

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
HELD AT THE TOWN HALL, PETERBOROUGH ON 8 FEBRUARY 2010**

Present: Councillors M Dalton (Chairman), North, Kreling, Gilbert, Collins and Goldspink.

Officers in attendance: Steve Crabtree, Chief Internal Auditor
Steven Pilsworth, Head of Strategic Finance
Chris Hughes, PricewaterhouseCoopers
Paul Phillipson, Executive Director of Operations (Item 8)
Alan Hodges, Senior Property Surveyor (Item 8)
Israr Ahmed, Lawyer
Gemma George, Senior Governance Officer

Also in Attendance: Councillor Seaton, Cabinet Member for Resources

1. Apologies for Absence

Apologies were received from Councillor Rush and Councillor Hussain. Councillor Collins attended as a substitute.

2. Declarations of Interest and Whipping Declarations

There were no declarations of interest or whipping declarations.

3. Minutes of the Meeting held on 2 November 2009

The minutes of the meeting held on 2 November 2009 were approved as an accurate and true record subject to the following amendment:

- Item 5, External Audit 2008 / 2009 – Interim Audit Report to Management, second bullet point;

‘Members questioned when Internal Audit had last audited the Oracle Financials System. Members were informed that there had been no review undertaken in 2009, however, there was a regular project/working group which had been set up which Internal Audit were members of and key controls were in place’.

4. External Audit – Annual Audit and Inspection Letter 2008 / 2009

A report was submitted to the Committee which had been prepared jointly by the External Auditors, PricewaterhouseCoopers and the Audit Commission Relationship Manager.

Each year the External Auditor and the Audit Commission Relationship Manager produced an Audit and Inspection Letter which reviewed the Council’s

arrangements and progress in relation to the Audit of the Accounts and Use of Resources.

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

- Members queried why complete audit trails were not being retained, as highlighted in the 'Use of Resources Key Findings and Conclusions – KLOE 2.2, Data Quality and Use of Information. Members were informed that certain indicators were part of the Use of Resources and the detailed evidence was not always there to support them. Members were further informed that the specific indicators not being supported would be outlined to the Committee in the Feedback report at the next meeting.
- Members positively commented on the score achieved by KLOE 1.1, Financial Planning, as detailed in the 'Use of Resources Key Findings and Conclusions' and congratulations were extended to Children's Services after coming within budget in 2008 / 2009 following a £3m overspend in 2007 / 2008.
- Members queried what the current budget position was. Members were advised that the current budget position was an overspend of £800,000 in the current financial year. Members were further advised that there were a number of actions in place to try and reduce this figure.
- Clarification was sought as to why the budget overspend prediction was so high. The Committee was informed that there were several factors including emerging pressures from Children's Services and lost income from Cross Keys Homes VAT shelter.
- Members queried whether the credit crunch had also had an effect on the overspend. Members were advised that the credit crunch had had a significant impact on Council finances, particularly on income. The number of planning applications that had been submitted had declined and income from parking had decreased. It was noted however that people were being encouraged to use public transport.
- Members commented on the fact that the Audit had cost less than was originally proposed by quite a margin and congratulations were extended to the Finance Team for all of the hard work undertaken to complete the letter.

ACTION AGREED:

The Committee approved the Annual Audit and Inspection Letter 2008 / 2009.

5. External Audit – Audit and Inspection Plan 2009 / 2010

The Committee received a report which had been prepared jointly by the External Auditors, PricewaterhouseCoopers and the Audit Commission.

The Audit and Inspection Plan had been prepared to inform the Council about the responsibilities of the External Auditors and how those responsibilities would be discharged. It included the inspection and other work which would be performed by the Relationship Manager during 2009 / 2010. The Plan had been discussed and agreed jointly by Council representatives, External Audit and the Audit Commission.

The Plan had been developed to consider the impact of the recent key developments and risks, based upon discussion with management and understanding of the City Council and the local government sector. The Plan included a number of follow ups and updates to previous reviews and also new risks which had been identified. These included:

- Growth agenda;
- Children's Services;
- Managed IT Services;
- Account for PFI;
- City Services and the Waste Management solution;
- International Financing Reporting Standards;
- Use of Resources; and
- Data Quality

Members questioned how the proposed audit fee of £271,000 for 2009 / 2010 had been calculated. Members were advised that there was a formula for working out the primary fee which was used across all authorities. Based on the budgeted gross expenditure, this generated a fee point determining the risk level of the authority - Peterborough City Council was categorised as being a medium risk. Members were further advised that the fee could decrease or even increase depending on the risk assessment undertaken on the Council and how long it took to complete this risk assessment. The Committee was informed that further information would be included in the next Audit Committee Feedback Report on how the audit fee was calculated and a how long a risk assessment undertaken on the Council would take to complete.

ACTION AGREED:

The Committee considered the Audit and Inspection Plan for 2009 / 2010.

6. Audit Committee – Members Handbook

The Committee received a report which highlighted the reasons for issuing a revised members handbook.

A need had been identified to provide Audit Committee Members with ongoing training to support their role on the Audit Committee, therefore the Chief Internal Auditor had proposed to produce an Audit Committee Handbook. The document had been set up as the initial point of research for Members on Audit Committee matters and provided suggested questions in order that Members could explore various reports brought before the Audit Committee.

The first edition was produced and circulated to Audit Committee Members, the Leader and Deputy Leader of the Council, senior officers, and the External Auditors in February 2008 and was adopted in June 2008.

The document had subsequently been revisited and updated to reflect a revised risk management approach and Assurance Framework together with International Financial Reporting Standards.

Members commented on the excellent work undertaken on the Handbook and requested that a suggestion be fed back to the Scrutiny Team highlighting that it would be beneficial for each Scrutiny Committee to also have a handbook.

ACTION AGREED:

The Committee approved the adoption of the Audit Handbook (2nd Edition).

7. Internal Audit Charter

The Committee received a report which outlined the recent refreshed Internal Audit Charter.

An audit charter was a written statement of the purpose, authority, role, scope and principal responsibilities of an Internal Audit section. It was required because of the unique way in which such a section functioned. Internal Audit needed authority to act outside its own departmental boundaries, in all parts of the Council, so as to provide those charged with governance independent assurance over the control environment. This requirement cut across other hierarchical reporting lines.

This CIPFA Code of Practice specified the need for an Internal Audit Charter approved by those charged with governance. Of particular importance was the need for Internal Audit to be independent. It should have no operational responsibilities, and the Head of Internal Audit should have direct access and freedom to report in his own name, without fear or favour, to all officers and members and particularly those charged with governance. The status of the Internal Audit section, in terms of its reporting lines and the seniority of the Head of Internal Audit was a fundamental aspect of independence.

It was also important that the scope of Internal Audit was not unduly limited. It should cover the whole control environment comprising risk management, internal control and governance. It should also include all the Council's operations, systems, projects, resources, services and responsibilities in relation to other bodies.

The Internal Audit Charter also described certain audit protocols, to enable management to understand their responsibilities in the audit process and to ensure they were made aware of what they could expect from Internal Audit.

Members were advised that the Charter had been refreshed to reflect best practice and once approved, would be widely distributed across the Council.

Members were invited to comment on the revised Internal Audit Charter and the following issues and observations were highlighted:

- Members questioned whether the Internal Audit team had 'no responsibilities' as suggested in the section entitled 'Independence' in the Internal Audit Charter. The Chief Internal Auditor confirmed that there were no operational responsibilities within the Internal Audit Team. Other audit sections had previously had to administer such items as petty cash or controlled stationery, however this did not apply to the Internal Audit Team. Members were further advised that the Internal Audit Team previously delivered Risk Management, but this was no longer the case. Ongoing corporate support was also provided during the yearly Comprehensive Area Assessment.
- Members sought assurance as to whether the Internal Audit Team had sufficient resources. Members were informed that the resources were

based on the current structure in the team. More resources would be favourable if the risk profile of the council worsened in the future and a business case would be submitted in order to acquire these resources if necessary.

ACTION AGREED:

The Committee approved the terms of reference document for Internal Audit, known as the Internal Audit Charter.

8. Internal Audit – Quarterly Report 2009 / 2010 (To 31 December 2009)

The Committee received a report which highlighted Internal Audit performance and progress with regards to the 2009 / 2010 Audit Plan.

The report was comprised of two sections which included:

- Appendix A – Progress of Audit Plan 2009 / 2010 (To 30 September 2009)
- Appendix B – Audit Reports Issued in Quarter 3: Limited / No Assurance

The Chief Internal Auditor provided the Committee with an overview of the report and highlighted the main areas of concern and the progress made against the Plan. The Committee was advised that the member of staff who had previously been off long term sick had now returned to work.

Members were further advised that at the request of the Committee the Executive Director of Operations and a Senior Property Surveyor were present to answer questions relating to the governance problems experienced with the Jack Hunt pool refurbishments.

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

- Members sought further clarity as to the situation with the member of staff who had been off long term sick. Members were informed that the member of staff had returned to work in quarter 4 and was undergoing a phased return that would be complete at the beginning of April 2010. Members were further informed that the individual also had annual leave to take before the end of the financial year.
- A query was raised regarding the vacant post in Internal Audit, would this post be filled? Members were advised that there was a budget for the post and proposals for recruitment would be included in the Audit Plan.
- Members questioned the reason why the Internal Audit Team had decreased from 9.3 FTE to 7.1 FTE in 2008 / 2009, as stated in 'other performance matters' in the main report. Members were informed that there were currently 7.1 FTE in post, with one post vacant bringing the total to 8.1 FTE. There had also been voluntary redundancies in April 2009 which brought the total to 9.3 FTE.
- Members further questioned whether the Chief Internal Auditor was confident in the current level of resources available in the Internal Audit Team. The Chief Internal Auditor advised the Committee that the Audit

Plan would be covered by 8.1 FTE. Subsequently, if Internal Audit continued with 7.1 FTE all areas may not be covered.

- In Appendix A, Assurance Levels and Recommendations, Members positively commented on the full assurance level that had been achieved by Castor Primary School and questioned how often full assurance was achieved by a school? Members were advised that full assurance was very rare across the whole authority and not just through the schools.
- The Chair of the Audit Committee requested that a letter be written to Castor Primary School congratulating them on their full assurance level achievement. The Chief Internal Auditor confirmed that a letter would be drafted and forwarded to the Chair of the Audit Committee for approval before being sent to Castor Primary School.
- Members requested further explanation into the problems and errors that had been encountered regarding the refurbishment of Jack Hunt swimming pool. The pool had a no assurance level as highlighted in Appendix A, Assurance Levels and Recommendations. Members were advised that there had been numerous problems with the project. When the initial costs had been projected they fell below the £500,000 limit. Subsequently the project had been out for tender and quoted costs had come back higher than expected, taking the projected cost over the £500,000 limit. This then required a Cabinet Member Decision Notice (CMDN) which caused a substantial delay in proceedings. Members were further advised that in the first instance a repair budget should have been allocated for the refurbishment of the swimming pool. Lost opportunity costs had also been incurred due to the swimming pool not being open.
- Members questioned how much extra cost the Council would incur to complete the project. Members were advised that an estimated figure of £70,000 would be incurred to complete the project.
- Further clarity was sought as to the problems incurred with the production of the CMDN. Members were informed that there had been time delays in the production of the CMDN and there had been issues with the line up of the appropriate budgets, however this issue had led to the production of the gateway programme which would ensure that in future all budgets were in place before a CMDN could be produced.
- Following on from the recent issue of a late payroll payment to members of staff at Peterborough City Council, Members questioned whether the software requirements had been met with regards to simplifying the payroll system, as highlighted in 'Report 6' of the Executive Summary. Members were advised that the software was due for installation and discussions had taken place with Serco.
- In 'Report 4' of the Executive Summary which highlighted issues with the Voyager School, Members questioned how a surplus balance in the region of £25,082 would be met by March 2011 when a significant budget deficit of £304,549 had been reported at the closure of the financial year 2008 / 2009. Members were advised that the staffing structure of the school was under review which would result in significant financial savings. There had also been an increased frequency of finance committee meetings in order to maintain effective financial control.

ACTION AGREED:

The Committee received the report and noted that:

- (1) The Chief Internal Auditor was of the opinion that based on the works conducted during the 9 months to 31 December 2009, internal control systems and governance arrangements remained generally sound; and
- (2) The progress made against the plan and the overall performance of the section.

9. Feedback and Update Report

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

Members had requested information on the arrangements that were in place for assets between Peterborough City Council and the Peterborough Urban Regeneration Company (Opportunity Peterborough). Members were advised that a response to the query raised at the last meeting regarding the Urban Regeneration Company had subsequently been provided and this response was included in the 'Record of Action Taken'.

Members had further requested whether or not management had ensured that the plan to perform a full Oracle Financials Disaster recovery test by October 2009 had been continued through to completion. The Head of Corporate Services had forwarded an email to the Committee in response to this query.

There were no requests from the Committee for any further information to be provided on any other items.

ACTION AGREED:

The Committee noted the Feedback and Update Report.

10. Audit Committee Work Programme 2009 / 2010 (Including Any Training Needs)

The Chief Internal Auditor submitted the latest version of the draft Work Programme 2009/2010 for consideration and approval.

Members were advised that if they required any specific training needs they were to email the Chair of the Committee.

ACTION AGREED:

The Committee noted and approved the latest version of the Work Programme.

The meeting closed at 7.55 p.m.

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