

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
HELD AT THE TOWN HALL, PETERBOROUGH ON 26 SEPTEMBER 2011**

Present: Councillors Stokes (Vice Chairman), Kreling, Nash, Goldspink and Lane

Officers in attendance: John Harrison, Executive Director, Strategic Resources
Steven Pilsworth, Head of Corporate Services
Steve Crabtree, Chief Internal Auditor
Ben Stevenson, Compliance Manager
Karen S Dunleavy, Governance Officer

Also in attendance: Chris Hughes, PricewaterhouseCoopers
Julian Rickett, PricewaterhouseCoopers

1. Apologies for Absence

Apologies for absence were received from Councillor Harper and Councillor Lamb.

2. Declarations of Interest and Whipping Declarations

There were no declarations of interest or whipping declarations.

3. Minutes of the Meeting held on 27 June 2011

The minutes of the meeting held on 27 June 2011 were approved as an accurate and true record.

4. Report to Management on the Interim Audit for the 2010/11 Accounts

The Executive Director of Strategic Resources presented a report to the Committee on the interim audit for the accounts which had been conducted by PricewaterhouseCoopers for financial year 2010/11.

Members were advised that of the four new control issues highlighted within the report, three had been set at low priority and one at medium priority. Members were advised that there had been issues highlighted within the External Audit Report regarding three information communication technologies controls:

- Use of generic and privilege user intrusion detection, which had been addressed by creating a unique user intrusion detection to improve accountability;
- Review of information communication technologies policies. The Client Team was currently reviewing all information communication technology policies in line with the new front and back office functions being introduced by the Council and Serco. The Members Information Communication Technology Policy and the Mobile Phone Policy had recently been amended and were awaiting final approval;

work was underway to complete the review of the remaining policies by year end; and

- A lack of period testing of backup media. Serco had recently finished a project to overhaul and restructure the Council's backup system and procedures with a new periodic testing schedule. This was currently being reviewed to ensure the Council complied with the recommendations. It was a work in progress.

Members were informed that the use of generic privileged user intrusion detection (user ID) had been completed and that the remaining two issues were being dealt and would be completed shortly.

Members were invited to comment on the Report to Management on the Interim Audit for the 2010/11 Statement of Accounts and the following comments and observations were highlighted:

- Members sought clarification over what work was being conducted to put a disaster recovery of financial systems programme in place? *The Head of Strategic Finance, advised that this recommendation made by PricewaterhouseCoopers related to the academies revenue and benefits system and that a similar recommendation had been made for the Oracle financial system. Work was underway to highlight other critical financial systems and for a plan to be progressed to put a recovery programme in place.*
- Members raised concerns over why the information communication technologies issues which had been raised by PricewaterhouseCoopers had been left in the hands of Serco, the outsourced information communication technologies services provider and why the measures for improvement had been lagging? *The Executive Director of Strategic Resources advised that ownership for the issues raised within the Audit Report rested with the Council's Information Communication Technologies Client Team and was part of loose ends resulting from staff handover.*
- Members sought clarification over whether the 'loose ends' had been dealt with? *The Executive Director of Strategic Resources confirmed that they had been.*
- Members sought clarification over whether the agreed action for the financial and academy systems, where it was not possible to fully segregate duties because of work requirements, had been completed? *The Executive Director of Strategic Resources advised Members that the issue had been dealt with.*
- Members sought clarification about the Oracle Financial Systems Team processing transactions, which was outside of their remit, and requested that the capability to process transactions within the team be removed. *Members were advised that within an organisation there had to be someone within a team with the ability to change access to the systems and that the team had been instructed not to*

process any transaction without prior approval from the Head of Corporate Services.

- Members sought clarification over whether administrators, responsible for changing user access for the financials system, should be processing financial transactions and if that ability should be removed? *PricewaterhouseCoopers confirmed that the Systems Team would not be raising transactions as well as setting approval for access without prior authorisation from the Head of Corporate Services.*
- Members sought clarification over the Oracle Financial Systems Team's ability to process financial transactions and ability to set up user profiles, and whether the Systems Team had merely been advised not process transactions? *The Executive Director of Strategic Resources advised Members that the Oracle Financial Systems Team was ultimately responsible for access controls and would not process financial transactions as the action would be ultra vires and illegal. There was a status quo within the system that the Systems Team had no right to process transactions, but had the ability to do so. The Systems Team only ever carried out transactions following approval from the Head of Corporate Services.*
- Members sought clarification over whether random checking of the Oracle Financial Systems Team activities would be adopted? *The Head of Corporate Services confirmed that it was the recommendation of PricewaterhouseCoopers to do so.*
- Members raised concerns over the timescale taken to create a disaster recovery plan for the Oracle Financial System, and when it was likely to be completed? *The Head of Strategic Resources advised that Members of Audit Committee would be provided with the timescales in due course.*
- Members sought clarification over missing payroll controls documentation and whether the issue had been addressed? *PricewaterhouseCoopers advised there had been a couple of isolated incidents where the documentation for starters and leavers had not been available and that the issue was not about whether the control measure had been in place, rather the documentation being unavailable.*
- Members sought clarification on the Summary of Issues which had been highlighted within the Audit Report and when an update would be made available on the unaddressed items? *The Executive Director of Strategic Resources confirmed that the detailed responses were available within the Audit Report.*
- Members sought clarification over the periodic review of user access rights within ResourceLink and commented that a review had not been performed in the last year. *The Executive Director of Strategic*

Resources advised Members that some of the Management responses within the Audit Report needed to be made clearer as to why the recommendations had not been completed and in particular why a review of user access rights had not been undertaken.

- *Members sought clarification over whether the issue of the Payroll Manager using the same password each week would be addressed? The Executive Director of Strategic Resources confirmed that the issue had been addressed under the use of generic and privilege user ID as set out in the Interim Management Audit Report to Audit Committee.*
- *Members sought clarification over whether a review of unallocated receipts had been undertaken? The Head of Corporate Services advised Members of the Audit Committee that progress had been made and further information would be provided to Members in due course.*
- *Members sought clarification over the payment which had been partially received from the Primary Care Trust before an invoice had been raised by Peterborough City Council, and whether the issue had been addressed in receipting the funding allocation? The Head of Corporate Services advised Members that the amount referred to within the Audit Report had been sent to a holding code and that there was no danger that the money had not been received from the Primary Care Trust. An invoice would be raised for this amount and would therefore provide a record on the financial system of the funding received, which would be matched up accordingly.*
- *Members sought further clarification over the process that was undertaken when registering a financial amount received prior to an invoice being raised by the Council? The Executive Director of Strategic Resources advised that the PricewaterhouseCoopers External Audit Report referred to an amount of money which had been received that had yet to be allocated to an invoice number. Members were advised that departments would only raise an invoice when it was due. Members were also advised that there was no issue with sending advice letters to companies to acknowledge a payment had been received prior to an invoice being raised.*
- *Members sought clarification on how it was possible to receive an amount of money from an organisation if there was no referencing issued at the time? The Executive Director of Strategic Resources advised that money would be received by a bank automated clearing system transfer or a cheque payment and that the organisation would be written to in order to acknowledge receipt of the money received.*
- *Members sought clarification over contracts being extended and whether a contract register had been implemented and who was responsible for recording contract information? The Executive Director of Strategic Resources advised that Council departments*

would be responsible for maintaining their own contracts register and were required to follow the Council's Financial Regulations.

- Members sought clarification over why the property database did not accurately reflect the rental amounts agreed with tenants? *The Head of Corporate Services confirmed that technology had been purchased to implement the recommendations made by PricewaterhouseCoopers and that further progress had been made on the implementation of a property database. Members were also advised that the bulk of the property information had been input onto the property database.*

ACTION AGREED:

The Committee agreed to endorse the final report: Report to Management: Interim Audit 2010/11.

5. 2010 / 2011 Report to those Charged with Governance and Statement of Accounts

The Executive Director of Strategic Resources presented a report to the Committee on the recent external audit of Peterborough City Council's Statement of Accounts, by PricewaterhouseCoopers.

Members of the Audit Committee received a further update from PricewaterhouseCoopers on the action for items that had been outstanding within the External Audit Report and the Statement of Accounts. Members were advised that there was nothing that PricewaterhouseCoopers wished to bring to the Committees attention. The items outstanding, which were highlighted within appendix one of the external audit report, were as follows:

- Value for Money Opinion; and
- Confirmation of any outstanding legal matters from the Monitoring Officer

Members were invited to comment on the Report to those charged with Governance and the Statement of Accounts. The following comments and observations were raised:

- Members sought clarification over what action had been taken over the controls used to administer housing and council tax benefit to claimants that had not been entitled to receive them and whether any recovery action was outstanding? *PricewaterhouseCoopers advised Members that there was a system of testing what recipients should be receiving. The Executive Director of Strategic Resources advised that the Head of Shared Transactional Services would be approached to request that contact was made with Councillor Nash to discuss any matters regarding the controls used in administering housing and council tax benefits.*
- Members sought clarification over what would happen with pension entitlements for teaching staff when their employment had transferred to the academies? *The Executive Director of Strategic Resources*

advised Members that teaching staff would transfer under the transfer of undertakings protection of employment (TUPE) arrangements, and that their pension rights would remain the same.

- Members sought clarification over the overspend figure detailed under 'Corporate Items, Revenue Expenditure' within the Statement of Accounts and commented that the Council seemed to be overspent by £2.4m? *The Head of Corporate Services advised Members that the figure was due to a reduction from Local Government Grants and that following the emergency budget, the grants received, which were split between area grants and additional grants, meant that the funding had been reduced by £2.4m for the financial year 2010/11.*
- Members sought clarification over the current liability and current assets figures within the external report at appendix one within the Statement of Accounts and whether there was any significant impact for the Council as there was a difference of £8m? *The Head of Corporate Services advised that the figures had no significant impact for the Council, although cash balances and debts outstanding were closely monitored.*
- Members sought clarification over the Council's cost incurred of £3.4m which had resulted from the termination of contracts of employment following the voluntary redundancy programme and what the liability costs were? *The Head of Corporate Services advised Members that as the figures were unavailable for a response, that there would be a response sent directly to Members following the meeting.*
- Members sought clarification over the schools balance figure and whether the representation was just a snap shot? *The Executive Director of Strategic Resources confirmed that the schools balance was a snap shot and that the figure had been projected to reduce.*
- Members sought clarification over the technical adjustment figures on the capital asset value and why it had been considered immaterial by PricewaterhouseCoopers? *PricewaterhouseCoopers confirmed that the statement had been made within the Executive Director of Strategic Resources covering report to Audit Committee and that the statement was correct regarding the figures, due to the size of asset base the Council had.*
- In a comment made by Members regarding the amount of money which was as a result of technical adjustments to the bottom-line position; PricewaterhouseCoopers confirmed that the amount did not represent pounds and pence and that it only affected the asset balance sheet, which would not be treated in the same way as a bank account. The Executive Director of Strategic Resources confirmed the figures were in relation to the estimated value of assets.

- Members sought clarification over the Council's liability in regards to Private Finance Initiative Grant Funding and what the impact would be if it was not available through the unguaranteed funding? *The Executive Director of Strategic Recourses provided Members with an update on the position of Private Finance Initiative Grant Funding and stated that it had survived a round of recent Government spending reviews which was a good sign.*

ACTION AGREED:

The Committee:

- (1) Approved the "Report to those charged with governance (ISA260) 2010/11 Audit" from PricewaterhouseCoopers (PWC), the Councils external auditors;
- (2) Approved the audited Statement of Accounts 2010/11; and
- (3) Approved the letter for the Statement of Accounts

6. Regulation of Investigatory Powers Act 200 (RIPA) Annual Report for 2010-11

The Compliance Manager presented a report to the Committee which provided an overview of the Council's use of RIPA powers over the year 2010-2011 and the first quarter to June 2011. Members were advised that RIPA authorisations were a statutory measure to report on authorised covert surveillance in preventing and detecting crime and also disorder.

Members were informed that the Council had used the powers eleven times within the year 2010-11. The key points highlighted to Committee included:

- Nine covert operations on test purchasing for the sale of fireworks, tobacco and alcohol to minors;
- One covert operation on a trading standards operation;
- One covert operation on fly tipping; and
- There were no authorised covert surveillance operations in the first quarter of 2011-12.

Members were invited to comment on the annual and quarterly report. The following issues and observations were highlighted:

- Members raised a question on what level of authorisation would a request for investigations be conducted and whether Members were involved in the authorisations? *The Compliance Manger advised Members that the level of authorisation would be the responsibility of Senior Officers.*
- Members raised a question about how many successful investigations had been conducted? *The Compliance Manger advised Members that the relevant departments would be approached to provide further information on the success of investigations and a report would be provided at the next meeting of Audit Committee.*

- Members requested an update regarding the fly tipping prosecutions and what action the Council was taking to improve enforcement. *The Compliance Manger advised Members that the purpose of the RIPA report was to provide an overview of Council surveillance powers and the covert operations that had taken place. The Compliance Manager also advised Members that the Neighbourhood Enforcement Team would be contacted to provide an update on enforcement and respond to Members directly.*

ACTION AGREED:

The Committee endorsed the report on the use of RIPA for the annual review of 2010 to 2011 and for the first quarter of 2011 – April to June 2011.

7. Work Programme 2011 / 2012

The Chief Internal Auditor submitted the latest version of the Work Programme for the municipal year 2011 / 2012 for consideration and approval.

Members were advised that the following items would appear on the scheduled Audit Committee meeting on 7 November:

- Risk Management;
- Risk Management: Strategic Risks;
- Treasury Management: Update;
- Internal Audit: Mid Year Progress against Audit Plan; and
- Second quarter of the investigatory powers act.

Members were advised by the Chief Internal Auditor that there would be a training session on the Risk Management and Strategic Risk agenda items before the start of the next meeting.

ACTION AGREED:

The Committee noted and approved the 2011 / 2012 Work Programme.

7.00pm – 8.05pm
Chairman