



**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
HELD AT THE TOWN HALL, PETERBOROUGH ON 7 FEBRUARY 2011**

Present: Councillors Collins (Chairman), Newton (Vice Chair), Kreling, Simons, Stokes and Murphy

Officers in attendance: Steven Pilsworth, Head of Corporate Services
Steve Crabtree, Chief Internal Auditor
Gemma George, Senior Governance Officer

Also in attendance: Chris Hughes, PricewaterhouseCoopers
Jacqui Short, PricewaterhouseCoopers

1. Apologies for Absence

Apologies for absence were received from Councillors Harrington and Goldspink.

Councillor Murphy attended as substitute.

2. Declarations of Interest and Whipping Declarations

Item 6 - Councillor Murphy declared that his brother was a Director at PricewaterhouseCoopers but he did not have a personal or prejudicial interest.

3. Minutes of the Meeting held on 1 November 2010

The minutes of the meeting held on 1 November 2010 were approved as an accurate and true record.

4. Internal Audit: Quarterly Report 2010 / 2011 (To 31 December 2010)

The Chief Internal Auditor presented a report to the Committee which highlighted Internal Audit performance and progress with regards to the 2010 / 2011 Audit Plan which was approved by the Audit Committee on 29 March 2010 and other issues of interest.

Appendix A to the report highlighted the Operational Plan containing the audits that were due to be performed during 2010 / 2011 and the current status of those audits. The audits brought forward from the previous year were also included as were the audits which had not been planned when the Annual Audit Plan had been approved.

At that point in time, 21 audit projects for 2009 / 2010 had been finalised together with a further 46 for 2010 / 2011. There were also 47 audits that were either in draft form or various stages of review.

Members were advised that the progress made against the 2010 / 2011 plan was 71.9% and this was primarily due to a member of staff having reduced their contracted hours after the revised plan had been produced. Further pressures on the revised plan from January 2011 included the new shared service arrangements for the Chief Internal Auditor.

With regards to other performance matters, Members were advised that an average 17.5 days of sickness per person had been lost during the 9 months to 31 December 2010. This was compared to a target of 3.75 days. Although higher than the target it was a major reduction on last year's figure of 31.5 days per person at the same point in the year.

With regards to External Work, Members were advised that at the Audit Committee meeting held on 29 March 2010, the Internal Audit Strategy for 2010 / 2011 had been approved which detailed that '*Internal Audit had been charged with selling Audit Services to other areas of the Public Sector in the region, as part of the Manor Drive initiative.*' Internal Audit had been actively looking to target schools in neighbouring authorities as part of a marketing strategy but due to the changes that had been introduced by the Coalition Government, which had resulted in the abolition of the Financial Management Standard in Schools (FMSIS) initiative; this was not possible until such a time that a new scheme was introduced.

It had also previously been reported to the Audit Committee that the Internal Audit Team had secured two pieces of external work, one with a Leicestershire School and one with another local authority. Due to the abolition of the FMSIS, the work with the Leicestershire School was no longer due to take place and due to working arrangement changes within the local authority the audit work previously agreed was also not to be undertaken. A framework agreement was due to be produced between the two authorities and it was hoped that this would generate external business during 2011 / 2012.

Appendix B to the report highlighted the audit reports which had been issued and the opinion of assurance against each audit. Members were advised that there had been audits undertaken on 'Accounts Payable – Central Controls' and 'Compliance with Immigration and Asylum Legislation'. The Executive Summaries provided backgrounds to the audits and both were highlighted as having limited assurance.

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

- It was stated in the committee report that the progress of future external audit works undertaken would be reported back to the Audit Committee, but outcomes and copies of reports would not be provided. Members queried how the progress could be noted sufficiently if outcomes and reports could not be provided? Members were informed that an overview would be provided for any works undertaken. Detailed information would not be provided as this would be commercially sensitive to the individual organisation concerned.
- Members commented that highlighted in Appendix A, 'Progress of Audit Plan 2010 / 2011', there were still five schools showing limited assurance. What, if anything, was being done to remedy this situation? Members were informed that the document was a cumulative of the reports produced in Quarter 1 and Quarter 2 and therefore the assurance levels were the same as previously highlighted to the Audit Committee. Work was to be undertaken in order to try and remedy issues and an action plan was due to be produced.
- The 'Accounts Payable – Central Controls' Audit which had been undertaken, highlighted that there were 2000 invoices currently on hold, some of which were over four years old. Members questioned why this was. Members were advised that some of the accounts were currently in dispute for numerous reasons and also some of the invoices had not been paid because the Council had been overcharged, or in some instances, double charged.
- Members requested that a breakdown of the outstanding invoices be provided for scrutiny. Members were informed that a breakdown would be provided at the next meeting of the Audit Committee.

ACTION AGREED:

Audit Committee received the Internal Audit Update Report to 31 December 2010 and noted:

- 1) that the Chief Internal Auditor was of the opinion that based on the works conducted during the 3 months to 31 December 2010, internal control systems and governance arrangements remained generally sound; and
- 2) the progress made against the plan and the overall performance of the section.

5. Internal Audit: Shared Audit Arrangements

The Chief Internal Auditor presented a report to the Committee which set out the case for establishing a shared Internal Audit service between Peterborough City Council (PCC) and Cambridge City Council (CCC).

The report detailed a brief explanation of the national policy context for shared services, the vision for the service and how it would operate and also the challenges and benefits associated with the shared service.

Members were advised that a duplicate report had recently been presented to the Audit Committee at Cambridge City Council. Discussions had been held with Cambridge City Council in June 2010 in order to identify ways of saving money in accordance with the spending reviews. It was subsequently identified that savings could be made within the Internal Audit function across the two Councils as there were similar processes in place which could be overseen by one Head of Internal Audit.

As the Head of Internal Audit at Cambridge City Council had recently left the authority, Steve Crabtree, the Chief Internal Auditor for Peterborough City Council, had been identified as the Shared Head of Internal Audit for the two authorities.

The Shared Head of Internal Audit's time and cost were to be split equally between the two authorities, and similarly, savings would be split equally. Although remaining an employee of Peterborough City Council, the Shared Head of Internal Audit would be expected to follow Cambridge City Council's policies and procedures whilst undertaking their work.

Going forward, any savings generated would be used to incorporate additional improvements into the service as identified through service and business plans, as well as going back into the corporate pot to assist in meeting future budget pressures.

Members sought clarification with regards to how the 'shared service' process had originally been identified for implementation. The Chief Internal Auditor advised Members that Peterborough City Council's Internal Audit Team had a very good working relationship with other Councils across the county. As Peterborough was a unitary authority, there were systems and processes in place that were not widely utilised in other Councils, therefore this knowledge had been shared by Peterborough.

Some of this sharing had been undertaken with Cambridge City Council in the past and therefore when the spending review was undertaken, and it was identified that as many efficiencies as possible were required to be achieved, a shared service approach had been identified.

Going forward there may be the opportunity of integrating the two Internal Audit Teams into a true shared service, but in the meantime it was highlighted that a distinction was to be maintained.

Members wished for it to be noted that Audit Committee commended the work being undertaken by the Chief Internal Auditor, Steve Crabtree.

ACTION AGREED:

The Committee noted the arrangements put in place for the delivery of shared audit services between Peterborough City Council and Cambridge City Council.

6. External Audit Reports

Chris Hughes and Jacqui Short, External Auditors, presented a report which had been produced by Peterborough City Council's External Auditors, PricewaterhouseCoopers.

Throughout the year, PricewaterhouseCoopers had undertaken various reviews on behalf of the authority. These reports had been received and agreed by senior management and they were now being presented to the Audit Committee for consideration and endorsement.

The report was comprised of three sections which included:

- Appendix A - 2009 / 2010 Annual Audit Letter;
- Appendix B – Statement of Accounts 2009 / 2010: Report to Management; and
- Appendix C - Grant Claims: Annual Certification Report

With regards to Appendix A, Members were advised that the External Auditor and the Audit Commission Relationship Manager produced an Annual Audit Letter reviewing the Council's arrangements and progress in relation to the Audit of the Accounts. Members were further advised that this report was for information purposes only as it was for the previous financial year.

With regards to Appendix B, Members were advised that the report set out the various control and systems issues which had been identified during the course of PricewaterhouseCoopers audit work.

Finally, with regards to Appendix C, Members were advised that this report highlighted the review and verification of grant claims across Peterborough City Council. Members were advised that there had been no significant findings and overall it was highlighted that the Council was performing well. It had robust work papers and high levels of controls.

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

- Contained within Appendix B, the 'Report to Management', was the 'Summary of Information Technology Controls (IT Control) Findings in 2010'. Members queried why a number of risks had not been progressed against the findings from the 2008 / 2009 report. Members were advised that the risks were not classed as significant. The responsibility for many of the IT issues now lay with Serco and actions were being drawn up to address these outstanding risks going forward.
- Members questioned whether the adjustments made in respect of the Council's Schools Private Finance Initiative (PFI) Scheme, as highlighted in Appendix A 'Accounts Audit Findings', were technical adjustments. Members were informed that they were technical accounting adjustments and no adjustments had been made to the General Fund Balances.

- Members further queried why certain risks highlighted in Appendix B, the 'Report to Management', were classed as being low. Members were advised that the issues were rated on a priority basis. Distinction had to be drawn between an issue that required immediate attention and an issue that should be addressed at some point in the near future. Some of the issues, highlighted were around out of date policies and Members were further advised that these policies should, in theory, be reviewed on an annual basis, however this was not a requirement.
- Highlighted in Appendix C, the 'Grant Claims Certification Report', were the certification fees for 2009 / 2010, those being £46,500. Members sought further clarity as to how this figure was arrived at. Members were informed that certain grants required external certification, for example those relating to pensions and benefits, and therefore some costs could not be avoided. There were some grants that did not require certification; however with regards to the ones that did require certification, there was nothing that could be done about the fees.
- Members sought clarification as to what the certification fees for housing and benefits were, in order to make sure best value for money was being achieved. Members were informed that an up to date report showing the breakdown of all certification fees would be forwarded to the Audit Committee Members in due course.

Following questions, Members positively commented on the work being undertaken by the Council's External Auditors, PricewaterhouseCoopers.

ACTION AGREED:

The Committee considered and endorsed the final reports produced by External Audit in the following areas:

- 1) 2009 / 2010 Annual Audit Letter;
- 2) Statement of Accounts 2009 / 2010: Report to Management; and
- 3) Grant Claims: Annual Certification Report

7. Feedback Report

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

Items which had been actioned and completed at previous Audit Committee meetings were highlighted and Members were informed that there was only one action outstanding, and that was for the production of a report highlighting a further breakdown of the sickness figures, not including long term sickness figures. Members were advised that a request had been submitted to HR for this information and an update would be provided to the Audit Committee at its next meeting.

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 expressed concern that the Strategic Risk Register had yet to be presented to them for consideration. Members were advised that the report had been sign off to be presented at that meeting, however Corporate Management Team sign off was

required in the first instance. It was therefore expected that the Register would be presented to the Audit Committee at its next meeting.

Members were further advised that there were no training proposals highlighted for the next meeting of the Audit Committee. The Chairman of the Committee stated that if any Member had any specific training requests they could contact him directly and he would relay the request to the Chief Internal Auditor.

ACTION AGREED:

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

7.00pm - 7.45pm
Chairman