

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
HELD AT THE TOWN HALL, PETERBOROUGH ON 27 JUNE 2011**

Present: Councillors Lamb (Chairman), Stokes (Vice Chairman), Kreling and Lane

Officers in attendance: John Harrison, Executive Director, Strategic Resources
Steven Pilsworth, Head of Corporate Services
Steve Crabtree, Chief Internal Auditor
Diane Baker, Head of Governance
Kirsty Nutton, Financial Services Manager, Corporate Accounting
Gemma George, Senior Governance Officer

Also in attendance: Chris Hughes, PricewaterhouseCoopers
Councillor Seaton, Cabinet Member for Resources

1. Apologies for Absence

Apologies for absence were received from Councillor Harper and Councillor Goldspink.

2. Declarations of Interest and Whipping Declarations

There were no declarations of interest or whipping declarations.

3. Minutes of the Meeting held on 6 June 2011

The minutes of the meeting held on 6 June 2011 were approved as an accurate and true record.

4. Investigation Team Annual Report 2010 / 2011

The Head of Governance presented a report to the Committee which provided an overview of the Council's approach to combating fraud, and its delivery over the period April 2010 – March 2011.

Members were advised that the public were entitled to expect the Council to conduct its affairs with integrity, honesty and openness and demand the highest standards of conduct from those working for it.

In addressing these expectations, the Council had shown its commitment by creating a dedicated Investigation Team which was tasked in investigating all allegations of fraud, impropriety, breaches in codes of conduct and high level complaints. The Compliance and Ethical Standards Team, which was comprised of corporate investigations, benefit fraud investigations and information management, had been in operation since 1st April 2007, with the information management stream joining in January 2008.

Members were further advised that the Investigation Team Annual Report demonstrated the success of the Compliance and Ethical Standards Team and

provided an insight into how this unique service would continue to operate as a key operation within the Council.

Key points were highlighted to the Committee, including:

- The Investigation Team had moved and was now part of the Governance Team;
- Tier 2 and Tier 3 management training, with regards to raising awareness of fraud, had been well received;
- It was estimated that fraud cost the UK over £38 billion a year;
- Blue Badge Fraud was considered to be an emerging threat;
- There had been one prosecution for Blue Badge Fraud during 2010 / 2011;
- During 2010 / 2011, the Compliance and Ethical Standards Team had received details of 13 potential fraud or financial irregularities for investigation, all 13 of these cases progressed to a full investigation. This represented a slight decrease in referrals from 2009 / 2010;
- There had been 775 allegations of benefit fraud received as opposed to 909 in 2009 / 2010. 302 of these had been investigated and 160 cases resulted in a positive outcome;
- Benefit fraud was the greatest risk faced by local authorities owing to the high volumes of payments and the complexities of legislation;
- There had been a slight decrease in the number of sanctions during 2010 / 2011, however this was partly due to the fact that the size of many overpayments uncovered had increased to above the level at which prosecution was the most appropriate sanction;
- The value of fraudulent benefit uncovered by the team was over £410,000 for housing and council tax benefit;
- There had been a lot of work undertaken with regards to election fraud. There had been a new Register of Electors implemented on an annual basis with no carry forward of names, the use of identify checks for all persons who sought to be added to the Register after the annual canvass, the recording of unique reference numbers and a publicity campaign to alert the public to potential abuse, internal databases also continued to be matched to provide a list of properties where occupancy was high;
- 808 of the high occupancy properties had been visited during three weeks in February 2011 and names and identities of the occupants had been confirmed;
- The visits were also linked to work being undertaken on the 2011 Census. The occupants who were not present at any of the three visits undertaken to the premises had been invited to attend review hearings where documents could be provided in order to support their registration;
- The Compliance and Ethical Standards Team maintained the publication of all cases where prosecution had been the appropriate outcome;
- A number of other investigations had been undertaken by the team during 2009 / 2010, these included disciplinary cases and complaint investigations;
- During 2010 / 2011 there had been 655 freedom of information requests received.

Members were invited to comment on the Annual Report and the following issues and observations were highlighted:

- It was highlighted in the report that during 2010 / 2011, the Compliance and Ethical Standards Team had received details of 13 potential fraud or financial irregularities for investigation. All 13 of these cases had proceeded to a full investigation and Members queried how many had been proven. Members were advised that an overview of the cases would be provided back to the Committee in due course.
- With regards to the Electoral Anti Fraud Initiative, Members further requested clarification as to how many of the 1500 adults, who had not been available during any of the three home visits, had subsequently turned up to their review hearings. Members were advised that this information would also be gathered and fed back to the Committee in due course.

Following questions, Members of the Committee commended the report and the work being undertaken by the Compliance and Ethical Standards Team.

ACTION AGREED:

The Committee received, considered and endorsed the Annual Report on the investigation of Fraud and other issues for the year ended 31 March 2011.

5. Internal Audit: Annual Audit Opinion 2010 / 2011

The Chief Internal Auditor presented a report to the Committee which provided details of the performance of Internal Audit during 2010 / 2011 and the areas of work undertaken, together with an opinion on the soundness of the control environment in place to minimise risk to the Council.

Members were advised that the report provided an overall opinion on the soundness of the control environment in place to minimise the risk to the Council. This was based on the findings of completed internal audits.

Summaries of work carried out by Internal Audit were documented within the Opinion, and it was highlighted that overall it was considered that Internal Audit could place Reasonable Assurance on the controls environment. As a result, an unqualified opinion was provided. Where systems had fallen below expected standards, details of these had been identified within the report as well as throughout the year to the Audit Committee. Ongoing internal performance indicators were monitored and their level of achievement, or otherwise, were included for information purposes.

The main aspects of the document were highlighted to the Committee and these included:

- An introduction and background to Internal Audit;
- An overview of the works undertaken, the conclusions drawn from this work and an overview of the different levels of assurance;
- The levels of assurance issued in 2010 / 2011 against those made in 2010 / 2011 and the number of recommendations made;
- A summary of other reports issued during the year and the areas of concern which had been raised where limited assurance had been

given. These covered areas such as the 'Future Jobs and Migration Impact Fund' and 'Energy Payments';

- An overview of the professional training approach available to officers;
- Performance indicators, and the key areas to be noted;
- An overview of all audit activity undertaken and the assurance levels and recommendations given to each of the audits;
- The Youth Offending Service, which was highlighted as having no assurance, and the executive summary which was attached to the report;
- The audits undertaken on schools were also outlined, however Members were advised that the details of works could not be provided as the work undertaken was confidential.

Members were invited to comment on the Annual Audit Opinion and the following issues and observations were highlighted:

- Members positively commented on the works being undertaken with regards to schools financial matters. Significant improvements had been made.
- Members queried why Youth Offending was highlighted as having no assurance. Members were advised that there was an Executive Summary attached to the Opinion document and this further detailed the issues, however it was advised that it had become apparent that governance arrangements for the Youth Offending Service (YOS) had been in place for several years without review and had remained unchallenged.
- A query was raised as to why the 'Future Jobs Fund' was highlighted as having limited assurance. Members were informed that there had been a number of contract regulations which had not been adhered to.
- Members further questioned whether the issues highlighted within the 'Youth Offending Service' and the 'Future Jobs Fund' would be revisited going forward. In response, it was advised that these issues would be revisited within six months to see if improvements had been made.
- It was queried whether any of the audit assurances issued during 2010 / 2011 were repeats of the assurances issued during 2009 / 2010. Members were advised that one area had shown improvement but not enough to increase its assurance. This area was 'Energy Payments'. The 'Youth Offending Service' had also never been audited before and therefore there had been no previous assurances issued.
- In the Executive Summary for 'Leaving Care' it was highlighted that the Imprest Account bank statements included excessive quarterly commission charges. This point had been followed up by Internal Audit with the Loans and Investment Officer and the charges had been found to be incorrect. There had been subsequent refunds received, with a further refund due. Members requested that this refund be followed up and Members were informed that this would be undertaken.

Following comments and questions from Members, Chris Hughes from PricewaterhouseCoopers, the Council's External Auditors, addressed the Committee and commented positively on the work undertaken and the reporting style.

ACTION AGREED:

The Committee:

- (1) Received, considered and endorsed the Chief Internal Auditor's Annual Report for the year ended 31 March 2011; and
- (2) Noted the report of Internal Audit's performance.

6. Annual Review of the Effectiveness of Internal Audit – 2010 / 2011

The Chief Internal Auditor presented a report which outlined the effectiveness of Internal Audit during 2010 / 2011.

Members were advised that in accordance with the requirements of the Accounts and Audit Regulations 2011, the Council conducted an annual review of the system of Internal Audit to be considered as part of its governance assurance processes, including the production of the Annual Governance Statement.

Communities and Local Government (CLG) had published the Accounts and Audit Regulations 2011. The main amendments contained within the final regulations required a review of the effectiveness of internal audit, rather than a review of the effectiveness of the system of internal audit. Such a review had historically been provided as a fundamental part of the Annual Head of Internal Audit Opinion presented to the Audit Committee. This would remain the same going forward.

Internal Audit was defined as the means by which the Council addressed its governance and assurance requirements, ensuring that an effective internal control system was in place. Outcomes from current governance processes were evaluated and reported in the Annual Governance Statement.

To address the Accounts and Audit Regulations requirement, an assessment of Internal Audit had been carried out. It contained an opinion on the effectiveness of the Internal Audit Service including a self-assessment against the "*Code of Practice for Internal Audit in Local Government in the UK*" (CIPFA). Additional evaluation had been made against the CIPFA publication "*Statement on the Role of Head of Internal Audit*". Furthermore, separate analysis of key performance indicators for 2010 / 2011 had also been utilised and these had been reported in the Head of Internal Audit Annual Opinion.

Members were advised of the current arrangements for Internal Audit and it was highlighted that a dedicated Internal Audit Section formed part of the system of internal audit in the Council. The section was part of the Strategic Resources Department and was led by the Chief Internal Auditor. It worked closely with others in the Council tasked with assurance, governance and risk management but the Section retained a separate identity in relation to the performance of Internal Audit and investigation functions for the Council.

Internal Audit undertook its work in accordance with the CIPFA Code of Practice for Internal Audit in Local Government (2006). This was best practice guidance for the discharge of an internal audit function covering expectations and the standards required. External Audit had carried out its review of the internal audit function against these standards.

To examine the system of internal audit, this review considered several key elements and assessed their contribution to enabling the Section to fulfil its responsibilities. These were:

- The structure and resourcing level, including qualifications and experience of the Audit Team;
- The extent of compliance with the CIPFA Code of Practice in producing quality work;
- Comparison with the Statement on the Role of the Head of Internal Audit;
- Ensuring that the Section successfully audits the most appropriate areas on a prioritised (risk) basis; and
- The performance of the Audit Team (full details of which are reported in the Head of Internal Audit Opinion report).

Based on the assessment conducted against 192 questions, the evidence collected demonstrated that the Council operated in compliance with professional standards and initiated change where improvements to the internal control environment were required.

The review also identified a number of areas where ongoing improvements could be made within Internal Audit and also corporately. Recommendations included:

- Establishing a protocol for effective liaison with external inspectors (other than PwC);
- Developing an overall strategy to take forward specialist auditing areas in conjunction with Cambridge City Council (and others as appropriate); and
- Internal Audit issuing a survey to senior management in order to establish the extent to which audit was adding value to their services.

Members were advised that in conclusion, there were no material weaknesses highlighted which impacted on the overall effectiveness of the internal control environment.

ACTION AGREED:

The Committee considered the Annual Review of the effectiveness of Internal Audit 2010 / 2011.

7. Draft Annual Governance Statement 2010 / 2011

The Chief Internal Auditor presented a report to the Committee which was submitted as part of the annual closure of accounts process.

The draft Annual Governance Statement set out the governance framework for the City Council and identified a number of issues where action was planned to improve the level of governance.

The preparation of an Annual Governance Statement was necessary to meet the statutory requirements as set out in Regulation 4(3) of the Accounts and

Audit (England) Regulations 2011. The Annual Governance Statement covered the Council's governance arrangements for the 2010 / 2011 reporting year.

Historically, the Annual Governance Statement had been published as part of the Annual Statement of Accounts, however one of the key changes to Regulation 4 (4) in the recently revised Accounts and Audit Regulations 2011 was that the Annual Governance Statement should accompany the published accounts.

The report included the draft Annual Governance Statement for the Members of the Audit Committee to review, challenge and advise the Leader and Chief Executive upon accordingly. The report also identified progress with the 2009 / 2010 Annual Governance Statement and presented the necessary recommendations for Member approval that would allow the Council as a whole to ensure that the Annual Governance Statement was produced in accordance with CIPFA guidance and would therefore meet External Audit requirements.

The Committee was advised that internal control and risk management were recognised as important elements of good corporate governance. The scope of governance, as covered in the Annual Governance Statement, spanned the whole range of the Council's activities and included those designed to ensure that:

- The Council's policies were implemented in practice;
- High quality services were delivered efficiently and effectively;
- The Council's values and ethical standards were met;
- Laws and regulations were complied with;
- Required processes were adhered to;
- Its financial statements and other published information were accurate and reliable; and
- Human, financial and other resources were managed efficiently and effectively.

CIPFA, in conjunction with SOLACE, had produced a framework for delivering good governance in local government and the Council's Annual Governance Statement for 2010 / 2011 had been drafted in accordance with this framework to ensure the requirements of the regulations referred to above were met.

It had been agreed during 2011 that responsibility for compiling the Annual Governance Statement would remain with Internal Audit, but one of the noted changes was that the Strategic Governance Board would review and reallocate responsibility and arrangements for undertaking this key task in future.

As part of the process, evidence had been compiled to confirm the governance arrangements in operation across the Council for the period concerned. This set out how the City Council demonstrated compliance with the principles of good governance and highlighted where action was needed to address any weaknesses in the Council's governance arrangements.

Members were advised that supporting evidence had been compiled from various sources to confirm the governance arrangements in operation across the Council for the period concerned. This included assurance statements which had been produced by Heads of Service having reviewed their key control checklists to come to an opinion on the governance arrangements and

internal control environment within their service. Members were further advised that no adverse comments had been received.

In order to facilitate corporate involvement in the process for compiling the Annual Governance Statement, the Strategic Governance Board discussed the progress against previous significant governance issues identified in January 2011 together with identifying the key officers to be involved in the 2010/11 process; and in May 2011 reviewed the draft Annual Governance Statement.

Following agreement, the revised Annual Governance Statement had been issued to the Corporate Management Team and PricewaterhouseCoopers.

Members were advised that following the review of the statement by the Committee, the document would be submitted to the Leader of the Council and the Chief Executive for final sign off.

ACTION AGREED:

The Committee:

- (1) Noted the arrangements for compiling, reporting on and signing the Annual Governance Statement;
- (2) Reviewed the Annual Governance Statement including areas which should be amended; and
- (3) Agreed and approved the draft statement for inclusion in the Statement of Accounts.

8. Accounts

8a. Budget Monitoring Report Final Outturn 2010 / 2011

The Executive Director, Strategic Resources presented a report to the Committee which informed Members of the final financial performance for revenue and capital at 31 March 2011.

The report also contained performance information on treasury management activities, the payments of creditors in services and collection performance for debtors, local taxation and benefit overpayments.

Members were advised that the overall position was positive when considering it was a time of austerity. The new Coalition Government had announced the first cuts in May 2010 which would impact on local government funding. For the Council, the impact of these reductions was a £2.4m reduction in revenue grants and £2.3m in capital. It was also indicated that grants would be reduced further in future years.

The Council had responded proactively and promptly in order to successfully manage the impact of these financial challenges in 2010 / 2011. The Council's overall revenue position was £475k underspent, against a budget of £161,952k and praise was given to the finance staff and the Corporate Management Team for the works undertaken.

Members were advised that the report highlighted the ongoing challenges that were to be faced. Going forward, departmental positions would be monitored and from the detailed monthly budgetary control reports from all departments, it

was identified that Adult Social Care and Children's Services would be amongst the biggest risks.

Members were further advised that in the previous financial year, £200k had been saved on the Lot 3 Service Contract. Over the forthcoming five years, £3m in total was predicted to be saved.

With regards to the monies invested in the Icelandic Banks, Members were informed that out of £3m invested across two banks, it was expected that £2.5m would be recouped. £800k had had been put aside to cover the shortfall and therefore this was a better outcome than had been predicted.

Comments were raised with regards to the £475k under spend and its potential usage. The Executive Director, Strategic Resources advised that the under spend was to be transferred to the capacity building reserve as many of the savings would not be repeatable going forward.

ACTION AGREED:

The Committee:

- (1) Noted that the final outturn position on the Council's revenue budget was £475k underspent, and also noted the capital budget;
- (2) Approved the reserves position for the Council;
- (3) Noted the performance against the prudential indicators;
- (4) Noted the performance on treasury management activities, payment of creditors in services and collection performance for debtors, local taxation and benefit overpayments; and
- (5) Noted the challenging financial position in future years and how this could impact the Council.

8b. Statement of Accounts for the Year Ended 31 March 2011

The Executive Director, Strategic Resources presented the report which detailed the Statement of Accounts.

Members were advised that the Accounts were required to be signed and certified by 30 June 2011 by the Council's Section 151 Officer (the Executive Director, Strategic Resources), in accordance with the Accounts and Audit Regulations 2011. The Council's Section 151 Officer had the responsibility for certifying that the Accounts fairly presented the financial position of the Council at 31 March 2011.

The Audit Committee was required to approve the Accounts no later than 30 September 2011 following, and in the knowledge of, the audit findings,

Key issues were highlighted and these included:

- The International Financial Reporting Standards (IFRS);
- The Format of Accounts 2010 / 2011;
- Schools;
- The Collection Fund;
- The Balance Sheet at 31 March 2011;
- Reserves and Balances;

- Approval, signing, inspection and audit arrangements – the Accounts and Audit Regulations 2011; and
- The Annual Governance Statement.

Members were advised that Finance Team had undertaken good work on the Accounts and in response, Members commended the team's efforts.

ACTION AGREED:

The Committee:

- (1) Noted the changing role of Audit Committee in the approval of the Council's Annual Accounts, as highlighted in paragraphs 4.16 to 4.20 of the report; and
- (2) Reviewed the Statement of Accounts prior to the Chief Finance Officer's certification by the 30 June 2011.

9. Work Programme 2011 / 2012

The Chief Internal Auditor submitted the latest version of the Work Programme for the municipal year 2011 / 2012 for consideration and approval.

Members were advised that there were no specific training proposals highlighted for the next meeting of the Audit Committee and the Chief Internal Auditor advised that if any Member had any specific training requests they could contact him directly.

ACTION AGREED:

The Committee noted and approved the 2011 / 2012 Work Programme.

7.00pm - 7.58pm
Chairman