

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE  
HELD AT THE TOWN HALL, PETERBOROUGH ON 27 MARCH 2013**

Present: Councillors Lamb (Chairman), Arculus, Kreling, Maqbool, Murphy, Miners and Sandford

Officers in

Attendance: Steve Crabtree, Chief Internal Auditor  
Steven Pilsworth, Head of Corporate Services  
Diane Baker, Head of Governance  
Kevin Dawson, Group Manager Construction, Compliance and Resilience  
Karen S Dunleavy, Governance Officer  
Jaqui Dudley, PricewaterhouseCoopers  
Julian Rickett, PricewaterhouseCoopers

**1. Apologies for Absence**

Apologies for absence were received from Councillors Harper, Knowles, Fletcher and Lane.

**2. Minutes of the Meeting held on 4 February 2013**

The minutes of the meeting held on 4 February 2013, were approved as an accurate and true record.

**3. Declarations of Interest and Whipping Declarations**

There were no declarations of interest or whipping declarations.

**4. Risk Management: Strategic Risks**

The Group Manager Construction, Compliance and Resilience introduced a report on Risk Management, Business Continuity (BC) and the Strategic Risk Register (SRR). Members were also advised that the SRR had recently been approved by the Corporate Management Team (CMT) on 19 March 2013.

The key points within the report included:

- Completion of operational risk profile;
- Continuation of review and revision of Service and Corporate BC plans;
- Quarterly review of Strategic (corporate) Risk Register by CMT;
- Coordination of Strategic and Departmental Risk Registers;
- Regular risk “conversations” within and between services at all levels;
- Updates on Insite, web and E-Learning;
- Strategic issues such as the introduction and embedding of Risk Management and Business Continuity Management into procurement processes, induction briefings and business plans.
- The training delivered to Members at a recent All Party Policy meeting, which was aimed to assist Members understanding of the risk management process and expectations upon officers;
- Mid May risk management register approval;

- Risk one - growth agenda was reviewed at CMT and further measures were to be introduced in order to reduce the risk level and apply the necessary resources in order to monitor the progress;
- Risk six – Safeguarding – the recent Ofsted results had been included;
- Risk nine – Public Health had also been captured; and
- Risk ten – the Strategic Partnership arrangements was thought to be robust enough by Senior Officers

The Group Manager Construction, Compliance and Resilience and the Head of Corporate Services responded to comments and questions raised by Members regarding the SRR. In summary, the responses included:

- Although the Safeguarding SRR score of 15 had remained the same as the previous year, CMT had proposed a number of actions in order to reduce the risk level;
- CMT had focussed on introducing risk measures for the transfer of health services from the Primary Care Trust (PCT) to the Clinical Commissioning Group (CCG), in order to ensure that the loss of funding did not impact on the health needs of Peterborough. Progress was also to be monitored by the Health and Wellbeing Board ongoing;
- Strategic Partnerships risk had been included on the register in a more detailed way compared to the previous year's register, hence the reason for it being identified as a new risk;
- CMT was to monitor risks on a high level basis for contracts and projects and lower level detail would not be included within the SRR monitoring exercise;
- Any risk identified for income generation for growth projects would be included on the SRR and closely monitored by CMT as appropriate;
- Controls were set at a strategic level in order to monitor contracts;
- The Enterprise Peterborough contract had been discussed, in detail, at a recent Sustainable Growth and Environment Capital Scrutiny Committee. The service Directors and the Cabinet Advisor to the Deputy Leader was in attendance to answer questions and note actions in relation to any contract issues raised; and
- The Energy Park project would be included on the SRR under risk eight, Financial Provision, in line with the relevant financial year, in order to monitor the financial balances.

#### **ACTION AGREED:**

The Committee considered and noted the contents of the report.

#### **The Committee Further Agreed:**

That the Group Manager Construction, Compliance and Resilience and Head of Corporate Service would communicate to CMT, the Audit Committee's comments and concerns raised regarding whether the appropriate level of risk had been identified on the SRR for the following:

- Growth and income generation based projects;
- The lack of funding for health service provision through Peterborough City Hospital; and
- The Council's Medium Term Financial Strategy (MFTS) and whether the budget would balance in five years time.

## **5. Regulation of Investigatory Powers Act 2000 (RIPA) Annual Report to 31 December 2012**

The Head of Governance introduced a scheduled report on the Council's use of RIPA, which was in accordance with the established Work Programme 2012 / 2013.

Members were advised by the Head of Governance that one covert surveillance exercise had been conducted between 1 October and 31 December 2012. The surveillance had been conducted on a case of fly tipping. Members were also advised that the surveillance operation on the fly tipping case, had been abandoned as the exercise had become non covert.

### **ACTION AGREED:**

The Committee noted the report.

### **The Committee Further agreed:**

The Head of Governance would provide details of the final outcome for the fly tipping surveillance operation, which took place during 1 October and 31 December 2012.

## **6. External Audit: Report to Management**

PricewaterhouseCoopers (PwC) introduced the report which outlined matters identified during the interim and final audits of the 2011/12 accounts. The Committee was also advised that four new control issues were noted, all of which were medium priority. In addition, the Committee was advised that all of the issues highlighted through the external audits in prior years had been addressed.

PwC responded to questions and comments raised by Members. In summary, responses included:

The management response for payroll controls regarding improvements for document retention was to be validated by PwC as part of the 2012/13 external audit. PwC would review the processes in place and provide an update to the Committee as part of the 2012/13 reporting.

### **ACTION AGREED:**

The Audit Committee noted the content of the report and commented on issues identified within the various commissioned works.

## **7. External Audit: Audit Plan**

PricewaterhouseCoopers introduced a report on the External Audit Plan for 2012/13.

The following key points within the report included:

- Risk assessments for the year management controls;
- Key Risks - Financial Statement Specific Risks identified, which included:
  - Management override of Controls;
  - Revenue and expenditure recognition;
  - Property, plant and equipment valuation;
  - Property, plant and equipment – new fixed asset system;
  - Adult Social Care – new social care records system; and
  - Savings targets.

- The de minimis threshold of £250,000;
- Invest to Save governance arrangements;
- Risk of fraud;
- External audit fees; and
- The budget allocation for external audit fees which was to be agreed with the Audit Committee.

PricewaterhouseCoopers responded to comments, questions and concerns raised by Members. In summary, responses included:

- The fees charged by PwC were based on a scale fee that had been set by the Audit Commission's guidance and was lower for 2012/13, due to the recent national procurement exercise undertaken by the Audit Commission and changes in the recharge mechanism;
- The high risk identified for management override of control was raised across all audits and was necessary, for example, in order to closely monitor the appropriateness of accruals and deferral of expenditure processes. The process was overseen by Peterborough City Council's (PCC's) Finance Team, where managers were regularly challenged to justify any amounts identified;
- The Council had changed the accounting policy in line with the guidance on capitalisation of the financial costs. On adoption of the policy change, PCC had decided not to capitalise on any finance costs incurred;
- The audit approach on savings targets was intended to consider new and unusual proposals, which enabled PwC to consider the impact of income and expenditure against the PCC efficiency challenge. PCC would also engage with PwC if an initiative was likely to have complex accounting arrangements. Recent examples highlighted, where the audit approach was utilised were for the Local Authority Mortgage (LAM) scheme and the transfer of Adult Social Care;
- The solar panel and wind farm income generation proposals would not be included within the 2012/13 external audit plan, as the process referred to projects that were underway;
- The de minimus value was set at a percentage of the total Council's gross budget. The £250,000 value was within that threshold; and
- The capitalisation costs on building properties could include architect, surveying and borrowing costs;

7.51pm - At this point Councillor Sandford arrived at the meeting.

- Valuations were conducted by PCC external experts and in conjunction with the Accounts team. PwC auditors checked the valuations with their internal Valuation Team in order to compare the figures and to assess the balances;
- PwC would also pay particular attention to the current market fluctuations and high value assets within the property valuation audit exercise;
- The Audit Committee was charged with governance and would be in a position to raise any issues it believed would be of a fraudulent nature;
- The Council also operated a whistle blowing policy. Senior Officers such as the Chief Executive, Chief Internal Auditor and the Head of Governance would be approached in order for any member of staff or Councillor to raise any suspicion of fraudulent activities that they believed may be occurring in the Council;
- The current Whistle Blowing policy was under review and would be presented to Audit Committee for comment in June 2013;
- A report was presented on an annual basis to the Audit Committee by the Head of Governance in order to highlight investigations, which had taken place, such as blue badges, benefit and corporate fraud; and

- PwC were commissioned by the Audit Commission to provide external audit services to PCC until 2015/16. The Council would be in a position to appoint their own external auditors once the Draft Local Audit Bill had been approved by Government.

8.04pm - At this point Councillor Maqbool arrived at the meeting.

During debate, Members raised a number of concerns including:

- Answers provided by PCC Officers to Members questions did not appear to be detailed or transparent enough; and
- Some financial information in relation to Cabinet decisions had proved to be difficult to obtain.

#### **AGREED ACTION:**

The Committee:

- i) Considered the External Audit Plan for 2012/13 and considered the points raised by PwC;
- ii) Agreed to the proposed scope, comfortable with the audit risks, and approach;
- iii) Considered and responded to matters relating to fraud;
- iv) Approved the PwC audit fees for the year;
- v) Provided comment on any amendments necessary; and
- vi) Approved the Audit Plan.

#### **The Committee Further Agreed:**

- That the Head of Corporate Services would provide an update on progress of the PwC's audit of the Invest to Save Scheme to all Members of the Audit Committee; and
- That the Audit Committee's comments regarding their concerns over the availability of transparent information, was to be communicated to Cabinet.

### **8. Public Sector Internal Audit Standards and the Effectiveness of Internal Audit and the Audit Committee**

The Chief Internal Auditor introduced a report to the Committee on the Public Sector internal Audit Standards that were to be in effect from 1 April 2013.

The following key points within the report included:

- The Committee would receive a progress report in 2013 on the new standards that were to be in place by 1 April 2013;
- The new standards were to provide a consistent standard across all public sector bodies;
- For consistency across all sectors, the Chief Internal Auditor or Head of Internal Audit would be referred to as the Chief Audit Executive;
- Audit Charter update;
- Regular review of effectiveness of service internally and externally;
- CIPFA guidance check lists;
- The options for Internal resources for annual reviews;
- Quality assessments to be conducted either by external audit or an independent body; and
- Further guidance from CIPFA on the processes was due on 3 April 2013.

The Chief Internal Auditor responded to questions raised by Members. In summary, the responses included:

- The new standards were intended to standardise auditing processes for all organisations; and
- Internal assessments across other organisations would involve extra staff on a reciprocal basis.

#### **AGREED ACTION:**

The Committee:

- i) Considered and endorsed the new Public Sector Internal Audit Standards applicable from 1 April 2013; and
- ii) Noted the implications for future assessments in relation to the effectiveness of the Internal Audit service and that of the Audit Committee.

#### **9. Draft Internal Audit Plan 2013 / 2014**

The Chief internal Auditor introduced a report on the draft annual plan for Internal Audit for 2013/14 for consideration by Audit Committee.

The following key points within the reports included:

- The draft audit plan, which set out the Work Programme for the Audit Team for 2013/14 took into account a number of factors which included the Strategic Risk Register (SRR); Work Programmes of other Council Committees; set vision for PCC; the transfer of Adult Social Care and Public Health; key areas captured in conjunction with PwC; and Annual Governance and Assurances together with the identification of strategic operational risks and the governance arrangements;
- A contingency amount had been set aside to manage additional requests from Audit Committee in order to attribute the necessary resources to cope with the extra workload;
- Audit Team's Charter; and
- In order to provide coverage, an approach was identified for recruitment and the sharing of financial resources;

The Chief Internal Auditor and the Head of Corporate Services responded to comments, questions and concerns raised by Members. In summary, responses included:

- Operational contracts and partnerships, which had included the enterprise bus contract had been discussed at a recent Sustainable Growth & Environment Capital (SGEC) Scrutiny Committee, where Officers had been present to answer any questions and to respond to comments raised by Members;
- The borrowing levels identified within the recently approved Medium Term Financial Strategy (MFTS), by Council, had been deemed to be set at appropriate ratio levels;
- Operational contracts and partnerships had been identified as a piece of work to be included in the Internal Audit Plan for 2013/14 and the Committee may request a more detailed report regarding a particular contract if required;
- Plans for the Chief Internal Auditor to spread his services across three Local Authorities would see his time in Peterborough reduced and being covered by the existing team members, subject to recruitment;
- A recruitment exercise was currently underway for the vacant position within the Audit Team;
- A transition board had been commissioned to manage the transfer of Public Health Services (PHS) to PCC;

- The integration of the PHS into PCC would continue to be monitored by the transition board after 1 April 2013, and it was best practice to include its progress within PCC's Internal Audit Plan;
- PCC Officers would monitor the various grants received for Council services. There would be a checks and balance process in place in order to ensure that grants had been received. This would be followed by an Audit;
- Audits for fixed asset accounting for PCC properties were conducted by Serco and Enterprise Peterborough, who had the appropriate assurances set in place. PwC had also included the PCC property fixed asset accounting within their external audit plan; and
- Schools chosen to be included in the internal audit plan were chosen from a database on a basis of risk level.

Following responses to questions, Members debated further. In summary, comments and concerns raised included:

- Officers responses provided at the recent SGEC Scrutiny Committee had not provided satisfactory explanations over the significant increase in the Enterprise bus contract; and
- Caution should be exercised by PCC over the position of some of the Adult Social Care services.

#### **AGREED ACTION:**

The Committee:

- (i) Identified any areas for further consideration;
- (ii) Approved the draft audit plan 2013/14; and
- (iii) Noted the contents of the Internal Audit Charter.

#### **The Committee Further Agreed**

The Chief Internal Auditor would communicate to CMT the Audit Committees concerns raised regarding PCC Contracts and Partnerships. Concerns raised included:

- The financial increase for the Enterprise Peterborough bus contract; and
- PCC's financial position in providing some Adult Social Care services.

### **10. Draft Annual Audit Committee Report**

The Chief Internal Auditor introduced a report on the Annual Audit Committee 2012/13 report to Council.

The progress of the recent Code of Conduct changes and terms of reference of the hearing Panel (Sub-Committee to the Audit Committee) had been included on the Committees Work Programme for 2013/14.

#### **AGREED ACTION:**

The Committee approved the Annual Audit Report 2012/13 to Council.

### **11. Feedback Report**

The Chief Internal Auditor introduced a report on the feedback over actions raised at previous meetings of the Audit Committee. The Committee had received the SRR as an agenda item at this meeting.

## **12. Work Programme**

The Chief Internal Auditor submitted the latest version of the Work Programme for the municipal year 2013/2014 for consideration and approval. The standard report provided details of the proposed Work Programme for the Municipal Year 2013/2014, together any training needs identified.

Members were advised that although training was provided at each start of the municipal year with a copy of the training pack provided to all the substitutes for Audit Committee, the Chief Internal Auditor would welcome any request for specific training that Committee Members may wish to be included.

In addition, Members were advised that the Chief Internal Auditor was liaising with the Head of Governance in order to include Audit Committee training within a comprehensive training package that was being compiled for all Members.

### **AGREED ACTION:**

The Committee noted and approved the 2013/2014 Work Programme.

### **The Committee Further Agreed:**

That the Governance Officer and Chief of Internal Audit, would provide a response to Members of the Audit Committee regarding the PCC constitutional requirements for the agenda setting process in relation to Audit Committee.

7.00pm – 8.59pm  
Chairman