

**(DRAFT) ANNUAL REPORT FROM
THE CHAIR OF AUDIT COMMITTEE
2013 / 2014**

Assurance

Governance

Accountability

Risk Management

Independence

AUDIT COMMITTEE: ANNUAL REPORT 2013 / 2014

INTRODUCTION

MEMBERSHIP AND MEETINGS

KEY ACTIVITIES AND TRAINING DURING THE MUNICIPAL YEAR

PLANS FOR 2014 / 2015

INTRODUCTION

This is the 5th annual report produced by Peterborough City Council's Audit Committee. It is produced in accordance with latest best practice¹ and shows that the Council is committed to working as an exemplar organisation, operating the highest standards of governance. The report shows how the Audit Committee has successfully fulfilled its terms of reference and has endeavoured to improve the Council's governance and control environments.

The Audit Committee was established by the City Council at its meeting in May 2006. Following its first year of operation, the membership was reduced from 10 to 7 members. This has subsequently been increased to 8 in 2012/13, following the incorporation of the Sub Committee to the Audit Committee into its Terms of Reference.

The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risks and weakens the control environment, and to oversee the financial reporting process.

The key benefits of an Audit Committee can be seen as:

- Raising greater awareness of the need for internal control and the implementation of both internal and external audit recommendations;
- Increasing public confidence in the objectivity and fairness of financial and other reporting;
- Reinforcing the importance and independence of internal and external audit and similar review processes; and
- Providing additional assurance through a process of independent and objective review.

The Terms of Reference for the Committee can be found at **Annex A** of this report.

This report sets out the work undertaken by the Committee for 2013 / 2014 and specifically highlights those areas where its scrutiny and review process has made a difference to performance. The Committee has overseen good progress in all areas under its supervision.

Audit Committee members have received training on key issues throughout the year, and further details of this can be found later in this report.

MEMBERSHIP AND MEETINGS

During 2013 / 2014, the Audit Committee met on the following dates:

- 6 June 2013
- 24 June 2013
- 23 September 2013
- 4 November 2013
- 3 February 2014

The last Audit Committee meeting for the Municipal Year is due to be held on 24 March 2014.

The Audit Committee membership increased from 7 to 8 following the incorporation of the Sub Committee to the Audit Committee into the Terms of Reference. There is a cross representation of all parties in accordance with the make up of the Council. The members for 2013 / 2014 were (excluding substitutes):

¹ Best practice as contained in the Chartered Institute of Public Finance and Accountancy (CIPFA) document "A Toolkit for Local Authority Audit Committees"

Table 1: Audit Committee Membership 2013 / 2014

Conservative	Peterborough Independent Forum	Liberal Democrats	Labour
Lamb (Chair) Harper (Vice Chair) Arculus Lee	Lane Fletcher	Sandford	Knowles

A number of Audit Committee members also sit on various other committees and panels. On occasions there may be clashes with the Audit Committee and where this occurs, apologies are received for any episodes of non-attendance and where available, substitutes attend.

Senior officers from the Council are also present, including the Executive Director of Strategic Resources, Chief Internal Auditor and the Head of Strategic Finance. Dependent on the subject matter on the agendas, other officers will attend in addition to external representation from the Councils' External Auditor and Relationship Manager.

KEY ACTIVITIES AND TRAINING DURING THE MUNICIPAL YEAR

Background

The Audit Committee's original terms of reference covers 6 main areas:

- Internal Audit
- Internal Control and Corporate Governance
- Annual Accounts
- Risk management
- External Audit
- Counter Fraud and Irregularities

Following abolition of the national Standards regime, Members Code of Conduct was then incorporated into the Terms of Reference for this committee.

Internal Audit

2.2.1 Terms of Reference

2.2.1.1	To consider the annual report and opinion of the Executive Director – Strategic Resources and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the council's corporate governance arrangements.
2.2.1.2	To consider summaries of specific internal audit reports as requested.
2.2.1.3	To consider reports dealing with the management and performance of the providers of internal audit services.
2.2.1.4	To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale
2.2.1.9	To commission work from internal and external audit.

24 June 2013

- *Effectiveness of Internal Audit.* Each year, as part of the production of the Annual Governance Statement which accompanies the Accounts, the Audit Committee also reviewed the effectiveness of the system of internal audit noting planned actions to address any areas of partial compliance. In addition, comparisons were made with the new Public Sector Internal Audit Standards.
- *Annual Audit Opinion.* Internal Audit produces an Annual Audit Plan which forms the basis of their audit activity. Progress is noted throughout the year and an independent annual report is produced highlighting assurances obtained across the organisation as well as any misgivings into the effectiveness of controls. The report also sets out the teams' performance. Where standards have not been maintained across the Council, Audit Committee are provided with Executive Summaries of Audit reports for further scrutiny. Internal Audit concluded that they were able to provide reasonable assurance based on the work reviewed in the year.

4 November 2013

- *Internal Audit Mid-Year Opinion.* The Audit Committee received a half year progress report highlighting internal audit performance against targets and quality assurance results to enable it to review and comment on the work and performance of internal audit. Any areas reviewed which are considered to be weak or requiring attention following Internal Audit activity can result in officers from across the Council being held to account. Similarly, this has been used for officers to explain the non-implementation of recommendations.

24 March 2013

- *Annual Audit Plan.* Audit Committee received the 2014/15 Internal Audit Plans.
- Effectiveness of the Audit Committee – the Committee was due to receive an update on its effectiveness, however training will be provided on the recent best practice standards first. This is proposed to be delivered across Cambridgeshire.

Internal Control and Corporate Governance

2.2.1 Terms of Reference

2.2.1.1	To consider the annual report and opinion of the Executive Director – Strategic Resources and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the council's corporate governance arrangements.
2.2.1.5	To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
2.2.1.10	Regulatory Framework
2.2.1.11	To maintain an overview of the Council's constitution in respect of contract procedure rules, and Financial Regulations.
2.2.1.12	To review any issue referred to it by the Chief Executive or a Director, or any Council body.
2.2.1.15	To oversee the production of the authority's Annual Governance Statement and to recommend its adoption.
2.2.1.16	To consider the council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

3 February 2014

- *Corporate Governance.* The Committee received reports on the updates to the Whistleblowing Policy, which was intended to provide PCC employees and partner agencies with a process in order to highlight concerns regarding issues such as health and safety, bullying and harassment or suspected cases of fraud and corruption. The policy update had been initiated by the recent changes introduced for the Enterprise and Regulatory Reform Act 2013. At its meeting the Committee recommended that the Director of Governance would review Whistleblowing policies of partner organisation in order to ensure that adequate provision was in place to deliver services on behalf of PCC.
- The Committee also received a report on the Anti - Bribery Policy, which was introduced to the Council in line with the Bribery Act 2010, which aimed to highlight any incident of bribery or corruption within the Council. The Committee was encouraged to learn that there had been no incidents or complaints reported under the current procedure.

24 June 2013

- *Annual Governance Statement.* A key role of the Committee is to oversee the Authority's control environment and its associated system of internal controls and assurance processes. The Committee must satisfy itself that the Authority's assurance statements, in particular the Annual Governance Statement, properly reflect the risk environment and any actions needed to improve it. This is done through receiving and scrutinising reports on the relevant areas and calling officers to account where necessary.
- The Committee reviewed the draft Annual Governance Statement on 24 June 2013, noting areas for improvement following a review of internal controls, risk management arrangements and significant governance issues. The Committee agreed to final changes to the Statement prior to its inclusion in the Statement of Accounts.

24 June 2013/23 September 2013

- *Invest to Save Schemes.* Under the Committee’s remit to commission work from external audit, PwC was requested to conduct a scope of work to look at the governance arrangements with respect to elements of the allocation of expenditure within the Council’s budget policy framework. The request was made at the Committee’s meeting held on 27 March 2013.
- Following PwC’s conclusion of not being minded to challenge the Council’s decision making process in order to determine the governance arrangements in response of the allocation of £100m to the ‘Invest to Save’ budget, the Director of Governance was requested to produce a report on the principles followed in terms of allocating the funding for ‘Invest to Save’ Schemes. The report was received by the Committee on 23 September 2013, which outlined the policy, process, authority and legality in relation to the allocation of ‘Invest to Save’ Schemes.

4 November 2013

- *Use of Consultants.* Following the review of consultants used by the Council in 2010, it was recommended, and agreed that Audit Committee would monitor progress. The Committee received an update in November 2013. Following the update the Committee requested a report on the interim positions within Human Resources division, which had been included within the consultancy report.

23 September 2013

- *Revised Contract Regulations.* The Committee received an update to the existing Contract Regulations under Part 4, Section 11 of the Council’s Constitution, which was last reviewed in 2007. Within the Audit Committee’s role of maintaining and overseeing the Council’s contract procedures and financial regulations, it recommended the revised Contract Rules to Council for inclusion within the Constitution and to replace the Contract Regulations.

Annual Accounts

2.2.1 Terms of Reference

2.2.1.17	Accounts
2.2.1.18	To review the annual statement of accounts, specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
2.2.1.19	To consider the external auditors report to those charged with governance on issues arising from the audit of the accounts.

24 June 2013

- *Budget Monitoring: Final Outturn 2012 / 2013 and Statement of Accounts.* The Committee reviewed and scrutinised the outturn and Statement of Account on 24 June 2013 prior to its submission to the external auditors for audit. Change in legislation has meant that the Committee do not have to normally do this, but it was seen as good practice to adopt. The Committee then approved the Statement of Accounts for 2012 / 2013 and authorised its signing by the Chair. The Committee delegated authority to the Executive Director of Strategic Resources to make, following consultation with the Portfolio Holder for Resources, any non-material amendments to the Accounts arising from the external audit to be carried out by the Audit Commission between July and September 2013.

23 September 2013

- Following scrutiny by External Audit, the *Audit of Statement of Accounts and Report to those charged with Governance* was submitted to the Committee.

4 November 2013

- *Treasury Management Update*. A separate report was submitted which outlined the councils approach to Treasury Management, in line with agreed practices identified in the Medium Term Financial Strategy. Further details are also set out in the outturn reports submitted in June each year.

Risk Management

2.2.1 Terms of Reference

2.2.1.10	Regulatory Framework
2.2.1.13	To monitor the effective development and operation of risk management and corporate governance in the council.

24 March 2014

- *Risk Management: Strategic Risk*. The Committee was due to receive an update report on the strategic risks for the Council.

External Audit

2.2.1 Terms of Reference

2.2.1.5	To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
2.2.1.6	To consider specific reports as agreed with the external auditor.
2.2.1.7	To comment on the scope and depth of external audit work and to ensure it gives value for money.
2.2.1.8	To liaise with the Audit Commission over the appointment of the council's external auditor.
2.2.1.9	To commission work from internal and external audit.

23 September 2013

- Following scrutiny by External Audit, the *Audit of Statement of Accounts and Report to those charged with Governance* was submitted to the Committee. Following review the Committee approved and agreed the:
 - audited Statement of Accounts for 2012 / 2013 and adjustments;
 - signing by the Executive Director of Strategic Resources of the Council's letter of representation; and
 - actions to be taken in respect of the issues identified by the auditors that did not result in changes to the accounts.

3 February 2013

- Committee scrutinised the Annual Audit and Inspection Letter in respect of 2012 / 2013 and considered the Annual Grant Claims Certification.

24 March 2014

- Annual Audit Plan.

Counter Fraud & Irregularities

2.2.1 Terms of Reference

2.2.1.10	Regulatory Framework
2.2.1.13	To monitor the effective development and operation of risk management and corporate governance in the council.

23 September 2013

- The Committee received an annual report highlighting counter fraud and irregularity work over the previous year. The Committee's review of the work and performance of the counter fraud team showed strong support and interest.

23 September 2013 / 4 November 2013

- Quarterly update reports have been provided into the use of RIPA. A report is due to be presented to the Committee at its meeting scheduled for 24 March 2014.

Member Code of Conduct

2.2.1 Terms of Reference

2.2.1.20	Promoting and maintaining high standards of conduct by Councillors and co-opted members
2.2.1.21	Assisting the Councillors and co-opted members to observe the Code of Conduct
2.2.1.22	Advising the Council on the adoption or revision of the Code of Conduct
2.2.1.23	Monitoring the operation of the Code of Conduct
2.2.1.24	Advising, training or arranging to train Councillors and co-opted members on matters relating to the Code of Conduct
2.2.2	Terms of Reference of the Hearing Panel (sub-committee to the Audit Committee). The Hearings Panel is a sub-committee of the Audit Committee. The Panel has the following functions:
1	When matters are referred by the Monitoring Officer granting dispensations to Councillors and co-opted members allowing them to (A) participate in the debate and / or (b) vote on any matter in which they have a disclosable pecuniary interest;
2	On matters being referred by the Monitoring Officer deciding whether complaints concerning members should be investigated
3	Hearing complaints that have been referred to them by the Monitoring Officer pursuant to the Complaints procedure
4	The agreement of relevant procedures for the undertaking of its functions, when appropriate to be included within the Constitution

6 June 2013

Outcome of Standards Complaints under the previous regime (pre July 2012). The Committee received a report on the position in respect of all the outstanding complaints prior to the introduction of the new standards regime in July 2012. The Committee also received an update on the appointment of the Deputy Independent Person. Following the update the Committee put forward suggestions with regards to the recruitment campaign for the Deputy Independent Person.

Training

Throughout the year, the provision of ongoing training to Members has been the cornerstone of developing members (new and existing). During the year, officers provided presentations on:

- Preparation and scrutiny of the Statement of Accounts and the impact of International Financial Reporting Standards on these;
- Risk management and business continuity; and
- Verto – The Council’s project recording system.

The Chief Internal Auditor was exploring regional training opportunities relating to the Effectiveness of Audit Committee in light of the recent adoption of the new standards.

FUTURE DEVELOPMENTS AND PLANS FOR 2014 / 2015

Overall, the Audit Committee want to continue to develop and build on our current achievements. For 2014 / 2015 this will involve:

- Continuing to drive up standards of corporate governance;
- Continuing to equip existing and any new Members to fulfil the Committee’s responsibilities by providing or facilitating training on all aspects of the Committee’s remit;
- Assisting and supporting officers to promote the work of the Committee and the roles of internal audit, external audit and risk management;
- Supporting the continued production of high quality and compliant statutory accounts;
- Helping to further increase awareness within the Council of its governance arrangements, with particular emphasis on information; and
- Providing effective challenge to officers, raising awareness for sound internal control arrangements and giving assurance to the Authority that its control arrangements are sound.

2.2 AUDIT COMMITTEE: TERMS OF REFERENCE²

2.2.1 Terms of Reference

- 2.2.1.1 To consider the annual report and opinion of the Executive Director – Strategic Resources and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the council's corporate governance arrangements.
- 2.2.1.2 To consider summaries of specific internal audit reports as requested.
- 2.2.1.3 To consider reports dealing with the management and performance of the providers of internal audit services.
- 2.2.1.4 To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale
- 2.2.1.5 To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
- 2.2.1.6 To consider specific reports as agreed with the external auditor.
- 2.2.1.7 To comment on the scope and depth of external audit work and to ensure it gives value for money.
- 2.2.1.8 To liaise with the Audit Commission over the appointment of the council's external auditor.
- 2.2.1.9 To commission work from internal and external audit.
- 2.2.1.10 **Regulatory Framework**
- 2.2.1.11 To maintain an overview of the council's constitution in respect of contract procedure rules, and Financial Regulations.
- 2.2.1.12 To review any issue referred to it by the Chief Executive or a Director, or any council body.
- 2.2.1.13 To monitor the effective development and operation of risk management and corporate governance in the council.
- 2.2.1.14 To monitor council policies on "raising concerns at work" and the anti-fraud and anti-corruption strategy and the council's complaints process.
- 2.2.1.15 To oversee the production of the authority's Annual Governance Statement and to recommend its adoption.
- 2.2.1.16 To consider the council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.
- 2.2.1.17 **Accounts**
- 2.2.1.18 To review the annual statement of accounts, specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
- 2.2.1.19 To consider the external auditors report to those charged with governance on issues arising from the audit of the accounts.
- 2.2.1.20 Promoting and maintaining high standards of conduct by Councillors and co-opted members
- 2.2.1.21 Assisting the Councillors and co-opted members to observe the Code of Conduct
- 2.2.1.22 Advising the Council on the adoption or revision of the Code of Conduct
- 2.2.1.23 Monitoring the operation of the Code of Conduct
- 2.2.1.24 Advising, training or arranging to train Councillors and co-opted members on matters relating to the Code of Conduct

² (Source: Constitution: Part 3, Delegations Section 2 - Regulatory Committee functions. Approved Annual Council)

2.2.2 Terms of Reference of the Hearing Panel (sub-committee to the Audit Committee).

The Hearings Panel is a sub-committee of the Audit Committee. The Panel has the following functions:

- 1** When matters are referred by the Monitoring Officer granting dispensations to Councillors and co-opted members allowing them to (A) participate in the debate and / or (b) vote on any matter in which they have a disclosable pecuniary interest;
- 2** On matters being referred by the Monitoring Officer deciding whether complaints concerning members should be investigated
- 3** Hearing complaints that have been referred to them by the Monitoring Officer pursuant to the Complaints procedure
- 4** The agreement of relevant procedures for the undertaking of its functions, when appropriate to be included within the Constitution