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MINUTES OF A MEETING OF THE AUDIT COMMITTEE HELD AT THE TOWN HALL, PETERBOROUGH ON 24 JUNE 2013

Present: Councillors Lamb (Chairman), Harper (Vice Chairman), Arculus, Lane, Fletcher and Knowles

Officers in

Attendance: John Harrison, Executive Director Strategic Resources
Steve Crabtree, Chief Internal Auditor
Steven Pilsworth, Head of Strategic Finance
Kim Sawyer, Head of Legal Services
Karen S Dunleavy, Governance Officer
Julian Rickett, PricewaterhouseCoopers, PwC
Chris Hughes, PricewaterhouseCoopers, PwC

The Committee agreed to a change in the order of the agenda. Item eight 'Invest to Save' to be discussed directly after item four 'Draft Statement of Accounts'.

1. Apologies for Absence

Apologies for absence were received from Councillor Lee.

2. Declarations of Interest

There were no declarations of interest.

3. Budget monitoring report final outturn 2012/13

The Executive Director Strategic Resources introduced a report on the Budget Monitoring Final Outturn 2012/13. The report provided Audit Committee with the final financial position for both the revenue budget and capital programme for 2012/13. The report also contained performance information on treasury management activities, payment of creditors and collection performance for debtors, local taxation and benefit overpayments.

The Executive Director Strategic Resources advised the Committee that the Council faced a challenging year in reducing the probable deficit of £780k reported to Council in March 2013. There had been a significant reduction in the outturn resulting in an under spend of £135k at the end of the financial year.

Following clarification sought by Members over the Invest to Save scheme budget allocation, the Head of Strategic Finance confirmed that the under spent allocation of the budget was to be carried forward into 2013/14. The Executive Director also advised Members that any projects for 2013/14 would be subject to the requirements of the policy framework processes for the current financial year 12/13.

The Committee:

1. Approved the reserved position for the Council, and noted:
2. The final outturn position of £135k under spend on the Council's revenue budget 2012/13 and that this was an improvement since the probable outturn position;
3. The final outturn position of £111.7m on the Council's capital budget 2012/13;

4. The performance against the prudential indicators; and
5. The performance on treasury management activities, payment of creditors, collection performance for debtors, local taxation and benefit overpayments.

4. Draft Statement of Accounts

The Executive Director Strategic Resources introduced a report on the Draft Statement of Account for the year ended 31 March 2012. Members of the Audit Committee were asked to review and comment on the Statement of Accounts prior to the Chief Finance Officer's certification by 30 June 2013. The Accounts would then be subject to external audit and a report of their findings would be presented to Audit Committee at the end of September 2013 along with the external audit opinion.

The Executive Director Strategic Resources and the Head of Strategic Finance provided responses to Members comments, concerns and questions. In summary the responses included:

- Value Added Tax (VAT) would automatically be added to invoices raised through the payments system;
- A VAT reclaim return was conducted as a whole for the Council's income and expenditure and would not be detailed by individual departments or services;
- External auditors were commissioned to check whether 20% of the Council's estates value had been reviewed each year;
- The pensions deficit scheme history of £187,284m which had increased to £215,515m, had not included the teachers pensions schemes and only related to the Local Government Pension (LGP) Scheme;
- Pension figures within the report were somewhat artificial and provided a picture of what the bill would be in decades to come. The figure also helped to represent what the Council would need to pay if the bill was received on 31 March 2013; however, the actuary scheme would determine whether extra contributions were required within the fund to meet the pension bill;
- Most Local Authorities (LA) were in a deficit position, which was due to a historical drop in contributions of 88% in the late 1980s;
- The fair value of assets within the LGP scheme had shown an increase in investments; however due to longer life expectancies, the value of liabilities were increasing;
- The pension scheme for Local Authority (LA) workers would need to remain in place whilst public sector employees remained in the national pay bargaining and national superannuation schemes; and
- Former LA employees that had been transferred to a partner provider would remain within the LA pension scheme; however, new employees of the partner provider would not qualify for the LA pension scheme.

The Cabinet Member for Resources commented that poor bond values and the taxation of dividends had impacted on the LGP scheme deficit.

The Committee:

Reviewed and commented on the Statement of Accounts prior to the Chief Finance Officer's certification.

The Committee Also Agreed:

That the Head of Strategic Finance would:

- Provide clarification over whether payments made via the salary compromise agreements over £50k should be disclosed within the Statement of Accounts; and
- Confirm when the valuation review for the Council's agricultural estate had been conducted and when the next one was due.

5. Invest to Save

Julian Rickett from PricewaterhouseCoopers (PwC) introduced a report on the external audit findings over the decision making process for the Invest to Save Scheme. The Committee was advised that a scope of work was conducted at a request of the Audit Committee to explore the decision making process and whether it was in line with the Council's Constitution and whether the three schemes within the Invest to Save Scheme funds had been in accordance within the set of principles that were agreed at Full Council on 22 February 2012. The Committee was also informed that after conducting the audit exercise, PwC were not minded to challenge the Council on the allocation of Invest to Save funding to date.

In response to Members comments over the Council's powers to set finances for unspecified projects, the Head of Legal Services advised Members that there were regulations that underpinned the Council's Constitution, which enabled the Council to decide how it would set its budget. In addition, Members were advised that funding for unspecified projects would also be subject to a Cabinet Member Decision Notice to ensure that there was an additional approval process, this would also provide a further level of transparency.

Members of the Audit Committee requested a report from the Head of Legal Services under the Council's Constitution, *Part 2, Article 10 – Management Structure - Functions of the Monitoring Officer, Paragraph 3f – give Members advice on our authority to take decisions and on maladministration, financial irregularities, guiding principles and the Budget and major Policy Framework.*

The Committee:

Agreed that the Head of Legal Services would provide a report to Audit Committee over the Council's authority to allocate an unspecified amount of money to projects such as the Invest to the Save Scheme.

6. Internal Audit: HoIA Opinion 2012 / 2013

The Chief Internal Auditor introduced a report on the performance of Internal Audit during 2012 / 2013 and the areas of work undertaken, together with an opinion on the soundness of the control environments in place to minimise risk to the Council.

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

- Where there had been limited or no assurance issues highlighted, Internal Audit would rate the issue accordingly and follow up with a further audit checks in three to six months depending on the rating level;

- The Project Governance Audit had not been completed due to the team incurring some unplanned audit activities, however, it was intended to reinstate the audit at a later date within the current year;
- Policies and procedures had been improved for travel and subsistence claims, for example, an uncompleted submission would be returned to the originator's line manager;
- The Council had a dedicated client team that monitored all contractor performance measures, such as for Enterprise Peterborough;
- In the past the Council's City Service cleared refuse from privately owned land, which would have incurred a cost to the tax payer. The current contractor, Enterprise, had utilised a satellite geographic system in order to ensure that the correct Council owned land was identified for cleansing. This amendment to provision had given the impression that some areas of the City, which was once cleansed by City Services, was not being maintained;
- The Petty Cash limit of £1,000 for Children's Services were emergency arrangements, where funding was required within a very short timescale by officers in order to provide items such as clothing for child services cases. The arrangement had been changed to ensure that provision was made through the Council's Cash Office going forward;
- There were over 450 systems within the Council, of which the Audit team would sample check only a few per year, based on the level of risk. Departmental Managers held overall responsibility to oversee the operation of their systems to ensure that they were being operated correctly. Once the Finance team had alerted Internal Audit to the apparent issue of non-payment of VAT for the Westcombe account, an audit investigation had been conducted;
- The issue of Westcombe underpayment of VAT had arisen as a result of a miscoding through the accounts receivables system;
- It was not uncommon for local authority VAT returns to show a difference between VAT payable and VAT being reclaimed from HMRC, as the scale and nature of finance involved within the Council meant that it was a net reclaimer of VAT;
- A report had been produced in 2009 over the waste metal stock levels for Westcombe when it was transferred back to Council operation; and
- Westcombe had operated as an integral part of the Council and the VAT issue could have happened within any other part of the Council.

The Committee:

Received, considered, provided challenge to, and endorsed the Chief Internal Auditor's annual report for the year ended 31 March 2013.

The Committee further agreed:

That the Chief Internal Auditor would produce a report to Audit Committee regarding the current levels of scrap waste stock, held at Westcombe.

It was also agreed that the Cabinet Member for Resources would provide details over which areas had been included within the cleansing contract provided by the Enterprise Contract for the Sainsburys Bretton to Thorpe Wood roundabout area. The information was to detail the differences between what City Services had provided before it was taken over by Enterprise Peterborough.

7. Internal Audit: Review of Effectiveness

The Chief Internal Auditor introduced a report annual review of the effectiveness of internal audit – 2012 / 2013. The reports were in accordance with the requirements of the Accounts and Audit Regulations 2011. The Council conducted an annual review of the system of

internal audit which was to be considered as part of its governance assurance processes, including the production of the Annual Governance Statement.

The Chief Internal Auditor also advised the Committee that Internal Audit had to demonstrate compliance, or plans to be compliant with the new Public Sector Internal Audit Standards, which had been introduced in April 2013, and effective from March 2014. The Committee was also advised that a quality check and peer review would be conducted with other local councils in order to compare performance and reduce the cost of compliance.

The Committee:

Considered and endorsed the annual review of the effectiveness of Internal Audit 2012 / 2013.

8. Draft Annual Governance Statement

The Chief Internal Auditor introduced a report on the annual closure of accounts process, which was included in the Audit Committee work programme for 2013 / 2014.

Key items highlighted within the report included:

- Scope of the annual governance statement;
- Arrangements for compiling the annual governance statement;
- Executive Directors: Internal Control and Governance Self Assessment;
- Performance Management and Data Quality;
- Risk Management;
- Corporate Governance;
- Framework for the Annual Governance Statement;
- Internal Control and Governance Self Assessment/Assurance Statement; and
- Draft Annual Governance Statement.

The Chief Internal Auditor advised Members that the transfer of Public Health and Public Health functions had been captured as a main governance issue within the Draft Annual Governance Statement.

The Committee:

1. Noted the arrangements for compiling, reporting on and signing the Annual Governance Statement;
2. Reviewed and commented on the Annual Governance Statement including any areas which should be amended; and
3. Agreed and approved the draft statement for inclusion in the audited statement of accounts, published by 30 September 2013.

9. Feedback Report

The Committee received a report on the outcome of actions that had arisen in previous meetings.

10. 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.

The Committee:

Noted and approved the 2013/2014 Work Programme.

7.00pm – 8.32pm

Chairman