

**(DRAFT) ANNUAL REPORT FROM  
THE CHAIR OF AUDIT COMMITTEE  
2011 / 2012**

*Assurance*

*Governance*

*Accountability*

*Risk Management*

*Independence*

## **FOREWORD BY THE CHAIR OF THE AUDIT COMMITTEE**

I am pleased to present the Audit Committee's Annual Report for the municipal year 2011 / 2012. The report shows how the Audit Committee has successfully fulfilled its terms of reference and highlights how it has continued to make a positive contribution to the Council's governance and control environments. These cover all aspects, such as internal control; risk management; internal audit; anti fraud; external audit; and financial reporting.

I would like to take this opportunity to give thanks to committee members and officers for their contribution in supporting the Audit Committee's work during the year and my role as Chair. Committee members have supported and challenged officers to ensure our risk, control and governance processes are effective and transparent. Officers have presented well-prepared reports and taken on suggestions to make sure the benefits of this Committee are passed onto our citizens.

2012 / 2013 will be a testing time for all Councils with the resources available becoming more important. How we risk manage our priorities, resources and partnerships will be vital, notwithstanding the risk of fraud.

In advancing the Audit Committee, there are three issues I would like addressed:

- As a Council we will need to look to instil some stability into the Committee membership in order to allow for knowledge gained by members this year to be developed and built on in future years.
- As a new Chair of the committee, training has been very important to me (and the committee) and has been well received and delivered. However, I would like the approach to be changes so that training is not delivered prior to a meeting. This does not allow for time to take all the information on board.
- Finally, the Localism Act brings its challenges which could impact on the work of this committee. We need to ensure that work programmes remain challenging and cover these issues.

The role of the Audit Committee will become more intensive to ensure good and effective stewardship of resources are working. If we can address each of the above issues, then I am confident that the Committee is well placed to do that during 2012 / 2013 and beyond.

Councillor Diane Lamb  
Chair of the Audit Committee  
March 2012

## **AUDIT COMMITTEE: ANNUAL REPORT 2011 / 2012**

**INTRODUCTION**

**MEMBERSHIP AND MEETINGS**

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## INTRODUCTION

This is the fourth annual report produced by Peterborough City Council's Audit Committee. It is produced in accordance with latest best practice<sup>1</sup> 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 improved 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.

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 **Appendix A** of this report.

This report sets out the work of the Committee for 2011 / 2012 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.

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

## MEMBERSHIP AND MEETINGS

During 2011 / 2012, the Audit Committee met on the following dates:

- 6 June 2011
- 27 June 2011
- 5 September 2011 (meeting cancelled due to insufficient business)
- 26 September 2011
- 7 November 2011
- 6 February 2012
- 26 March 2012

The Audit Committee has 7 members, which represents the political make up of the Council. The members for 2011 / 2012 were:

Conservative	Peterborough Independent Forum	Liberal Democrats	Labour	English Democrats
Lamb (Chair) Stokes (Vice Chair) Harper Kreling Nash (*)  Nadeem (Sub)	Lane  Sharp (Sub)			Goldspink
* Note, Cllr Nash has moved to PIF. Seat retained on Audit Committee following revised allocations at Council in February 2012.				

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.

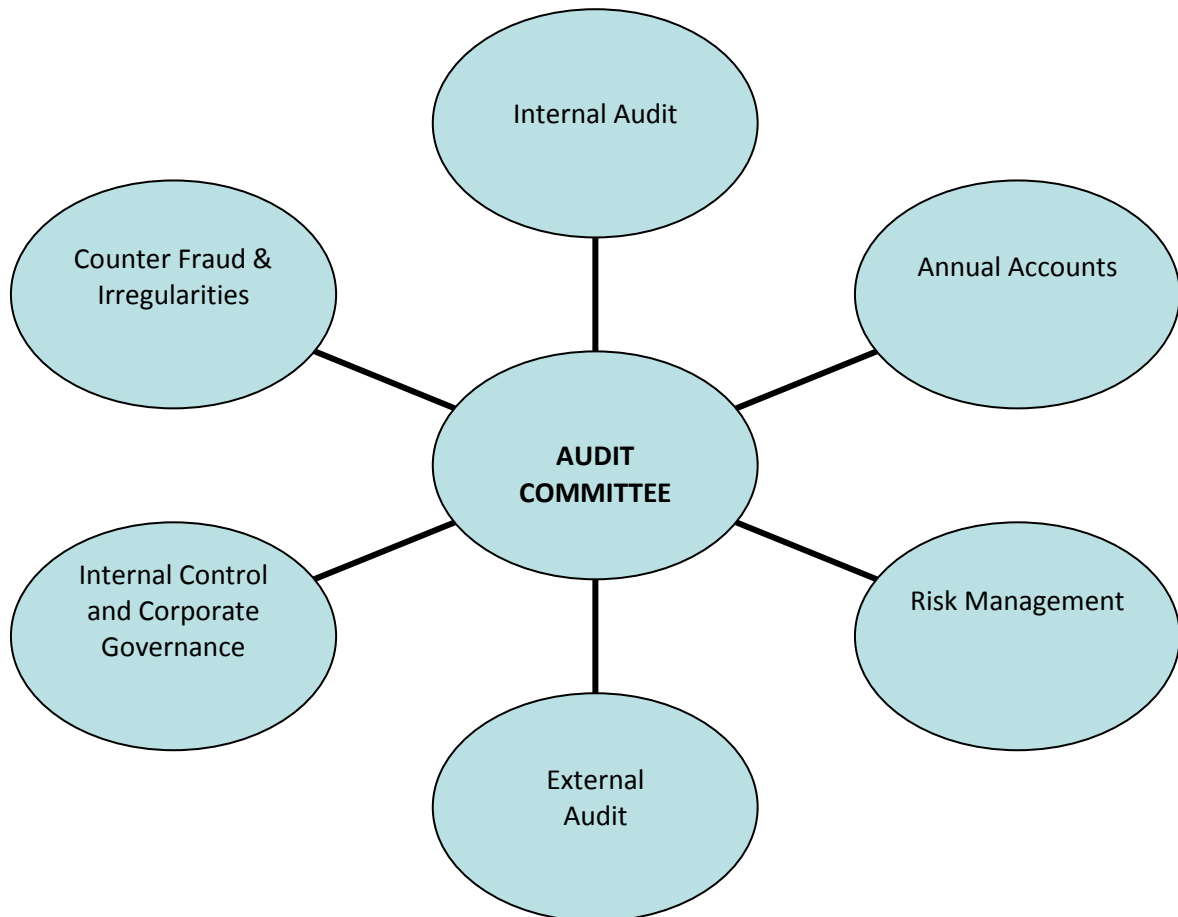
Senior officers from the Council are also present, including the Executive Director of Strategic Resources, Chief Internal Auditor and the Head of Corporate Services. Dependent on the subject matter on the agendas, other officers will attend in addition to external representation from the Councils' External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

## KEY ACTIVITIES AND TRAINING DURING THE MUNICIPAL YEAR

### Background

The first meeting within the year took place in June 2011. As a result of local elections in May that year, there were a number of changes to the membership, including a change in chair, with a similar number of meetings planned throughout the year. Due to the membership changes the first meeting in June 2011 provided an overview of the terms of reference together with a series of training revolving around the key areas, as set out in the Audit Committees' Handbook.

The Audit Committee's current terms of reference (**Annex A**) covers 6 main areas (see below).



### Internal Control and Corporate Governance

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 27 June 2011, 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.

At that meeting the Committee also reviewed the effectiveness of the system of internal audit noting planned actions to address any areas of partial compliance. It endorsed the reporting of

findings from the review within the 2010 / 2011 Annual Governance Statement and the Chief Internal Auditors Annual report and opinion.

An update was provided on 6 February 2012 on addressing previous weaknesses identified within the Annual Governance Statement together with the development of the next statement through the Strategic Governance Board.

In line with best practice, we also conducted a review of the effectiveness of the Audit Committee, and in essence identified that this was working well. A number of observations were made at the meeting (6 February 2012) and these are being researched with professional bodies to look to see if we can introduce to further improve the effectiveness.

Following the review of consultants used by the Council in 2010, it was recommended, and agreed that Audit Committee would keep tabs on progress. We received an update on the March 2012 agenda.

The Audit Committee Handbook was fully updated and agreed by the Committee on 6 June 2011.

### **Annual Accounts**

The Committee reviewed and scrutinised the 2010 / 2011 Revenue and Capital Outturn and Statement of Account on 27 June 2011 prior to its submission to the external auditors for audit. Change in legislation has meant that we do not have to normally do this, but we have seen this as good practice to adopt. The Committee then approved the Statement of Accounts for 2010 / 2011 and authorised its signing by the Chairman. 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 2011.

As part of the accounts process, Members have also considered the implications of the introduction of International Financial Reporting Standards (IFRS) within local government. This had been a major exercise for the Council and resulted in the accounts being provided in a different format to previous years. This was in the form of a training session to Members on 27 June 2011.

A separate report was submitted to Audit Committee in November 2011 which outlined the council's approach to Treasury Management, in line with agreed practices identified in the Medium Term Financial Strategy. Further details are also set out in the out turn reports submitted in June each year.

### **Internal Audit**

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. Through the use of these challenge sessions within the Committee it has acted as a deterrent to ensure that management take action. This was not required in 2011 / 2012.

At its 26 March 2012 meeting the Committee considered a report on the 2012 / 2013 annual plan. The annual audit plan is an indicative plan which is kept under review to ensure that it is aligned to emerging risks. It is subject to revisions during the year with approval from the Committee. The assurance gained from the programme of work set out in the annual plan forms the main input for the development of an annual opinion for the Council. The Committee reviewed the plan and approved it after gaining assurance on the adequacy of work on the Council's key financial

systems audits. Overall, we ensured that internal and external audit plans were complementary and provided optimum use of the total audit resource.

In addition, various Internal Audit policies were reviewed and received committee support / approval in March 2012.

### **Risk Management**

To discharge its responsibilities for overseeing the effectiveness of risk management within the authority, the Committee formally approved the updated Risk Management and Business Continuity Policy and Strategy at the 6 February 2012 meeting. Corporate activities around developing, implementing and embedding risk management were presented.

Further information was requested to allow for further member challenge and scrutiny in relation to the strategic risks generated.

### **Counter Fraud & Irregularities**

On 27 June 2011, 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. Separate training was provided on the investigating fraud and the use of Regulation of Investigatory Powers Act (RIPA) and quarterly update reports have been provided into the use of RIPA.

### **External Audit**

At its 26 September 2011 meeting the Committee considered the Audit Commission's Annual Governance report on the Audit of the 2010 / 2011 Accounts and approved and agreed the:

- audited Statement of Accounts for 2010 / 2011 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.

On 6 February 2012, the Committee scrutinised the Annual Audit and Inspection Letter in respect of 2010 / 2011 and considered the Annual Grant Claims Certification.

### **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
- Investigating fraud and the use of RIPA.

To further assist Member development, the Chief Internal Auditor fully revised the Audit Committee Handbook. The 3<sup>rd</sup> edition was endorsed in June 2011.



## **FUTURE DEVELOPMENTS AND PLANS FOR 2012 / 2013**

Overall, the Audit Committee want to continue to develop and build on our current achievements. For 2012 / 2013 this will involve:

- Continuing to drive up standards of corporate governance;
- Continuing to equip existing and any new Members to fulfil our responsibilities by providing or facilitating training on all aspects of the Committee's remit;
- Playing a critical role in the preparation of the Annual Governance Statement and in so doing ensure all governance arrangements are reviewed;
- 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 and general good practice in financial management;
- Helping to further increase awareness within the Council of its governance arrangements; 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.

A similar programme of works has been scheduled for the year, although additional areas which will be taken through the committee include:

- Detailed strategic risk register profiles;
- The revision of Contract Regulations and Financial Regulations; and
- Constitutional issues arising through responses to the Localism Act.

## 2.2 AUDIT COMMITTEE: TERMS OF REFERENCE<sup>2</sup>

### 2.2.1 Terms of Reference

- 2.2.2 To consider the Director of Strategic Resources annual report and opinion, 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.
- 2.2.3 To consider summaries of specific internal audit reports as requested.
- 2.2.4 To consider reports dealing with the management and performance of the providers of internal audit services.
- 2.2.5 To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale
- 2.2.6 To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
- 2.2.7 To consider specific reports as agreed with the external auditor.
- 2.2.8 To comment on the scope and depth of external audit work and to ensure it gives value for money.
- 2.2.9 To liaise with the Audit Commission over the appointment of the council's external auditor.
- 2.2.10 To commission work from internal and external audit.

### 2.2.11 Regulatory Framework

- 2.2.12 To maintain an overview of the council's constitution in respect of contract procedure rules, and Financial Regulations.
- 2.2.13 To review any issue referred to it by the Chief Executive or a Director, or any council body.
- 2.2.14 To monitor the effective development and operation of risk management and corporate governance in the council.
- 2.2.15 To monitor council policies on "raising concerns at work" and the anti-fraud and anti-corruption strategy and the council's complaints process.
- 2.2.16 To oversee the production of the authority's Annual Governance Statement and to recommend its adoption.
- 2.2.17 To consider the council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

### 2.2.18 Accounts

- 2.2.19 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.
- 2.2.20 To consider the external auditors report to those charged with governance on issues arising from the audit of the accounts.

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