

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
HELD AT THE TOWN HALL, PETERBOROUGH ON 9 FEBRUARY 2009**

Present: Councillors Hiller (Chairman), North, Gilbert, Kreling, Seaton and Harrington.

Officers in attendance: Steve Crabtree, Chief Internal Auditor
John Blair, Head of Strategic Finance
Mandy Bretherton, Corporate Accounting Manager
Chris Hughes, PricewaterhouseCoopers
Gemma George, Governance Support Officer

1. Apologies for Absence

Apologies were received from Councillor Hussain.

2. Declarations of Interest and Whipping Declarations

There were no declarations of interest.

3. Minutes of the Meeting held on 3 November 2008

The minutes of the meeting held 3 November 2008 were approved as an accurate and true record.

4. External Audit Reports

The Committee received the report in line with its Work Programme for 2008/2009, which highlighted various commissioned reports from PricewaterhouseCoopers (PwC), the Council's external auditors.

During 2008/2009, PwC had undertaken various reviews on behalf of the authority, and the final report had been received and agreed by senior management. The report highlighted to the Committee contained three appendices, including:

- Report to Management 2007/2008;
- Use of Resources; and
- Data Quality Arrangements

The Report to Management included management comments on the auditor's observations. The document had been discussed and agreed by the Director of Strategic Resources and the Head of Strategic Finance. All recommendations had been agreed and appropriate timescales and responsible officers had been identified to deliver any necessary changes. The report highlighted that the Council had maintained its high standard of financial reporting set during the 2006/2007 Audit. Working paper quality and prompt query responses had enabled the work to be completed to timescale.

The report further highlighted a total of 10 issues which were to be addressed, 6 of which were medium priority and 4 being low priority.

The Use of Resources (UoR) judgement formed part of the Comprehensive Performance Assessment (CPA) of the Council. It was carried out annually by PwC and covered several areas, including:

- Financial Reporting;
- Financial Management;
- Financial Standing;
- Internal Control; and
- Value for Money

The main basis of the judgement was dependent upon the Council's self assessment against the Key Lines of Enquiry (KLOE). This self assessment was then audited by PwC and checked for consistency against regional and national benchmarks. The judgement for each area was scored between 1 and 4.

The overall assessment level was a 3, which meant 'performing well'. While this was the same score that was achieved in 2007, the Council had improved on a number of themed scores compared with previous years.

The final item included in the report was the Review of Data Quality Arrangements. The review was undertaken annually by PwC and focused on all aspects of data quality at a corporate level. The review was also linked in to the requirement for PwC to conclude on the Council's use of resources.

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

- Members questioned how it had been identified in the matters arising from the 2007/2008 Statement of Accounts Audit, that the Council had been leasing an industrial unit for 28 years which had been highlighted as a risk. Members were advised that an audit in relation to leasing had been undertaken and this had in turn highlighted the risk. Members were further advised that not all leases were looked into, only a sample.
- Members expressed concern regarding the completeness of the Contract Register which was highlighted in matters arising from the 2007/2008 Statements of Accounts Audit. Further clarification was sought on the issue and Members were informed that this was an extremely important matter for the Council and a new register capturing contracts with an annual value over £10,000 was to be implemented.
- Members questioned which types of contracts Legal Services had an overview of. Members were informed that Legal Services had sight of all decision notices, larger contracts and all contracts organised through procurement.
- A query was raised regarding a recommendation highlighted in matters arising from the 2007/2008 Statement of Accounts Audit, to hold a meeting with Cross Keys Homes in order to obtain more assurance over the value of the VAT shelter to be paid by Cross Keys Homes each year. Members questioned whether the meeting would be held a minimum of once a year. Members were advised that preferably the

meeting would be held quarterly, but it would definitely be held at least once a year.

- With reference to the follow up on prior year issues, Members sought clarity on the nature of the assets that had been removed from the Council's Fixed Asset Register during the 2007/2008 financial year, with a nil net book value or non-specific descriptions. Members were advised that all the assets had been reviewed and any that had vague descriptions and couldn't ultimately be determined were written out. Also, any fully depreciated assets were written out.
- Members positively commented on the absence of any high risk areas within the matters arising from the 2007/2008 Statement of Accounts Audit.
- Members questioned an observation and area of improvement which was highlighted in the Use of Resources Report, under financial management. It was stated that the Business Transformation Programme had achieved significant cash savings and process efficiencies, and it was important for the Council to continue its success in this area. Members questioned how this process would be taken forward. Members were assured that business transformation was about highlighting where money could be saved and further efficiencies were planned and the efficiency agenda would continue.
- Members further questioned an observation and area of improvement which was highlighted in the Use of Resources Report, under internal control. It was stated that in order for the Council to obtain assurance on a risk basis of the viability of its significant contractors and business partner's continuity plans, the partnership toolkit would need to be embedded. Members questioned whether this indicated that assurance was not currently provided. Members were assured that that toolkit was currently being used and assurance was provided. By use of the toolkit, it would look to ensure appropriate governance arrangements were in place but it would also provide a clear exit strategy if the service provider withdrew and the service reverted to the Council to provide. Service continuity would then be preserved.
- A query was raised regarding a finding highlighted in the Review of Data Quality Arrangements regarding the possible reasons behind the insufficient audit trail used to support the total number of private sector homes. Was this accountable to a data quality processing issue, or was it a departmental problem. Members were advised that data quality had been highlighted as an issue, but by and large the overall quality of data provided across the Council had improved substantially. Members were further advised that comment could not be passed on departmental workings.
- Members requested for it to be acknowledged that they had noted the paragraph in the Review of Data Quality Arrangements, stating that "the assessment had been undertaken against the criteria specified by the Audit Commission, and reflected the arrangements to ensure the quality of reported data as opposed to the review and use of that data".

ACTION AGREED:

The Committee received and endorsed the final reports produced by External Audit in relation to;

- Final Audit of Statement of Accounts 2007/2008: Report to Management;
- Use of Resources; and
- Review of Data Quality Arrangements

5. International Financial Reporting Standards

The Director of Strategic Resources submitted a report which briefed the Committee on the International Financial Reporting Standards (IFRS) transition.

International Financial Reporting Standards were accounting standards issued by the International Accounting Standards Board. The term referred to the equivalent to UK GAAP, the set of Generally Accepted Accounting Principles, to which the Council's accounts complied with.

The demand for a single international set of accounting standards had increased, as both business and financial markets had become more global. One single set of standards would aid the preparation, comparability and analysis of financial information for corporate entities.

The adoption of IFRS in the Public Sector was announced in the Chancellor's 2008 Budget, with the context being the need of government for "high value performance data in combination with appropriate financial data".

Members were advised that the transition to IFRS based accounts was a highly complex area and there would be a number of issues to address and actions to be completed before the implementation could take place. A phased approach was to be taken, which would aid smooth implementation.

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

- Clarification was sought on the process for identifying a project team to progress the implementation. Members were informed that a workshop was due to be held in which action plans would be produced and staff needs would be highlighted.
- Members questioned whether a list of specific timelines and targets to be reached, would be composed. Members were assured that the action plan produced at the workshop would highlight targets. Members were further informed that there would also be national imposed milestones.
- Members expressed concern with regards to the additional work needed to undertake the implementation and would extra staff be needed. Members were advised that this would be a consideration.

ACTION AGREED:

The Committee agreed to support the transition to IFRS based accounts and to request regular update reports on the implementation process.

The Committee also noted;

- (1) The accounting changes required;
- (2) The timescale for implementation; and

(3) The potential impact on cash reserves and balances that will need to be managed through the medium term financial strategy.

6. Risk Management Update

The Director of Strategic Resources submitted a report which updated the Committee on the Council's Risk Profile and typical actions taken to manage key corporate risks.

In accordance with its terms of reference, the Audit Committee had a responsibility to "monitor the effective development and operation of risk management and corporate governance in the Council".

The Committee approved the latest revision of the Risk Management Strategy at their November 3 meeting. The Risk Management Update report submitted updated the Committee in accordance with the Strategy. The Strategic Risk Register was formally reviewed by the Corporate Management Team every six months, the latest review having been completed in January 2009. The Committee was informed that the complete Strategic Risk Register would be submitted to the Audit Committee in due course.

The register covered a wide range of issues and included a number of risks which were deemed high. These included issues that had recently emerged such as the impact of the credit crunch and failure to achieve the required level of capital receipts to fund the Capital Programme.

Members were advised that a training session on the impact of the credit crunch and asset disposal would be provided at a future meeting of the Audit Committee and would also be rolled out to all Members.

Members sought clarification on the standing of the current risk profile. Members were made aware that the risk profile was the same as at the meeting held on November 3. Members were informed that the profile would be brought to a future meeting of the Audit Committee

ACTION AGREED:

The Committee noted the report.

7. Annual Governance Statement Update

The Director of Strategic Resources submitted a report to the Committee in line with its agreed Work Programme for 2008/2009.

The Annual Governance Statement (AGS) explained how the Council delivered good governance and reviewed the effectiveness of these arrangements. It also met the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) Regulations 2006, which required the Council to publish an Annual Governance Statement ..

The update report highlighted to Members progress that had been made by officers in addressing these governance issues reported in the Council's AGS in 2008.

The AGS brought together all of the Council's strategies, initiatives and work plans and provided the base from which the Council could fulfil its role as a community leader in Peterborough.

The Chief Internal Auditor highlighted to the Committee the issues which had been identified as a result of the review of arrangements and by the work of external and internal audit and further informed the Committee that there were no significant control deficiencies to report.

The Committee was further informed that in order to ensure the 2008/2009 AGS was an accurate and true representation of how the Council delivered good governance and reviewed the effectiveness of these arrangements, an action plan would be put in to place as part of the compilation of the AGS. This plan would include, amongst other things, the Chief Internal Auditor holding regular meetings with relevant officers in Strategic Finance, in order to identify any potential issues arising from Internal Audit Reviews.

ACTION AGREED:

The Committee noted;

- (1) The review and progress report on significant governance issues reported in the Annual Governance Statement 2008; and
- (2) The proposed method that would be adopted in the completion of the 2008/2009 statement

8. Internal Audit Progress Report – To 31 December 2008

The Director of Strategic Resources submitted a routine planned report which highlighted to the Committee, Internal Audit performance and progress against the Annual Audit 2008/2009 as at 31 December 2008 and other areas of interest.

The Chief Internal Auditor highlighted the key information to the Committee which was contained within the various appendices attached to the report, which included:

- Progress of Audit Plan 2008/2009: to 31 December 2008;
- Responses to Audit Reports;
- Status of Recommendations;
- Audit Reports issued in quarter 3 with limited/no assurance;
- Audit Plan 2008/2009 Revisions; and
- Development of future Audit Plans

Members were informed that due to a significant issue with staff sickness, a number of jobs had been removed or rolled forward to 2009/2010. These were highlighted in the Audit Plan 2008/2009 revisions. Members were further assured that the remainder of the plan was on target to deliver.

Members were further informed that the Audit Plan had been developed the previous year to closely link in with the Strategic Risk Register ensuring that finite audit resources could be targeted within the key areas. This would continue in line with regular risk register refreshes by the Corporate Management Team.

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

- Members queried whether the increased realignment to strategic risks and the associated increase in strategic based audits would mean that staff no longer had the relevant experience. Members were advised that regular performance assessments were carried out with staff in order to establish any gaps and to develop them. Also staff had already received training development to reflect the requested profiles. Members were assured that confidence in staff being able to deliver was high.
- Clarification was sought on the reasons behind the high number of Special Investigations undertaken in Children's Services as highlighted in the progress of the Audit Plan. Members were advised that there had been a big push on raising fraud awareness over the past year which had re-educated Children's Services encouraging work to be undertaken with the Internal Audit Department.
- Members questioned why the Greater Dogsthorpe Partnership Audit had taken 31 days to complete. Members were advised that the Partnership toolkit had been used for the first time; therefore the audit had taken longer as officers were also learning the process as well as needing to refer to new records. In future the audit time would be less as training had since been undertaken.

ACTION AGREED:

The Committee noted;

- (1) That the Chief Internal Auditor was of the opinion that based on the works conducted during the 9 months to 31 December 2008, internal control systems and governance arrangements remained generally sound;
- (2) The progress made against the plan and the overall performance of the section;
- (3) The revision to Audit Plan activities for Quarter 4; and
- (4) The proposals recommended to development of the Audit Plans for 2009/2010.

9. Feedback and Update Report

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

Members were advised that all of the items outstanding on the report had been covered and the Strategic Risk Register would be brought back as a future agenda item.

ACTION AGREED:

The Committee noted the Feedback and Update Report.

10. Audit Committee Work Programme 2008/2009 Including any Training Needs

The Chief Internal Auditor submitted the latest version of the Work Programme 2008/2009 for consideration and approval.

The draft Work Programme for 2009/2010 was also highlighted to the Committee for reference.

Members were reminded that as discussed earlier in the meeting, a training session on the impact of the credit crunch and asset disposal would be provided at a future meeting of the Audit Committee and would also be rolled out to all Members.

ACTION AGREED:

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

The meeting closed at 7.50 p.m.