parts of the public sector, adopted a common set of Public Sector Internal Audit Standards (PSIAS) that had applied from 1 April 2013.

The work carried out by Internal Audit during 2013/14 was outlined under Section 4 of the Report. The audit coverage had been sufficient to enable the Head of Audit and Performance to issue an unqualified opinion on the overall adequacy and effectiveness of the Council's control environment. That opinion was included in the Annual Report on the Council's Systems of Internal Control 2013/14 that was presently separately to the June 2014 meeting of the Committee.

The Head of Audit and Performance explained that the table under paragraph 4.4, set out the planned audit days compared to actual audit days undertaken for 2013/14. Paragraphs 4.7 to 4.24 of the Report summarised the main functional areas reviewed in 2013/14 and the key audits that had been undertaken and completed.

Section 5 of the Report set out the aims, objectives and strategy of the Internal Audit service. The Local Government Application Note (LGAN) issued by CIPFA required that the Internal Audit service was periodically reviewed against its aims, strategy and objectives. The Head of Audit and Performance had carried out the review and the results of which demonstrated that the Internal Audit service achieved its aims, objectives and expected outcome, and operated in accordance with the Internal Audit Strategy as approved by the Audit and Standards Committee at its meeting in March 2013.

Section 7 of the Report set out the main elements of the Quality Assurance and Improvement Programme (QAIP) that covered all aspects of Internal Audit activity and which included periodic assessments of quality, performance and conformance with the PSIAS. The Head of Audit and Performance explained that, in terms of external assessment which must be

conducted at least every 5 years by a qualified, independent assessor (or assessment team), he had, as Chair of the Sussex Audit Group, been in discussions with the Group and it was likely that the most economic arrangements would involve the internal audit services in Sussex authorities in a shared assessment process.

Paragraphs 7.8 and 7.9 detailed the PSIAS requirement that the internal assessment be carried out by people external to internal audit but with a sufficient knowledge of internal audit practices, including knowledge of the PSIAS, the LGAN and/or Institute of Internal Auditors practice guidance. It was noted that the Principal Audit Manager currently undertook the assessment as he had the necessary experience and was the best qualified person within the organisation. In response to a councillor's question and following a discussion by the Committee regarding this arrangement in terms of best practice, the Head of Audit and Performance explained that it would, as part of the external assessment process, be brought to the attention of the external assessor who would review whether it was appropriate for the Principal Audit Manager to continue in the internal assessor role.

The Performance Indicator (PI) results for the financial years 2012/13, 2013/14 and the targets for 2014/15 were set out under Appendix A of the Report. The results for 2013/14 showed that the Internal Audit performance was at target or better than target in 10 out of the 17 PIs. The Head of Audit and Performance highlighted that Internal Audit had carried out more audits than planned during 2013/14, as detailed under Item 9 of the Appendix. He also brought to the councillors' attention that the percentage of draft reports issued within 15 days of the end of the audit was 100%, not 81% as listed under Item 13. He also updated councillors on BDO, the Council's external auditor's best estimate for the total external audit fee for 2014/15, under Item 15, which was now £74,190 instead of £70,520.

Resolved:

- 7.1** That the Internal Audit coverage in 2013/14 had been sufficient to enable the Head of Audit and Performance to issue an unqualified opinion on the overall adequacy and effectiveness of the Council's control environment, as set out in Section 3.1 of Report No 84/14, be noted; and
- 7.2** That the satisfactory outcome of the review of the effectiveness of Internal Audit for 2013/14, as set out in Section 3.3 of Report No 84/14, be noted.

## **8 Interim Report on the Council's Systems of Internal Control 2014/2015**

The Committee received Report No 85/14 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 two months of 2014/2015 and which summarised 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 management. In the two 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, compared to the annual plan that was agreed by the Audit and Standards Committee in March 2014. The Head of Audit and Performance highlighted table 1, under paragraph 4.2, which showed that a total of 106 audit days had been undertaken compared to 102 planned. He advised that the variance of 4 days was not significant at that stage, and it was estimated that the audit days would be at or close to plan by the year end.

Appendix A of the Report set out a statement of Internal Audit work and key issues, specifically relating to two audit reports on Cemeteries and Ethics.

In response to a councillor's question, the Head of Audit and Performance explained that although there were no planned audit days in the Environmental Audit Area for 2014/2015, he acknowledged that there would still be environmental audit issues within the Council. However, he explained further that the environmental function was as yet undefined due to the departmental changes within the Council as part of the organisational restructure and therefore, the level and detail of future environmental audit work was presently unknown.

Resolved:

- 8.1** That it be noted that the overall standards of internal control during the first two months of 2014/15, as shown in Section 3 of the Interim Report No 85/14, were satisfactory.

**9 Statement of Accounts 2013/2014**

The Committee received Report No 86/14 which provided assurance to the members that the Council's Statement of Accounts for 2013/2014 had been prepared in accordance with statutory requirements and recommended accounting practice.

The Council's Constitution enabled the Audit and Standards Committee to approve the Annual Statement of Accounts. The Accounts and Audit Regulations 2011 required the Director of Finance to certify annually by 30 June that the Statement of Accounts presented fairly the financial position of the Council, in advance of the external audit of those Accounts taking place.

The Head of Finance explained that members of the public had the right to inspect the Council's accounts and supporting documents, which would be

published on the Council's website and also available in hard copy. The period for public inspection would run from Monday 7 July 2014 to Friday 1 August 2014.

Resolved:

**9.1** That Report No 86/14 be noted.

## **10 Treasury Management**

The Committee considered Report No 87/14 which presented details of recent Treasury Management activity between 1 March 2014 and 31 May 2014 and also the Annual Treasury Management Report for 2013/2014.

The Council's approved Treasury Strategy Statement required the Audit and Standards 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 under paragraph 2.4 showed the fixed term deposits held at 31 May 2014 and identified the long-term and short-term credit rating of each counterparty at the date of investment. It was noted that credit ratings were only one of the criteria that was taken into account when determining whether a potential counterparty was suitable.
- In addition to the fixed term deposits, the Council had made use of deposit accounts in the period covered by the Report, as detailed under paragraph 2.6. The average amount held in those deposit accounts averaged £5,271,528 generating interest of approximately £5,300. It was noted that the Co-Operative Bank Deposit Account was not used by the Council on a daily basis.
- Details of the amounts held in the two Money Market Fund accounts used by the Council were shown under paragraph 2.7.
- The table set out in paragraph 2.8 showed the Treasury Bills (T-Bills) held at 31 May 2014 and activity during the reporting period. It was the Council's intention to hold T-Bills until maturity.
- The chart under paragraph 2.9 summarised the Council's investment position over the period 1 March 2014 to 31 May 2014.
- The table under paragraph 2 of the Annual Treasury Management Report 2013/2014, as set out under Appendix 1 of the Report, listed the key elements of the 2013/2014 Strategy and recorded actual performance against each of the requirements of the Strategy.

The Head of Finance brought to the Committee's attention that there were some updates to be noted within the Annual Treasury Management Report 2013/2014, as set out under Appendix 1 of the Report, since it had been

printed.

Resolved:

**10.1** That the following amendments to the Annual Treasury Management Report 2013/2014, as set out in Appendix 1 of Report No 87/14, listed below;

- i) That the financial year stated under paragraph 3.6 should read **2014/2015** instead of 2013/2014;
- ii) That the revised figure for '(c) Use of Balances and Reserves as alternative to borrowing (a)-(b)', as set out within the table under paragraph 3.6, should read **£15.207m** instead of £14.357m;
- iii) That the revised figure for '(d) Total Balances and Reserves', as set out within the table under paragraph 3.6, should read **£13.517m** instead of £15.967m;
- iv) That the revised figure for '(f) Amount used as an alternative to borrowing (c) above', as set out within the table under paragraph 3.6, should read **£15,207m** instead of £14,357m; and
- v) That the revised figure for '(g) Total investments (d)+(e)-(f)', as set out within the table under paragraph 3.6, should read **£3.712m** instead of £7,012m;

be noted;

**10.2** That it be confirmed to Cabinet that Treasury Management activity between 1 March 2014 and 31 May 2014 had been in accordance with the approved Treasury Strategies for that period;

**10.3** That the Annual Treasury Management Report for 2013/2014 be noted; and

**10.4** That Report No 87/14 be noted.

**11 2013/2014 Audit Plan**

The Committee received Report No 88/14 which presented BDO's (the Council's external auditor) Audit Plan for the year ending 31 March 2014. The Plan summarised the work that BDO proposed to undertake in respect of its audit of the Council for the 2013/14 financial year.

Mr Frith, BDO, firstly apologised to the Committee for the lateness in which the Report had reached members prior to the meeting. He then explained that the Report set out the key aspects and scope of the audit work, proposed fees and a timetable for delivery throughout the reporting period in terms of when the Committee could expect to receive key reports, opinions and conclusions from the audit work carried out by BDO.

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BDO's risk assessment was set out on page 5 of the Report. Mr Frith highlighted to the Committee that BDO had planned its audit work to address areas of risk relevant to its audit responsibilities and had reflected that in the audit fees. A summary of the significant risks identified by BDO as having an impact on its audit was set out on page 1 of the Report.

In response to a councillor's question, Mr Frith explained that in carrying out its audit work, BDO's reports to the Committee would include all matters that were considered neither material nor trivial.

The Committee thanked Mr Frith and commented that the Report was clear and concise.

Resolved:

**11.1** That Report No 88/14 be noted.

**12 Date of Next Meeting**

Resolved:

**12.1** That the next scheduled meeting of the Audit and Standards Committee to be held on Monday 22 September 2014 at 3.30pm in the Telscombe Room, Southover House, Southover Road, Lewes be noted.

**All to  
note**

The meeting ended at 4.45pm.

S J Gauntlett  
Chair