

# **2<sup>nd</sup> ANNUAL REPORT FROM THE CHAIR OF AUDIT COMMITTEE 2008 / 2009**

*Assurance*

*Governance*

*Accountability*

*Risk Management*

*Independence*

## FOREWORD

This report details the work of the committee's auditing role during the municipal year 2008 / 2009, highlighting key achievements and developments in internal control; risk management; internal audit; anti fraud; external audit; and financial reporting.

Good governance requires independent, effective assurance about the adequacy of financial management and reporting together with sound management arrangements for achieving the organisation's corporate and service objectives. Good practice from the wider public sector indicates that these functions are best delivered by an independent Audit Committee. In this context "*independent*" means independent from Executive and Scrutiny. The link with the Scrutiny function can be beneficial but the influence of the Audit Committee could be compromised by too much cross-membership. The Audit Committee also needs to retain the ability to challenge Cabinet on issues and to report to it on major issues and contravention. The way this has been handled is that I, as Chair of the Audit Committee, am not a Cabinet Member or Chair of a Scrutiny Panel. No Cabinet Member serves on the Audit Committee, although there is a standing invitation for attendance at meetings as an observer.

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 new committee are passed onto our citizens.

I hope we have rapidly discharged any notion that an Audit Committee is just about looking though lines and lines of figures and wanting to make sure these figures add up. Whilst I would want to assure everyone that we will remain vigilant on this, we also want to ensure an understanding that the Committee is essentially about ensuring good risk assessment arrangements and good governance procedures. I have very much enjoyed leading the Audit Committee during the year and I look forward to working with officers and Members to further enhance the Council's progressive approach to governance. In looking forward to 2009 / 2010, I am particularly keen to develop the skills and expertise of all members of the Committee through the ongoing training programme established to support this, and the Audit Committee Handbook.

The role of the Committee is important in the democratic and governance arrangements of the authority to provide independent assurance to the Council that its systems and controls to secure good and effective stewardship of resources are working and I'm confident that the Committee is well placed to do that during 2009 / 2010 and beyond.

I hope this report is of interest, highlighting the activities of the Committee during 2008 / 2009 and I look forward to being able to report another successful and effective year in 12 months time.

**Councillor Peter Hiller,  
Chair of the Audit Committee  
April 2009**

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**AUDIT COMMITTEE: ANNUAL REPORT 2008 / 2009**

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## INTRODUCTION

In May 2006, the council decided to include the Chartered Institute of Public Finance and Accountancy's (CIPFA) best practice guidelines into its Constitution, and the Audit Committee and its terms of reference was established. With support from all parties and councillors, an auditing role has now been established to serve the Council. I am please to present this annual report, which shows how the Audit Committee is successfully fulfilling its terms of reference and has contributed towards the improvement in the Council's governance and control arrangements.

This is the second annual report produced by Peterborough City Council's Audit Committee. It is produced in accordance with latest best practice and shows that the Council is committed to working as an exemplar organisation in operating the highest standards of governance.

This report shows 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.

There is no statutory obligation for a local authority to establish an Audit Committee. However, the topic of audit committees is not new. Audit Committees have been in place in many parts of the public sector for some time, operating in different ways in different organisations. They are ever more widely recognised internationally across the public and private sectors as a core component of effective governance.

In this context, a corporate decision was taken in recommending the setting of an Audit Committee. This, together with business transformation was seen as key drivers in improving the performance and accountability of the City Council.

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. Audit Committee members have received training on key issues throughout the year, and further details of this can be found later in this report.

## MEMBERSHIP AND MEETINGS

During 2008 / 2009, the Audit Committee met on the following dates:

- 2 June 2008
- 30 June 2008
- 1 September 2008
- 23 September 2008
- 3 November 2008
- 9 February 2009
- 30 March 2009

Details of the business undertaken and the decisions made at each committee meeting is detailed in **Appendix B**.

The Audit Committee has 7 members, which represents the political make up of the Council. The members for 2008 / 2009 were:

- Councillor Hiller (Chair)
- Councillor North
- Councillor Gilbert
- Councillor Harrington
- Councillor Hussain
- Councillor Kreling
- Councillor Seaton

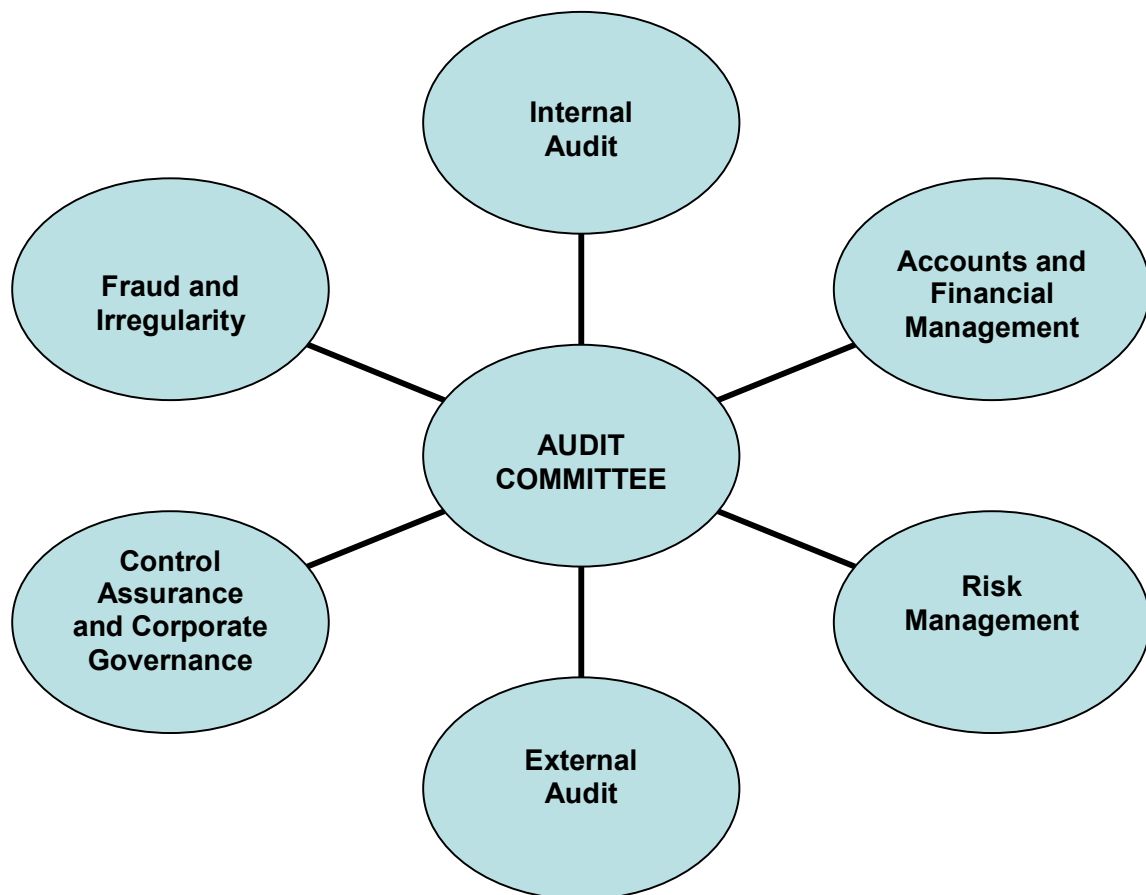
Membership attendance is set out in **Appendix C**. A number of Audit Committee members also sit on various other committees and panels. On occasions there may be clashes with the Audit Committee and where this occurs, apologies are received for any episodes of non-attendance and where available, substitutes attend.

Senior officers from the Council are also present, including the Executive Director (Strategic Resources), Chief Internal Auditor and the Head of Strategic Finance. 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. **Appendix C** sets out officer attendance.

## KEY ACTIVITIES AND TRAINING DURING THE MUNICIPAL YEAR

The first meeting within the year took place in June 2008. While there were local elections in May that year, the nucleus of the membership remained the same, with a similar number of meetings planned throughout the year. At the first meeting the Audit Committee were reminded on their role by the Council's Chief Internal Auditor, together with an informal training session on the Audit Committee Handbook.

The Audit Committee's current terms of reference (**Appendix A**) covers 6 main areas (see below). The Committee's work and outcomes is documented in **Appendix B**.



Initial meetings focussed on the year ended processes, with reviews of the Draft Annual Governance Statement and the Draft Statement of Accounts. These were supported by annual opinions of the Internal Audit service and that of Fraud and Investigations.

Corporate activities around developing, implementing and embedding risk management were presented together with external reports covering a myriad governance and financial issues. The comprehensive Assurance Framework was further refined and intrinsically linked to the corporate plans, to produce a comprehensive document which could be used to establish effective governance arrangements across all activities and services.

Regular update reports have been produced which have highlighted changes in rules and processes which have required adoption. These have included the Minimum Revenue Provision Policy and the new International Financial Reporting Standards, together with ongoing progress / performance reports on Internal Audit activity.

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:

- Council's Final Accounts process and Statement of Accounts;
- Effectiveness of audit committees;
- Risk management;
- Write off policies and procedures;
- Use of Resources and the changes from Comprehensive Performance Assessment to a Comprehensive Area Assessment;
- Debt Management; and
- International Financial Reporting Standards.

All training slides which have been used have been included on the Council's intranet, Insite, under the Strategic Resources link, so that other members and officers can access them.

To further assist Member development, the Chief Internal Auditor produced an Audit Committee Handbook in January 2008 which documents all the activities of the Committee, together with suggested areas for member challenge. This was formally adopted by the Committee in June 2008. This document is regularly referred to where appropriate, and a review of the document is planned for 2009 / 2010.

As a result of the training provided, the reports produced and challenged, the Committee has been able to confirm that the system of internal control, governance and risk management in the authority was adequate in identifying risks and allowing the authority to understand the appropriate management of these risks.

The Committee was also able to confirm that there were no significant duplication or omission in the systems of governance in the authority that had come to the committee's attention and had not been adequately resolved.

## **PLANS FOR 2009 / 2010**

Overall, the Audit Committee want to continue to develop and build on our current achievements. For 2009 / 2010 this will involve:

- Equip existing and any new Members to fulfil our responsibilities by providing or facilitating training on all aspects of the Committee's remit;
- Play a critical role in the preparation of the Annual Governance Statement and in so doing ensure all governance arrangements are reviewed;
- Assist and support officers to promote the work of the Committee and the roles of audit and risk management;
- Support the continued production of high quality and compliant statutory accounts and general good practice in financial management;
- Help to further increase awareness within the Council of its governance arrangements; and
- Provide effective challenge to officers, raising awareness for sound internal control arrangements and giving assurance to the Authority that its control arrangements are sound

**APPENDIX A****AUDIT COMMITTEE: TERMS OF REFERENCE****2.2. Audit Committee****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 Statement on Internal Control 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.

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



**AUDIT COMMITTEE ACTIVITY 2008 / 2009****APPENDIX B**

<b>Report</b>	<b>Overview</b>	<b>Resolution</b>
<b>2 June 2008</b>		
Audit Committee Handbook	To approve the adoption of the Audit Committee Handbook	As some of the membership of the committee are new, it was agreed that this should be deferred to a future meeting.  Action agreed: To defer approval of the Audit Committee Handbook
Annual Governance Statement 2007 / 2008	To receive the draft Annual Governance Statement and comment on as appropriate	To approve the draft Annual Governance Statement prior to its submission to external audit as part of the final accounts process.
Update and Feedback Report	Receive standard feedback report on issues and action requests made at past meetings of the committee	To note the record of action completed during the 2007-2008 municipal year.
Audit Committee Work Programme 2008 / 2009 (including any training needs)	To agree the current work programme and review any member training needs	To convene an additional meeting of Audit Committee on Wednesday 20 June at 7.00pm  That an informal training session on Annual Accounts be held prior to the formal meeting, commencing at 6.00pm.  That substitute members be invited to attend the training session

**AUDIT COMMITTEE ACTIVITY 2008 / 2009****APPENDIX B**

<b>Report</b>	<b>Overview</b>	<b>Resolution</b>
<b>30 June 2008</b>		
External Audit: Audit and Inspection Plan 2008 / 2009	To receive the inspection and audit plans for External Audit	To approve the Audit and Inspection Plan 2008 / 2009
Statement of Accounts for Year Ended 31 March 2008	To receive the draft Statement of Accounts and associated papers for the year ended 31 March 2008	<p>To note the figures presented and that the Statement of Accounts remain subject to External Audit by the Council's external auditors, PricewaterhouseCoopers.</p> <p>It was further agreed:</p> <ul style="list-style-type: none"> <li>- That the committee has scrutinised the accounts for the year ended 31 March 2008;</li> <li>- To approve the transfer to / from Reserves (as set out in note 48 to the Core Financial Statements in the Accounts) in accordance with the recommendations of the Director of Strategic Resources;</li> <li>- To approve the summary capital expenditure statement and its financing (as set out in Appendix 4 and the detailed financing in note 24 to the Core Financial Statements in the Accounts);</li> <li>- To increase the Minimum Revenue Provision Policy for 2007 / 2008;</li> <li>- To approve the draft Accounts for the year ended 31 March 2008 in accordance with Regulation 10 of the Accounts and Audit Regulations 2003 (as amended 2006);</li> <li>- To agree to the publishing of a summary set of Accounts and to publish an electronic Annual Report on the Council's website following stakeholder consultation.</li> </ul>
Audit Committee Handbook	To approve the adoption of the Audit Committee Handbook	Members approved the adoption of the Audit Handbook for the Committee
Update and Feedback report	Receive standard feedback report on issues and action requests made at past meetings of the committee	To note the record of action completed during the municipal year.
Audit Committee Work Programme 2008 / 2009 (including any training needs)	To agree the current work programme and review any member training needs	To note and approve

**AUDIT COMMITTEE ACTIVITY 2008 / 2009****APPENDIX B**

<b>Report</b>	<b>Overview</b>	<b>Resolution</b>
<b>1 September 2008</b>		
Annual Audit Committee Report	To receive the Chair of Audit Committee report prior to its presentation to Full Council	The Committee agreed to submit its Annual Report for consideration at the next Full Council meeting
Internal Audit Annual Report 2007 / 2008	To receive the annual report on Internal Audit activities	The Committee considered and noted the Chief Internal Auditor's annual report for the year ended 31 March 2008
Audit Committee Effectiveness: Self Assessment	To consider the effectiveness of the committee in comparison with best practice and any course of action required to improve	The Committee <ul style="list-style-type: none"> <li>- noted and commented on the content of the internal review of the Audit Committee</li> <li>- endorsed the Action Plan in order to develop the Audit Committee further</li> </ul>
Internal Audit Progress Report: To 30 June 2008	To receive the quarterly report on Internal Audit activities	The Committee <ul style="list-style-type: none"> <li>- noted that the Chief Internal Auditor is of the opinion that based on the works conducted during the 3 months to 30 June 2008, internal control systems and governance arrangements remain generally sound;</li> <li>- noted the progress made against the plan and the overall performance of the section</li> </ul>
Update and Feedback report	Receive standard feedback report on issues and action requests made at past meetings of the committee	To note the record of action completed during the municipal year.
Audit Committee Work Programme 2008 / 2009 (including any training needs)	To agree the current work programme and review any member training needs	To note and approve the latest version of the work programme

**AUDIT COMMITTEE ACTIVITY 2008 / 2009****APPENDIX B**

<b>Report</b>	<b>Overview</b>	<b>Resolution</b>
<b>23 September 2008</b>		
External Audit Report to those charged with Governance 2007 / 2008 ISA 260	To receive the external auditors reports on the accounts for 2007 / 2008	The Committee <ul style="list-style-type: none"> <li>- approved the External Audit Report to those charged with Governance;</li> <li>- approved the Chief Finance Officer's recommendation to adjust the unadjusted item in the report in 2008 / 2009; and</li> <li>- reviewed and approved the draft Management Representation letter</li> </ul>
Statement of Accounts and Summary Accounts 2007 / 2008	To receive and approve the Audited Statement of Accounts and Summary Accounts for 2007 / 2008	The Committee <ul style="list-style-type: none"> <li>- approved the audited Statement of Accounts 2007 / 2008; and</li> <li>- approved the Summary Accounts 2007 / 2008</li> </ul>
Minimum Revenue Provision (MRP) Policy	To receive and consider the revised MRP Policy prior to approval by Full Council	The Committee <ul style="list-style-type: none"> <li>- considered and approved the 2008 / 2009 MRP Policy as detailed in paragraph 5.17 of the report; and</li> <li>- recommended that Full Council approve the Policy</li> </ul>
Fraud and Irregularity Annual Report 2007 / 2008	To receive the annual report on tackling fraud within Peterborough City Council	The Committee considered the Annual Report on the investigation of fraud and other issues for the year ended 31 March 2008
Update and Feedback report	Receive standard feedback report on issues and action requests made at past meetings of the committee	To note the record of action completed during the municipal year.
Audit Committee Work Programme 2008 / 2009 (including any training needs)	To agree the current work programme and review any member training needs	To note and approve the latest version of the work programme

**AUDIT COMMITTEE ACTIVITY 2008 / 2009****APPENDIX B**

<b>Report</b>	<b>Overview</b>	<b>Resolution</b>
<b>3 November 2008</b>		
Internal Audit Progress Report: To 30 September 2008	To receive the quarterly report on Internal Audit activities	The Committee noted: <ul style="list-style-type: none"> <li>- that the Chief Internal Auditor is of the opinion that based on the works conducted during the 6 months to 30 September 2008, internal control systems and governance arrangements remain generally sound; and</li> <li>- the progress made against the plan and the overall performance of the section</li> </ul>
Use of Resources 2008 / 2009 Update	To receive an update on the development of arrangements for the CAA	The Committee agreed the approach to preparation of the 2008 / 2009 Use of Resources Assessment
Risk Management Update	To receive an overview on the implementation, development and embedding of the risk management strategy across the authority	The Committee approved the revised Risk Management Strategy
Update and Feedback report	Receive standard feedback report on issues and action requests made at past meetings of the committee	To note the record of action completed during the municipal year.
Audit Committee Work Programme 2008 / 2009 (including any training needs)	To agree the current work programme and review any member training needs	To note and approve the latest version of the work programme

**AUDIT COMMITTEE ACTIVITY 2008 / 2009****APPENDIX B**

<b>Report</b>	<b>Overview</b>	<b>Resolution</b>
<b>9 February 2009</b>		
External Audit Reports	To receive the external auditors reports on: <ul style="list-style-type: none"> <li>- Report to Management 2007/2008</li> <li>- Use of Resources; and</li> <li>- Data Quality Arrangements</li> </ul>	The Committee received and endorsed the final reports produced by External Audit in relation to the three areas.
International Financial Reporting Standards	To receive a report from the Director of Strategic Resources on the new accounting requirements.	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: <ul style="list-style-type: none"> <li>- The accounting changes required;</li> <li>- The timescale for implementation; and</li> <li>- The potential impact on cash reserves and balances that will need to be managed through the medium term financial strategy</li> </ul>
Risk Management Update	To receive an overview on the implementation, development and embedding of the risk management strategy across the authority	The Committee noted the report
Annual Governance Statement Update	To receive an overview the progress made in addressing issues within the Annual Governance Statement for 2007 / 2008, together with proposals for compiling the latest Statement.	The Committee noted: <ul style="list-style-type: none"> <li>- The review and progress report on significant governance issues reported in the Annual Governance Statement 2008; and</li> <li>- The proposed method that would be adopted in the completion of the 2008 / 2009 statement</li> </ul>
Internal Audit Progress Report – To 31 December 2008	To receive the quarterly report on Internal Audit activities	The Committee noted: <ul style="list-style-type: none"> <li>- that the Chief Internal Auditor is of the opinion that based on the works conducted during the 9 months to 31 December 2008, internal control systems and governance arrangements remain generally sound; and</li> <li>- Progress made against the plan and the overall performance of the section;</li> <li>- Revision to audit plan activities for Quarter 4; and</li> <li>- Proposals recommended for the development of audit plans for 2009 / 2010.</li> </ul>
Update and Feedback report	Receive standard feedback report on issues and action requests made at past meetings of the committee	To note the record of action completed during the municipal year.
Audit Committee Work Programme (including any training needs)	To agree the current work programme and review any member training needs	To note and approve the latest version of the work programme

**AUDIT COMMITTEE ACTIVITY 2008 / 2009****APPENDIX B**

<b>Report</b>	<b>Overview</b>	<b>Resolution</b>
<b>30 March 2009</b>		
Annual Audit and Inspection Letter 2007 / 2008	To receive the External Auditors annual letter on their review of the Audit of Accounts and Use of Resources assessments.	The Committee approved the Audit and Inspection Letter 2007 / 2008.
Assurance Framework	To receive an overview of the actions taken to provide appropriate assurance to the Council in order to formulate the Annual Governance Statement for 2008 / 2009.	The Committee: <ul style="list-style-type: none"> <li>- Approved the Assurance Framework which formed part of the Annual Governance Statement;</li> <li>- Considered whether additional areas of assurance were required; and</li> <li>- Noted the proposed future reporting timetable.</li> </ul>
Internal Audit Plan and Strategy 2009 / 2010	To receive a report documenting the Internal Audit Strategy and the Plans proposed to deliver assurance across the organisation for 2009 / 2010.	The Committee noted the report
Update and Feedback report	Receive standard feedback report on issues and action requests made at past meetings of the committee	To note the record of action completed during the municipal year.
Audit Committee Work Programme 2008 / 2009 (including any training needs)	To agree the current work programme and review any member training needs	To note and approve the latest version of the work programme

**AUDIT COMMITTEE ATTENDANCE****APPENDIX C**

MEMBERS	2008					2009	
	2 June	30 June	1 September	23 September	3 November	9 February	30 March
Councillor Hiller (Chair)	✗ (1)	✓	✓	✓	✓	✓	✓
Councillor North	✓	✓	✓	✓	✗ (3)	✓	✓
Councillor Gilbert	✓	✗ (2)	✗ (2)	✗ (3)	✓	✓	✓
Councillor Harrington	✓	✓	✓	✓	✓	✓	✓
Councillor Hussain	✓	✓	✗ (2)	✗ (4)	✓	✗ (4)	✗ (5)
Councillor Kreling	✓	✓	✓	✓	✓	✓	✓
Councillor Seaton	✓	✓	✗ (3)	✓	✓	✓	✓

- (1) Apologies received and meeting chaired by Cllr North
- (2) Apologies not minuted / received
- (3) Apologies received and substitute member attended - Cllr S Dalton
- (4) Apologies received - no substitute
- (5) Apologies received and substitute member attended – Cllr Khan



**AUDIT COMMITTEE ATTENDANCE****APPENDIX C**

OFFICERS	2008					2009	
	2 June	30 June	1 September	23 September	3 November	9 February	30 March
<b>KEY CONTACT OFFICERS</b>							
Executive Director (Strategic Resources)	-	✓	-	✓	-	-	-
Chief Internal Auditor	✓	✓	✓	✓	✓	✓	✓
Head of Strategic Finance	✓	✓	✓	✓	✓	✓	✓
<b>STRATEGIC FINANCE</b>							
Corporate Accounting Manager	-	✓	-	✓	-	✓	-
<b>LEGAL SERVICES</b>							
Principal Lawyer	✓	✓	-	-	-	-	-
Lawyer	-	-	✓	✓	-	-	-
Contracts Legal Executive	-	-	-	-	✓	-	-
<b>OTHER SERVICE AREAS</b>							
Fraud & Investigation Manager	-	-	-	✓	-	-	-
<b>EXTERNAL REPRESENTATION</b>							
PricewaterhouseCoopers and / or Relationship Manager	-	✓	-	✓	-	✓	✓

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