

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
HELD AT THE TOWN HALL, PETERBOROUGH ON 6 SEPTEMBER 2010**

Present: Councillors Collins (Chairman), Newton (Vice Chair), Kreling, Stokes, Nash and Harrington

Officers in attendance: Steve Crabtree, Chief Internal Auditor
Steven Pilsworth, Head of Corporate Services
Diane Baker, Compliance and Ethical Standards Manager
Kirsty Nutton, Financial Services Manager – Corporate Accounting
Stuart Hamilton, Resilience Services Manager
Kim Sawyer, Head of Legal
Gemma George, Senior Governance Officer

1. Apologies for Absence

Apologies were received from Councillor Simons and Councillor Goldspink.

Councillor Nash attended as substitute.

2. Declarations of Interest and Whipping Declarations

There were no declarations of interest or whipping declarations.

3. Minutes of the Meeting held on 7 June 2010

The minutes of the meeting held on 7 June 2010 were approved as an accurate and true record.

4. Minutes of the Meeting held on 28 June 2010

The minutes of the meeting held on 28 June 2010 were approved as an accurate and true record.

5. Risk Management Update

The Resilience Services Manager presented a report to the Committee which outlined the Council's Risk Management Strategy.

Members were given an update on Risk Management and were advised that the responsibility for Risk Management had moved from the Finance Team to the Resilience Team in May 2009. A new policy and strategy had been produced in September 2009 which incorporated Business Continuity Management and it was due to be refreshed annually.

Risk Management was under review in the Council and the objectives were outlined in the policy and strategy. Directorates were working on a standard risk register and these were to be reviewed on a 3 month basis.

The Resilience Team had ownership of risk management in order to centrally coordinate all registers and risk activity.

A new Corporate Strategic Risk Register was in development and was due to be presented to the Corporate Management Team (CMT) during September 2010. Once it had been agreed, it would then be submitted to the Audit Committee for scrutiny and ownership.

Members were further advised that there had been no further changes to the Risk Management and Business Continuity Strategy.

ACTION AGREED:

The Committee:

- (1) Approved the Risk Management & Business Continuity Policy;
- (2) Approved the Risk Management & Business Continuity Strategy; and
- (3) Received an update on risk management review to date.

6. International Financial Reporting Standards

The Financial Services Manager – Corporate Accounting, presented a report to the Committee which provided an update on the progress which had been made by the Council in its International Financial Reporting Standards (IFRS) transition, the significant changes that were likely to be brought to the Council's accounts and the resource demand of the transitional task.

The move to IFRS would be extremely complex and would have wide reaching implications that were not limited to the Council's finance function alone but throughout the Council's business activities.

Since the last update on IFRS in November 2009, the Council had progressed with the work required for the production of the Statement of Accounts in 2010 / 2011 on an IFRS basis.

With regard to fixed asset accounting, the current valuation policies of the Council's fixed assets had been reviewed and meetings had taken place between finance and property officers in order to discuss the requirements of the new IFRS code.

A new asset management system, which integrated all of the Council's property information into a single data source, had been purchased from Technology Forge. The asset management system would be the Council's fixed asset register and would replace the spreadsheet system that was currently in use.

With regard to infrastructure assets, at the current time the IFRS code required local authorities to report infrastructure assets (highways, footways, cycle-ways, structures and lighting) on a historical cost basis, which was the cost of purchase or construction less depreciation charged to date. However, HM Treasury had set a timetable for a gradual transition to reporting on a Direct Replacement Cost basis starting with the whole Government accounts return in 2011 / 2012.

All leasing arrangements, both property and plant and equipment, had been or were in the process of being reviewed as to whether they were deemed operating or finance leases under IFRS, as the classification of lease may have switched from that used under UKGAAP (United Kingdom Generally Accepted Accounting Principles).

The way in which the grants and contributions for capital purposes were recognised, in the accounts of the Council, were to change. Under IFRS the grants were recognised in the Income and Expenditure Account once any condition of the grant had been satisfied. The statement of recommended practice (SORP) treated the grant as

deferred income and then recognised this income in the Income and Expenditure Account over the life of the asset for which the grant or contribution was received.

The new IFRS code required local government bodies to accrue for the costs of staff holiday entitlements and flexi leave that had not been taken in the year and was carried forward to the next financial year.

IFRS 8 required that the reporting of income and expenditure and assets were reported in the segments that were reported to the 'Chief Operating Decision Maker'. The overall aim was to enable the reader of the accounts to see the 'business' through the eyes of management. The 2009 / 2010 accounts were currently being reviewed for the change in the way this was to be reported and the work was scheduled to be completed by October 2010.

Focused training sessions had been highlighted for members of the Corporate Accounting teams to attend. These would be primarily provided by PwC, the Audit Commission or CIPFA through their associated training arm or through their Financial Advisory Network to which the Council subscribed. The sessions would provide useful hints and tips and Members of the team attending such sessions would then disseminate the knowledge gained to the wider finance community.

Members were invited to comment on the report and clarification was sought on why the accounting principles for annual leave etc., showed a large figure in relation to schools. Members were advised that this was a skewed figure as the figures were based upon a financial year rather than an academic year.

Members queried whether with all the changes that would need to be made to the accounts, would this show major anomalies in future, such as larger overspends. Members were informed that, in essence, it would not highlight different levels of spend, but would show a different treatment which would allow for more meaningful comparisons with other bodies.

Clarification was required as to the exact nature of the changes to the normal accounting system and whether there were likely to be anomalies. Members were advised that there would be changes and a relevant training session would be provided for Members in due course.

ACTION AGREED:

The Committee:

- (1) Noted the accounting changes required;
- (2) Reviewed the progress made so far in the transition; and
- (3) Supported the transition to IFRS based accounts.

7. Treasury Management Performance

The Head of Strategic Finance presented a report to the Committee which provided an update on Treasury Management Performance.

The Treasury Management in the Public Services: Code of Practice 2009, recommended that Members received reports on its treasury management policies, practices and activities, including, as a minimum, an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

The annual strategy was approved by Council as part of the Medium Term Financial Strategy (MTFS) and the final performance against the strategy was reported to the

Audit Committee in June 2009 alongside the Statement of Accounts. Members were advised that the report was the mid-year review.

Members were further advised that the change in the accounting treatment for Private Finance Initiative (PFI) had resulted in the Prudential Indicators, included in the Prudential Code and Treasury Management Strategy 2010 – 2015 being revised. The report set out these amendments.

Members were invited to comment on the report and the appendices and the following issues and observations were highlighted:

- Members queried whether future financial cuts would have an effect on the Treasury Management Strategy. Members were advised that all of the revised prudential indicators highlighted in the report were in relation to the current year and there were currently no cuts. If there were future cuts, then the indicators would be revisited.
- A query was raised regarding the Councils investments in the two Icelandic owned banks. Would it not have been prudent to terminate the contracts and to have incurred any penalties from the contract terminations? Members were informed that there had been no possibility of withdrawing the fixed term deposit as contractually there had been no option to do so.
- A further query was raised as to why the Council had invested in the Icelandic banks in the first instance. Members were advised that the Council's UK based banks had been based with Icelandic parents and that had been the Council's major problem. However, the banks had previously been rated 'AAA' by the rating service.

ACTION AGREED:

The Committee:

- (1) Reviewed current performance against the Treasury Management Strategy set in the Medium Term Financial Strategy; and
- (2) Approved the revised Prudential Indicators included in the Prudential Code and Treasury Management Strategy 2010 for the change in the PFI accounting policy based on the International Financial Reporting Standards (IFRS).

8. Regulation of Investigatory Powers Act 2000 (RIPA) Annual Report 2009/2010

The Compliance and Ethical Standards Manager presented a report to the Committee which provided an overview of the Council's approach to the Regulation of Investigatory Powers Act 2000 (RIPA) and its use of these powers over the period April 2009 – March 2010 and the first quarter of 2010 / 2011.

RIPA provided a statutory mechanism for authorising covert surveillance and the use of a 'covert human intelligence source' (CHIS). It also permitted Public Authorities to compel telecommunications and postal companies to obtain and release communications data, in certain circumstances. It sought to ensure that any interference with an individual's right under Article 8 was necessary and proportionate. In doing so, RIPA sought to ensure both the public interest and the human rights of individuals were suitably balanced.

Council officers and external agencies working on behalf of Peterborough City Council had to comply with RIPA and any work carried out had to be properly authorised by one of the Council's Authorising Officers. The powers contained within the Act could only be used for the purpose of preventing or detecting a crime or preventing disorder.

Members were advised that a team of RIPA specialists had been established to oversee all RIPA activity and to ensure that the relevant governance arrangements were in place such as policy review and training for practitioners, Authorising Officers and Councillors. The group also incorporated good practice into operational procedures such as the introduction of a toolkit, which contained RIPA guidance.

A thorough review of RIPA had been undertaken by the Home Office during 2009 and as a result certain legislative changes had been made and new Codes of Practice for Covert Surveillance and CHIS's had been published. The summary of legislative changes that affected Peterborough City Council were highlighted in the report.

The use of RIPA had always been minimal at Peterborough City Council, this was attributable to the excellent level of training and awareness available to all staff the use of less intrusive methods to obtain required information and to the robust governance arrangements in place to ensure the Council's integrity was maintained. There had however been an increase in test purchasing activity during 2010. Following the Office of Surveillance Commissioner's inspection of 2009, a decision was taken to authorise test purchasing activity under RIPA as it was considered good practice to do so.

Members questioned whether the release and viewing of CCTV footage was covered by RIPA. Members were advised that overt public CCTV systems were not covered, as members of the public were aware that such systems existed and were in use to deter and detect crime. However pre-planned covert operations following known individuals involving the use of CCTV would need authorisation.

ACTION AGREED:

The Committee received, considered and endorsed the annual report on the Council's use of RIPA for the year ended 31 March 2010 and quarterly review period ended 30 June 2010.

9. Strategic Governance Board: Information Governance

The Chief Internal Auditor presented a report to the Committee which highlighted the progress made to instil sound principles across the organisation in relation to the information governance.

All Members had been informed of the creation of the Strategic Governance Board on 2 November 2009. The Board was created to provide a forum for senior officers and Members of the Council to discuss and develop a coordinated approach to the following:

- Risk management;
- Corporate governance;
- Statutory and constitutional compliance;
- Decision making and accountability;
- Audit, inspection and control systems; and
- Corporate policies and procedures

The Board membership was comprised of:

- Solicitor to the Council;
- Head of Human Resources;
- Head of Corporate Services;
- Head of Legal (x 2)
- Chief Internal Auditor;

- Head of Business Support;
- Compliance and Ethical Standards Manager;
- Resilience Services Manager; and
- Principal Democratic Services Manager

There was also a standing invitation to the Cabinet Member for Resources, the Chair of the Audit Committee and the Chief Executive. Other representatives were invited for specific issues.

Members were advised that the Council was committed to developing a comprehensive and effective policy framework covering all aspects of Information Governance. High profile personal or sensitive data losses had in the past been incurred by the HRMC, the Ministry of Defence, the NHS and the Police. All data breaches had to be reported to the Information Commissioners Office and they had reported that there had been a rise in these incidents.

The Council was therefore developing an Information Governance Framework which incorporated the core measure identified in the Governance Data Handling Review and the HMG security framework. The priorities for the forthcoming six months included the presentation of the Overall Information Governance Policy, Strategy and associated roll out plan to the Audit Committee and Corporate Management Team for consideration, together with the continued production of necessary policy and guidance documentation.

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

- A query was raised regarding the progress made to date which was highlighted in Appendix A to the report, specifically in relation to training, education and awareness for members of staff in relation to their level of responsibility. Members were advised that the initial induction dealt with a lot of the issues regarding training. Furthermore, tier 2 and tier 3 staff members were at that time undergoing Corporate Governance training and it was hoped that another module would be created to enable information to be disseminated down.
- Members commented that e-learning packages were a good, cheaper way of training and perhaps they should be looked into further. Members were informed that the possibility of utilising e-learning would be explored.
- Members questioned when the Information Risk Policy, highlighted in the progress made to date report, was due to commence. Members were advised that a senior risk owner at Corporate Management level needed to be identified and as soon as the post was in place progress could be made. Work had started but it was ongoing and there was an update due to go to the Strategic Governance Board at the end of the month.

ACTION AGREED:

The Committee considered the progress made to date in respect of improving the Information Governance arrangements in the City Council.

10. Internal Audit – Quarterly Report 2010 / 2011 (To 30 June 2010)

The Chief Internal Auditor presented a report to the Committee which set out the Internal Audit performance and progress with regards to the 2010 / 2011 Audit Plan which was approved by the Audit Committee on 29 March 2010.

Members were advised that the progress made against the 2010 / 2011 plan was 26.1% and whilst the progress against the plan was slightly less than the previous year, it was slightly above the teams' quarter 1 target of 25%.

With regards to other performance matters, Members were further advised that an average of 2.6 days sickness per person had been lost during the 3 months to 30 June 2010. This was a major reduction on last year where sickness was 10 days per person as at 30 June 2009. The majority of the sickness taken during Quarter 1 was during June and it was known that the sickness relating to one individual would continue until at least October (Quarter 3). This would have a major impact on the delivery of the Audit Plan for the remainder of the year and processes were in place to revise the Audit Plan accordingly.

Members questioned whether the limited assurance for a number of schools was down to lack of evidence being available rather than something being missing. Members were advised that this point would be looked into and a response would be brought back to the next meeting of the Audit Committee.

ACTION AGREED:

The Committee considered the progress made to date in respect of improving the Information Governance arrangements in the City Council.

11. CIPFA Consultation: Role of Head of Internal Audit

The Chief Internal Auditor presented a report which updated the Committee on CIPFA's consultation on the draft statement regarding the role of the Head of Internal Audit in public sector organisations.

Members were advised that the Council was required by the Accounts and Audit Regulations 2006 (as amended) to maintain an adequate and effective internal audit service. CIPFA was the key professional body responsible for providing guidance on the adequacy and effectiveness of internal audit in local authorities.

On 19 May 2010 CIPFA published its consultation on its statement on the role of the Head of Internal Audit (HIA) in public service organisations. The statement set out best practice for HIAs to aspire to and for Audit Committees, and others to measure internal audit against.

The statement set out an overarching principles-based framework which was intended to apply to all HIAs in the UK. The statement drew on the best practice and regulatory requirements in public service, as well as the requirements of CIPFA, other professional accountancy bodies and the Institutes of Internal Auditors' codes of ethics and professional standards. As well as articulating the core responsibilities of the HIA, the statement also identified the personal and professional skills needed.

CIPFA was inviting consultation responses on the draft statement on the role of the Head of Internal Audit. A briefing note had been prepared and issued to Audit Committee Members in July 2010. The deadline for responses to the consultation was 10 September 2010. The responses from the Audit Committee had been collated and were available to view in Appendix C to the main report.

Members were advised that if they were happy with the response drafted then it would be sent to CIPFA as part of the consultation exercise.

ACTION AGREED:

The Committee supported the suggested responses to the consultation questions posed by CIPFA, without further comment.

12. Audit Commission Update

The Chief Internal Auditor presented a report which updated the Committee on the changes proposed by central government in relation to the Audit Commission and the impact on public sector organisations.

Following the change in government in May 2010, there had been a number of proposals released which would impact on local government and in particular on the Council's Audit Committee. It had subsequently been announced on 13 August 2010 by the Communities and Local Government Secretary that there were plans to disband the Audit Commission.

The Audit Commission's responsibilities for overseeing and delivering local audit would end and audit functions would be moved to the private sector, with the audit's in-house audit practice transferred out of public ownership. Local authorities would be free to appoint their own independent external auditors and there would be a new audit framework for local health bodies. The NAO would provide the oversight role for the audit of local government and health and a new decentralised audit regime would be established. Communities and the Local Government would work with the Audit Commission, the accountancy profession and the local government and health sectors to develop the detailed design of the new systems. The aim was for such a system to be in place from the 2012 / 2013 financial year with the necessary legislation being sought in this parliamentary session.

Members were advised that for local government these changes were part of the governments wider focus on transparency and its focus on helping local people hold councils and local public bodies to account for spending decisions.

Members requested clarification as to whether there would be any savings generated as a result of the removal of the Audit Commission. Members were informed that any savings would be difficult to quantify at the present moment in time, although the disbandment of the CAA would attract a cost of approximately £100,000. A lighter touch regime would probably be put in place to replace this, but it was expected that this replacement would be cheaper.

Members requested to be kept up to date with progress and commented that any work which could be implemented in order to raise the profile and valuable role of Internal Audit across the community, such as through work with the Neighbourhood Councils, should be undertaken.

ACTION AGREED:

The Committee was advised of the changes from central government which would impact on the workings of the Council and in particular the Audit Committee.

13. Feedback Report

The Chief Internal Auditor submitted the latest Feedback Report for consideration.

Members were advised that there were no specific issues requiring action which had been highlighted at any of the previous meetings of the Audit Committee.

ACTION AGREED:

The Committee noted the Feedback Report.

14. Work Programme 2010 / 2011

The Chief Internal Auditor submitted the latest version of the Work Programme for the municipal year 2010 / 2011 for consideration and approval.

Members were advised that the main item coming to the next meeting of the Audit Committee was the scrutiny of the Council's final accounts following the External Audit Review.

Members were further advised that there would be a half hour briefing session held before the next meeting of the Audit Committee.

ACTION AGREED:

The Committee noted and approved the 2010 / 2011 Work Programme.

7.00pm - 8.10pm
Chairman