

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE  
HELD AT THE TOWN HALL, PETERBOROUGH ON 7 JUNE 2010**

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

Officers in attendance: Steve Crabtree, Chief Internal Auditor  
Steven Pilsworth, Head of Strategic Finance  
Diane Baker, Compliance and Ethical Standards Manager  
Israr Ahmed, Lawyer  
Gemma George, Senior Governance Officer

**1. Apologies for Absence**

Apologies were received from Councillor Stokes and Councillor Goldspink.

Councillor Nash attended as substitute.

**2. Declarations of Interest and Whipping Declarations**

There were no declarations of interest.

**3. Minutes of the Meeting held on 29 March 2010**

As there were no Members of the meeting held on 29 March 2010 present, the Chair of the Audit Committee requested that the minutes be circulated electronically to the previous Audit Committee Members for their comments.

Members were advised that the minutes would then be brought back to the next meeting of the Audit Committee for final approval.

**4. Annual Audit Committee Report 2009 / 2010**

The Chief Internal Auditor presented the Annual Audit Committee Report 2009 / 2010. The report had been produced in consultation with the previous Chair of the Audit Committee and had been circulated to the new Chair in order to attach some ownership on the proposals to move forward in the year.

The Audit Committee had been in operation since Annual Council in May 2006, its first meeting being held in June 2006. The Committee had a wide ranging remit which underpinned the Council's governance processes by providing independent challenge and assurance of the adequacy of risk management, internal control including internal audit, anti-fraud and the financial reporting framework.

Best practice recommended by relevant professional bodies was that audit committees should produce an annual report which detailed the work of the committee for the municipal year and set out its plans for the future.

Members' attention was drawn to Appendix B of the report, which highlighted Member attendance at the Audit Committee meetings throughout 2009 / 2010. The Chair of the Audit Committee commented that the attendance figures were disappointing and Members were reminded that if they could not attend a meeting for whatever reason, a substitute member should be contacted and requested to attend in their stead.

**ACTION AGREED:**

The Committee approved the Annual Audit Committee Report 2009 / 2010.

**5. Fraud and Irregularity 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 combating fraud and its delivery over the period April 2009 – March 2010.

The public was entitled to expect the Council to conduct its affairs with integrity, honesty and openness and to demand the highest standards of conduct from those working for it. The Council had shown its commitment to addressing this expectation by creating a dedicated investigation team, which had come to be known as the Compliance and Ethical Standards Team (CEST). The team was tasked with investigating all allegations of fraud, impropriety, breaches in codes of conduct and high level complaints. The team comprised corporate investigations, benefit fraud investigations and information management and had been in operation since 1 April 2007, with the information management stream joining in January 2008.

The Fraud and Irregularity Annual Report 2009 / 2010 demonstrated the success of the Investigation Team and provided an insight into how the service would continue to operate as a key operation within the Council.

Members were advised that fraud cost the UK around £30 billion every year, with benefit fraud costing £1.1 billion alone. The Council's highest type of investigation undertaken was around benefit fraud. This would always be the greatest risk faced by local authorities owing to the high volumes of payments and the complexities of legislation. The Compliance and Ethical Standards Team worked closely with the Benefits Service in order to reduce the incidents of fraud and error entering the system.

Members were further advised that an emerging issue was around Blue Badge fraud. A decision had been taken to move the entire Blue Badge service to the Compliance and Ethical Standards Team from 1 April 2010. This move would ensure that a robust approach was adopted not only at the enforcement stage of the process but also during the award stage of a Blue Badge, when fraud was often perpetrated.

The Committee was informed that training on fraud would be provided by both CEST and Internal Audit and further reports would be brought back to future meetings highlighting work undertaken.

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

- Members requested further insight into Blue Badge fraud and the effects of moving the service to the Compliance and Ethical Standards Team. Members were advised that moving the service had meant the implementation of another member of staff within the team, funded by the operations budget. Further figures would be provided to the Audit Committee highlighting how many Blue Badge applications were being dealt with on an annual basis.
- A query was raised regarding the number of incidents of fraud which had been investigated in comparison to the number of referrals which had been received. There appeared to be a substantial gap in the numbers. The Compliance and Ethical Standards Manager addressed the query and stated that all cases were subject to a risk assessment and could be referred to the department for work and pensions or the benefit team for example. All cases were taken on or referred apart from those where the information was so poor they could not be followed up.
- Members questioned what level of resources had been directed towards combating electoral fraud during the recent general election. Members were informed that a high percentage of resources had been directed to the election, this involved the Compliance and Ethical Standards Manager sitting on a working group and being responsible for postal voting and counting fraud. The team as a whole had been seconded for postal voting duties leading up to and during the election. Members were further advised that the team were not permitted to investigate electoral fraud allegations, these were dealt with directly by the police.
- Clarification was sought as to whether the Freedom of Information Requests that were submitted, were publically available. It was confirmed by the Compliance and Ethical Standards Manager that all requests were published on the Councils disclosure log, therefore all requests were available to be viewed by the public.
- Members questioned what the breakdown of the cost of the team was. Members were informed that a third of the team was funded through Central Government, with £138,000 having been received last year. Benefit fraud investigations were solely funded through Central Government. Income was also generated externally in order to fund the team.
- Members sought clarity as to what assurances could be offered during the local elections with regards to the anti-fraud initiative. Members were informed that a process had been adopted which would be carried forward for all elections in the future. The process had been broken down into projects and one of those projects was around anti-fraud. A meeting was due to take place with the police and the project was to be progressed forward in time for the local elections in May 2011.
- The Committee commented that the sentences issued to those people committing benefit fraud were too lenient.

#### **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 2010.

#### **6. Internal Audit Annual Report 2009 / 2010**

The Chief Internal Auditor presented a report to the Committee which provided details of the performance of Internal Audit during 2009 / 2010 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.

Summaries of the work carried out by Internal Audit were documented within the opinion and 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 documented separately within the report. Furthermore, ongoing internal performance indicators were monitored and their level of achievement, or otherwise, were included for information purposes.

The Committee was advised that 57 jobs had been undertaken in the year 2009 / 2010 compared to 62 jobs the previous year. The slight reduction was as a result of larger reviews being undertaken together with internal staffing issues within the Internal Audit Team.

There had been no significant control weaknesses identified for inclusion within the Annual Governance Statement, however there were five audit reviews where recommendations highlighted critical issues requiring immediate action. This was a slight reduction on the previous year. These recommendations related to the audit reviews of Energy Payments, City Services, Children's Services, Jack Hunt Pool Refurbishment and Purchasing Cards. A full summary highlighting the details of the weaknesses and what had been done to rectify them would be brought to a future meeting of the Audit Committee when the reviews were followed up.

The Chief Internal Auditor gave an overview of the additional Appendices attached to the report at Appendix A, these included:

- Appendix B – Audit reports issued: opinion of limited assurance or no assurance; and
- Appendix C – Performance indicators 2009 / 2010

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

- Members queried why the audit opinion for Energy Payments was 'No Assurance'. Members were advised that there had been a change in contractor; however the Council had been continually billed by the old contractor. This meant that a number of duplicate payments may have been made. Also, during the re-tender of the service, a request for a bulk billing system had not been included. As a result, bills had been received in each service area instead of one overall bill. Members were further advised that progress was being made on recovering payments however the supplier had stated that the Council still owed them money. Once the payments had been retrieved a credit would be shown.
- Members requested an update on the two members of staff that had been off long term sick within the Internal Audit Team. The Chief Internal Auditor stated that the members of staff had been managed through Occupational Health and had now returned to work. Because there were only eight people in the Internal Audit Team, two of those members being off long term sick had distorted the sickness figures for the previous year.

## **ACTION AGREED:**

The Committee:

- (1) Received, considered and endorsed the Chief Internal Auditor's Annual Report for the year ended 31 March 2010; and
- (2) Noted the report of the Internal Audit's Performance.

## **7. Annual Governance Statement 2009 / 2010**

The Chief Internal Auditor presented the Annual Governance Statement (AGS) to the Committee and highlighted that the production of the statement formed part of the annual close of accounts process. It was not a financial exercise, but represented a corporate overview of the processes and procedures adopted by the Council to manage its affairs.

The report provided details of the findings of the annual review of the internal control arrangements and sought approval of the draft Annual Governance Statement (AGS) prior to its incorporation in the Statement of Accounts.

The Accounts and Audit Regulations 2003 (amended 2006) required the Council to conduct annual reviews of the systems of internal control and to publish an AGS within its annual financial statements. The format of the AGS was required to be in accordance with CIPFA 'proper practice'. The CIPFA Finance Advisory Network had also issued detailed practical guidance on meeting the requirements of the Accounts and Audit Regulations 2003 (amended 2006). The guidance highlighted the links and overlaps between the production of the AGS and the annual governance review.

The supporting appendices were highlighted to the Committee and included:

- Appendix A – Peterborough City Council Framework for the Annual Governance Statement and the Timetable for its Production;
- Appendix B – Review of the Effectiveness of Internal Audit 2009 / 2010;
- Appendix C – External Audit Opinion;
- Appendix D – Executive Directors / Head of Service Assurance Statement;
- Appendix E – Members Assurance Questionnaire;
- Appendix F – Performance Management and Data Quality;
- Appendix G – Assurance Framework and Risk Management;
- Appendix H – Corporate Governance; and
- Appendix I - Partnerships

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

- Appendix B contained information on staffing training and continual professional development. Members commented that it was highlighted that previous arrangements had been in place which allowed for the temporary recruitment of specialists in areas such as IT Audit. Going forward, this was unlikely to continue due to budgetary issues. How would Internal Audit therefore ensure continued delivery? Members were advised that other ways of delivering were to be looked into. Two staff members were to receive IT auditing training. SERCO, the provider

of outsourced ICT contract, also had IT specialists that could be utilised if required.

- Appendix B contained information on reporting and Members questioned what action was being taken in order to ensure that managers were updating their risk registers. Members were informed that there was an officer in place under the Resilience Manager whose role was to work on that very point. Also, when audit reviews were undertaken a line would be incorporated into the review asking whether the register had been recently updated.
- Appendix G outlined the principal risks to the objectives of the Council, its Partners and Stakeholders. It was highlighted that estate utilisation was a high risk, Members queried why this was and what had been done to mitigate against the risk. The Committee was informed that where assets were no longer required and due to the credit crunch and the growth agenda the markets were depressed and the capital would not be gained back on any sales made.
- Appendix J highlighted significant governance issues, one of those being the collapse of the Icelandic banks and the loss of investment. Members queried whether any of the money invested in the banks had been recovered. The Committee was advised by the Head of Strategic Finance that it was a work in progress and two to three million was expected to be recovered.
- Another significant governance issue which had been highlighted was that of the credit crunch. It was stated that considerable work had been targeted at the impact the recession had had on the citizens of Peterborough. Members questioned what the considerable work had been. Members were informed that monitoring the impact of the credit crunch on residents and the Council financially was planned for the short term. Also, monitoring the stresses placed upon family units. Members were further informed that fewer people were coming into the city centre and parking and there were also fewer planning applications going in, which had a direct impact on the Council's income.
- Members commented that due to all of the empty retail units around city centre, non domestic rates or business rates were not being collected. Members were advised that there was no direct income from these funds in the first instance, as the funds were pooled in Central Government and then distributed out to Local Government.

#### **ACTION AGREED:**

The Committee:

- 1) Reviewed and commented on the supporting appendices (A – I) used to establish assurance on the governance arrangements within the Council;
- 2) Reviewed and commented on the Annual Governance Statement (Appendix J), including any areas which should be amended; and
- 3) Agreed and approved the draft statement for inclusion in the statement of accounts.

#### **8. 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.

**9. 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 of additional items which had been added to the Work Programme since the last approval on 29 March 2010. CIPFA had produced a consultation document on the role of the Head of Internal Audit which highlighted how it saw this role within the public sector. The document was due to be internally reviewed and brought to Audit Committee in September for comment. This would be circulated to Members prior to this so that their views could be incorporated into any consultation response.

Members were further advised that a training session was proposed to take place prior to the next meeting of the Audit Committee in order to run through the Scrutiny of the Final Accounts. Members were requested to provide date and time suggestions for the training session and it was agreed that the session would be held on Monday 21 June, at 6.00pm.

Further training on the risk management process was also requested by the Committee and it was advised that a training session on this subject would be undertaken in September and there was also a chapter contained within the Audit Committee Handbook on the subject.

**ACTION AGREED:**

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

7.00pm - 8.05pm  
Chairman

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