



**MINUTES OF A MEETING OF THE AUDIT COMMITTEE  
HELD AT THE TOWN HALL, PETERBOROUGH ON 21 SEPTEMBER 2015**

Present: Councillors Aitken (Vice Chairman), Over, Sharp, F Fox, Shaheed, Thulbourn, Lane and Scott OBE.

Also Present: Councillor Seaton Cabinet Member for Resources

Officers in

Attendance: John Harrison, Corporate Director Resources  
Steven Pilsworth, Service Director Financial Services  
Ben Stevenson, Compliance Manager (Governance)  
Kirsty Nutton, Financial Services Manager - Corporate Accounting  
Kevin Dawson, Head of Resilience  
Karen S Dunleavy, Democratic Services Officer

Also in

Attendance: Julian Rickett, PricewaterhouseCoopers (PWC)  
Karen McIntosh, PricewaterhouseCoopers (PWC)

**1. APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor Sylvester. Councillor Johnson was in attendance as a nominated substitute.

**2. DECLARATIONS OF INTEREST**

There were no declarations of interest.

**3. MINUTES OF THE MEETING HELD ON MONDAY, 29 JUNE 2015**

The minutes of the meeting held on Monday, 29 June 2015 were approved as an accurate and true record.

**4. AUDIT OF STATEMENT OF ACCOUNTS**

The Corporate Director Resources and Financial Services Manager introduced the report to Audit Committee Members on the Audit of Statement of Accounts (SoA), which was in line with the regular pattern of reporting on the Council's financial position. The Corporate Director Resources also advised Audit Committee Members that there had been a difference of opinion held between Peterborough City Council (PCC) and external auditors PwC in respect of the Council's valuation and accounting treatment for schools. Members of the Audit Committee also received an amendment to the statement of accounts report, which had been circulated prior to the meeting and attached at appendix one of these minutes.

Julian Rickett from (PWC), also highlighted a number of key points for Members attention in relation to the Audit of Statement of accounts report.

Key points highlighted included:

- Report to those charged with governance;
- The majority of outstanding matters had been satisfactorily resolved and ahead of deadlines, however, there were some outstanding issues in relation to bank loans and two minor queries in relation to employees salary;
- There had been some changes made in relation to risk assessments for ISAs for property, plant and equipment. This was a national approach by PwC;
- Significant risks audit and accounting matters such as valuation of property, plant and equipment. It was appreciated by PwC that different valuers applied a different approach;
- Land valuations were within an acceptable range;
- School valuation treatment;
- Pension liability and the actuary valuation;
- Corrected and uncorrected misstatements in the accounts, which PwC had credited the PCC Finance Team for;
- Appropriate treatment of school title deeds;
- Value for money of service for the work undertaken by PwC;
- Risk of fraud; and
- PwC fees and expected outturn.

The Corporate Director Resources and Financial Services Manager and Julian Rickett (PwC), responded to comments and questions raised by Members. A summary of responses included:

- The £6,669 fee for assessing the accounting treatment of schools had related to the additional work undertaken by PwC which followed CIPFA rulings and did not cover the audit of individual schools;
- Each school asset in relation to the different types of schools such as Local Authority (LA) or foundation required a different audit treatment;
- The pension liability amount would always be audited regardless of the size of the figure and PwC's responsibility would be to ensure that it was outlined correctly within the statement of accounts;
- PwC would comment on the property, plant and equipment outlined within the statement of accounts as it was such a large figure within PCC's financial accounts;
- PwC would comment on the budget gap in terms of a conclusion for the delivery of value for money in relation to securing financial resilience;
- The higher PCC increased payments into pension funds to remove the gap, the wider the budget deficit would be within the current financial year;
- PCC relied on the tri-annual valuation of the pension fund set by the actuary to determine PCCs financial commitments for pensions;
- There had been a pot of money, assets and investments to help meet the future pension liabilities gap, however, the funds were not enough to cover the full obligation;
- The Local Authority pension scheme had been nationally defined by the Government and was not something that could be changed at a local level;
- The LA pension scheme had been changed by the Government over the years in terms of when staff could retire and the level of contributions they may wish to pay in;
- It was anticipated that there would be further changes to the LA pension scheme made by the Government in future;
- The next pension valuation from the actuary was due in 2017/2018, which would feed into the Medium Term Financial Plan process;

- Councillor Seaton the Cabinet Member for Resources commented that the pension deficit was shared between PCC and the County Council and that the deficit was a fairly a common issue across all Councils;
- The pension liability amount of £75.3m which was outlined within the SoA report on page 30, had demonstrated that the figure was beneficial due to the gain of £19m from the previous year's actuary valuation;
- The methods used to work out the pension figure were met by taking into account mortality rate and investments, which were variable and would drive the deficit figure to escalate; and
- The change in range of discounting the pension scheme liabilities had impacted the Local Authority from 4.3% in previous year to 3.2% when predicting the pension amount payable in the future.

#### **The Committee:**

1. Received and approved the "Report to those charged with governance (ISA260) 2014/15 Audit" from PricewaterhouseCoopers (PwC), the Council's external auditors; and
2. Received and approved the audited Statement of Accounts 2014/15.

## **5. RISK MANAGEMENT: STRATEGIC RISKS**

The Head of Resilience introduced the report to Audit Committee Members, which provided a quarterly update on the Risk Management and Business Continuity position for the Council.

The key points highlighted included:

- The Strategic Risks were reviewed on a quarterly basis;
- The impact of demographic changes had been included in all plans;
- Safeguarding had shown as a high risk;
- The financial position for the LA had also increased recently; and
- Information governance.

The Head of Resilience responded to comments and questions raised by Members. In summary responses included:

- High risks such as safeguarding, would be monitored and reviewed every three months by CMT. The shorter term risks that fluctuated would be reviewed every six months;
- Additional measures would be introduced for higher risk service issues; such as the recent recruitment campaign to employ 'alternatively qualified workers' to support social workers in order to mitigate the safeguarding risk for Peterborough's vulnerable cohort;
- The budget risk was a longer term issue due to the nature of the City and government pressures, which could mean that the financial situation would not improve over a short period of time and it was difficult to predict the financial situation long into the future;
- Members commented that there had been a national issue experienced with the recruitment of social workers and that the LA's plans to improve the situation locally had been innovative. It had been anticipated that there would be an idea in the next six months as to whether the situation had improved for the LA; and

- Members also commented that Audit Committee's in other Local Authorities had undertaken an active role in driving non-performance, which had proved effective in driving down risks.

**The Committee:**

Considered and noted the report and thanked the Head of Resilience for a good report.

**INFORMATION AND OTHER ITEMS**

**10. USE OF REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA)**

The Compliance Manager (Governance) introduced the RIPA report for the period 1 March 2015, which outlined the use of the Council's covert surveillance to investigate issues such as fly tipping.

The key points highlighted included:

- There were proposals for the Council to install covert surveillance cameras in strategic positions throughout Peterborough to address fly tipping. The use would be reported to Audit Committee in the usual way;
- The Protection of Freedoms Act 2012 introduced a criminal threshold for council's intending to use RIPA powers. The offence must be punishable by a maximum minimum of six months imprisonment or related to the underage sale of restricted products;
- Robust surveillance procedures and the judicial approval of RIPA use as appropriate;
- RIPA powers had been last used in February 2015 in relation to the sale of tobacco to under age customers;
- The recent three yearly inspection conducted by the Office of the Surveillance Commissioner (OSC), which was a positive and helpful process in respect of recommendations made about PCC's policies, procedures and training on the use of RIPA; and
- An update report would be presented to Audit Committee, which had been intended to outline how the OSC inspector's recommendations had been implemented.

The Compliance Manager (Governance) responded to comments and questions raised by Members. In summary responses included:

- The criminal threshold included the minimum/maximum punishment of six months imprisonment and also for offences in relation to the underage sales of age restricted products, however, it was believed that there were usually warnings issued in the first instance for such sales;
- RIPA provided a framework, which allowed the Council to demonstrate why it had undertaken surveillance action;
- The Council had to seek internal approval for the use of RIPA in the first instance and then from a Justice of the Peace before any surveillance action can be undertaken. Issues such as planning enforcement may fall outside of the RIPA process due to the fact that the issue may not meet the crime threshold. However, the Council would apply the same reasonableness and proportionate criteria when planning issues were investigated; and

- Surveillance cameras used to identify fly tipping offences would be placed in locations where intelligence indicated that there was a high risk of fly tipping. This may be based on reports and regular incidents.

**The Committee:**

1. Received, considered and endorsed the report on the use of RIPA for the period since 1 March 2015; and
2. Noted the recommendations of the OSC inspection and agreed a further report to Audit Committee regarding actions against the recommendations.

**11. APPROVED WRITE-OFFS EXCEEDING £10,000**

The Committee noted that there had been no write-offs for the Council exceeding £10,000.

**12. FEEDBACK REPORT**

The Chairman introduced a report, which provided feedback on items considered or questions raised at the previous meeting of Audit Committee. It also provided an update on specific matters which were of interest to the Committee or where the Committee had requested to be kept informed of progress.

**The Committee:**

Noted the report.

**13. WORK PROGRAMME**

The Chairman submitted the latest version of the Work Programme for the Municipal Year 2015/2016 for consideration and approval. The standard report provided details of the proposed Work Programme for the Municipal Year 2015/2016 together with any training needs identified.

**The Committee:**

Noted and approved the 2015/2016 Work Programme.

7:00pm – 7:55pm  
Chairman

#### **Item 4 - Main report**

References to Audit Committee Terms of Reference should be 2.2.1.18 and 2.2.1.19, not 2.2.18 and 2.2.19 as stated in the report (p9 section 2.2 and p16 section 7.1).

#### **Item 4 – App 3 - Statement of Accounts 2014/15 –**

Audit work continued after the agenda had been dispatched and PwC have asked for the following changes to be made to the final Statement of Accounts. These changes have been incorporated into the Statement of Accounts signed this evening by the Chair of the Committee and the Corporate Director: Resources.

Note 15 – Amounts Reported for Resource Allocation Decisions.

- Changes to Note 15 to reflect amendments related to the disposals adjustment, not updated in time for paper dispatch.
- Table 1 (Reports pack p105, Statement of Accounts p32) – **Portfolio Income & Expenditure for 2014/15** - Resources - other services expenses changed to £215,006.with changes to totals. Change to Amounts Included in the Analysis not Included in the Comprehensive Income and Expenditure Statement to -£36,130.
- Table 2 (Reports pack p106, Statement of Accounts p33) – **Reconciliation to Subjective Analysis 2014/15** - Portfolio Analysis – Other Service Expenses changed to £323,909 and changes to totals. Amounts not included in CIES - Other Service Expenses changed to -£36,185
- Revised tables are in the following pages. Figures which have changed have been highlighted.

Note 44 – Assumptions made about the Future and Other Major Sources of Estimation Uncertainty (Reports pack p –

- Property, Plant and Equipment – increase in annual depreciation charge for every year that useful life is reduced changed to £491k and 2.21% increase. Effect of 1% fall in market value changed to £638k.
- Pensions Liability - Effect of 0.5% decrease in discount rate assumption changed to 11% and £68m. Effect of 0.5% increase in the salary increase rate changed to £19m. Effect of 0.5% increase in the pension increase rate changed to 8% and £48m.

<b>Portfolio Income &amp; Expenditure for 2014/15</b>	<b>ASC H&amp;W*</b>	<b>Chief Executives</b>	<b>Children's Services</b>	<b>Communities</b>	<b>Governance</b>	<b>Growth &amp; Regeneration</b>	<b>Resources</b>	<b>2014/15 Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Fees, charges & other service income	(16,143)	-	(2,385)	(7,630)	(7,109)	(3,160)	(32,691)	(69,118)
Government Grants	-	-	(437)	(12,807)	(275)	(1,655)	(235,480)	(250,654)
<b>Total Income</b>	<b>(16,143)</b>	<b>-</b>	<b>(2,822)</b>	<b>(20,437)</b>	<b>(7,384)</b>	<b>(4,815)</b>	<b>(268,171)</b>	<b>(319,772)</b>
Employee expenses	9,875	275	14,346	13,307	7,502	4,616	90,837	140,758
Other service expenses	48,151	196	4,497	49,492	5,888	13,823	215,006	337,053
<b>Total Expenditure</b>	<b>58,026</b>	<b>471</b>	<b>18,843</b>	<b>62,799</b>	<b>13,390</b>	<b>18,439</b>	<b>305,843</b>	<b>477,811</b>
<b>Net Expenditure</b>	<b>41,883</b>	<b>471</b>	<b>16,021</b>	<b>42,362</b>	<b>6,006</b>	<b>13,624</b>	<b>37,672</b>	<b>158,039</b>
<b>Reconciliation of Portfolio Income &amp; Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement</b>								
								<b>158,039</b>
								40,519
								<b>(36,130)</b>
								<b>162,428</b>

\*ASC H&W is an abbreviation for Adult Social Care, Health & Wellbeing

## Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of portfolio income and expenditure relate to a subjective analysis of the '(Surplus) / Deficit on the Provision of Services' line included in the Comprehensive Income and Expenditure Statement.

Reconciliation to Subjective Analysis 2014/15	Portfolio Analysis	Amounts not Reported to Mgmt <sup>1</sup>	Amounts not included in CIES <sup>2</sup>	Allocation of Recharges	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, Charges & Other Service Income	(68,920)	6,637	6,360	9,320	(46,603)	(9,262)	(55,865)
Interest & Investment Income	(198)	-	198	-	-	(239)	(239)
Income from Council Tax	-	-	-	-	-	(58,947)	(58,947)
NDR Income	-	-	-	-	-	(45,098)	(45,098)
Government Grants & Contributions	(250,654)	(5,859)	7,112	-	(249,401)	(82,812)	(332,213)
<b>Total Income</b>	<b>(319,772)</b>	<b>778</b>	<b>13,670</b>	<b>9,320</b>	<b>(296,004)</b>	<b>(196,358)</b>	<b>(492,362)</b>
Employee Expenses	140,758	(6,316)	(471)	-	133,971	9,836	143,807
Other Service Expenses	323,909	(5,807)	(36,185)	-	281,917	14,521	296,438
Support Services Recharges	-	-	-	(9,320)	(9,320)	-	(9,320)
Depreciation, Amortisation & Impairment	-	51,864	-	-	51,864	2,448	54,312
Interest Payments	13,144	-	(13,144)	-	-	13,233	13,233
Precepts & Levies	-	-	-	-	-	1,038	1,038
Payments to Housing Capital Receipts Pool	-	-	-	-	-	2	2
Movement on Revaluation of Assets Held for Sale	-	-	-	-	-	-	-
Loss on Disposal of Non-Current Assets	-	-	-	-	-	31,744	31,744
<b>Total Expenditure</b>	<b>477,811</b>	<b>39,741</b>	<b>(49,800)</b>	<b>(9,320)</b>	<b>458,432</b>	<b>72,822</b>	<b>531,254</b>
<b>Deficit / (Surplus) on the Provision of Services</b>	<b>158,039</b>	<b>40,519</b>	<b>(36,130)</b>	<b>-</b>	<b>162,428</b>	<b>(123,536)</b>	<b>38,892</b>

<sup>1</sup> Amounts not reported to Management are accounting entries over which the Management have no control ie IAS19 pension adjustment the accumulated compensated absences adjustment, capital charges and capital grants.

<sup>2</sup> Amounts not included in the Comprehensive Income and Expenditure Statement (CIES) are the Trading Units which are shown in Other Operating Income & Expenditure rather than in the Cost of Services in the Comprehensive Income and Expenditure Statement.