

**MINUTES OF A MEETING OF THE AUDIT COMMITTEE
HELD AT THE TOWN HALL, PETERBOROUGH ON 2 NOVEMBER 2009**

Present: Councillors M Dalton (Chairman), Gilbert, Kreling, Rush, Goldspink and Khan.

Officers in attendance: Steve Crabtree, Chief Internal Auditor
Steven Pilsworth, Head of Strategic Finance
Chris Hughes, PricewaterhouseCoopers
Claire Boyd, Lawyer
Israr Ahmed, Lawyer
Gemma George, Senior Governance Officer

1. Apologies for Absence

Apologies were received from Councillor North and Councillor Hussain. Councillor Khan attended as a substitute.

2. Declarations of Interest and Whipping Declarations

There were no declarations of interest or whipping declarations.

3. Minutes of the Meeting held on 7 September 2009

The minutes of the meeting held on 7 September 2009 were approved as an accurate and true record.

4. Minutes of the Meeting held on 28 September 2009

The minutes of the meeting held on 28 September 2009 were approved as an accurate and true record.

5. External Audit 2008 / 2009 – Interim Audit Report to Management

The Executive Director of Strategic Resources submitted a report to the Committee.

On a yearly basis the external auditors, PricewaterhouseCoopers (PwC), undertook a review of controls in place in the Council's key IT systems. This work underpinned the statutory audit process, including informing the external audit view on the Statement of Accounts that had been considered by the Audit Committee at its meeting of 28 September 2009.

The report outlined the matters which PwC considered should be brought to the attention of management. The report included those findings identified during PwC's review of the underlying Information Technology General Controls (ITGCs) which took place between May and June 2009, in order to support the statutory audit process. In addition, the report included those issues identified during PwC's interim audit work at Peterborough City Council.

The matters included in the report were those that came to PwC's attention as a result of their normal audit procedures.

Members were advised that each highlighted recommendation had been allocated a priority rating in order to reflect the degree of importance in the context of Peterborough City Council's internal controls. Members were further advised that the report was draft and did not constitute the final views which would be expressed by PwC in their final report.

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

- Members sought further clarity on why the "lack of periodic review of user access rights within Oracle Financials" as detailed in the Summary of Information Technology General Controls (ITGCs) findings, was highlighted as a high risk. Members were advised that controls should be in place to periodically review user access rights. A six month formal process was needed and it was deemed as a high priority.
- Members questioned when PricewaterhouseCoopers had last audited the Oracle Financials system. Members were informed that there had been no review undertaken in 2009, however, there was a regular working group which had been set up and key controls were in place.
- Members expressed concern at the limited reviews of the Oracle Financials System. Members were advised that the system had been reviewed with a specialist auditor when it was introduced as well as when needed based on risk.
- Members sought further clarity on the "review of payroll reconciliations which had identified a number of reconciling items which were several months/years old" as highlighted in the detailed internal control findings. Members were advised that there had been a number of problems during the audit with regards to reconciling Oracle and the pay system. These items totalled £37,000. Members were assured that steps had been put in to place to minimise future problems.
- Members questioned whether management had ensured that the plan to perform a full Oracle Financials Disaster recovery test by October 2009 was continued through to completion" as highlighted in the detailed Information Technology General Controls findings. Members were advised that this point would be looked into and an answer would be provided at a later date.
- Members further questioned whether all of the actions highlighted for completion in 2009 had been undertaken. Members were advised that an update would be provided on all of the actions at a later date.

ACTION AGREED:

The Committee received the Interim Audit Report to Management from PricewaterhouseCoopers, the Council's External Auditors.

6. Use of Resources Scores

The Director of Strategic Resources submitted a report to the Committee in line with its terms of reference, which introduced the report from PricewaterhouseCoopers (PwC), the Council's external auditors, on the Council's use of resources scores.

The purpose of the report was to inform the Committee of the Council's initial thoughts on planning for the next assessment.

Use of Resources was an external inspection undertaken by the Council's auditors. The Audit Commission was responsible for designing and implementing the Use of Resources Assessment model, but the assessment was undertaken by their appointed auditors for Peterborough, PricewaterhouseCoopers.

The Council had improved its resource and financial management in recent years and this was reflected in the Use of Resources Assessment.

The previous assessment had focussed on financial management, governance and asset management. The new arrangements however were far broader in scope and encompassed areas such as commissioning, use of information and management of natural resources. Requirements were also far more stringent. Performance that would previously have received a score of 4 in the previous assessment would now only score a 3 in most areas.

Requirements for the new scores were as follows:

- 1) Score 1 – Failure to meet minimum requirements – inadequate performance
- 2) Score 2 – Meets only minimum requirements – performs adequately
- 3) Score 3 – exceeds minimum requirements – performs well
- 4) Score 4 – significantly exceeds minimum requirements – performs excellently

Members were requested to note that the expectation was that level 4 performance represented national best practice. The Use of Resource guidance did not provide any guidance on what level 4 might look like (unlike levels 2 and 3). The Audit Commission had stated that they expected far fewer councils to be at this level than before.

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

- Members requested for their gratitude to be noted to the finance team for delivering consistently improving scores over the past four years.
- Members questioned how “outcomes would be demonstrated” with regard to further engagement with local communities, specifically relating to the recently implemented Neighbourhood Panels, as highlighted in the Initial comments on Audit observations table. Members were advised that stakeholder consultation would be key with regard to the Neighbourhood Panels, this would help to identify what the stakeholders/local people wanted and how the Panels could be progressed forward in the future.

ACTION AGREED:

The Committee considered and endorsed the final reports produced by External Audit in relation to the Use of Resources scores.

7. Strategic Governance Board

The Committee received a report following initial work which had been undertaken by officers to create a Strategic Governance Board to coordinate governance activities within the Council.

The Committee was invited to consider the proposals that had been developed and to indicate any priorities that it would like the Board to include within its work programme.

The Committee was also invited to comment on the terms of reference for the Board as highlighted in the Committee report.

The Strategic Governance Board would provide a forum for senior officers of the Council to discuss and develop a coordinated approach to the following:

- Risk Management;
- Corporate Governance;
- Statutory and constitutional compliance;
- Decision-making and accountability;
- Audit, inspection and control systems; and
- Corporate policy and procedures

The focus of the Board would be upon the Council and also the partnership bodies on which it served as a member. The Board would comprise of several permanent members and there would be a standing invitation to the Cabinet Member for Resources and the Chief Executive to attend the meetings, other senior officers could be invited by the Chairman to become permanent members or to attend specific meetings as deemed appropriate by the Board. Representatives of partner bodies and elected Members could also be invited to the meetings in order to promote the widest engagement on governance issues.

The link between the Strategic Governance Board and the Audit Committee would be very important and it may be that items would be referred from the Committee to the Board from time to time to consider or to action.

The Strategic Governance Board would provide leadership and a coordinated approach to the promotion of governance throughout the Council. Initially the Board would meet for a two year period, after which time an evaluation would be undertaken into the costs and benefits of the Board.

Members were invited to comment on the report and proposals for the new Strategic Governance Board and the following issues and observations were highlighted:

- Members queried whether the Strategic Governance Board would replace the Corporate Programme Board. Members were advised that there were no links between the two Boards.

- Members questioned whether the Strategic Governance Board would be retrospectively reviewing the Neighbourhood Councils. Members were advised that a retrospective review of the Neighbourhood Councils would be included as a future agenda item.
- The Chairman of the Audit Committee requested confirmation of whether he would receive an invite to the Strategic Governance Board. He was advised that this request would be looked into and reported back directly to him.
- Members queried how many meetings of the Strategic Governance Board would happen per annum. Members were informed that three meetings would be held per annum.

ACTION AGREED:

The Committee endorsed the creation of a Strategic Governance Board and its terms of reference.

8. Assurance Framework / Annual Governance Statement – Six Month Refresh

The Committee received a report highlighting the Assurance Framework (AF) which was an initiative designed to further consolidate the Council's Risk Management Framework.

The Assurance Framework was laid out in sections according to the objectives / priorities specified in the Sustainable Community Strategy. It was also intrinsically linked with the Annual Governance Statement and the report highlighted progress which had been made by officers in addressing the governance issues which had been reported in the Council's Annual Governance Statement in June 2009.

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

- Members sought further clarity as to the reasons behind the red status (which indicated further work was required) of the credit crunch and estate utilisation, as highlighted in the Assurance Framework summary. Members were advised that due to the recession there had been an increased pull on services and there had been a potential increase in benefit levels. With regard to the sale of assets, the market was currently depressed, and regular monitoring was needed in order to identify the right time to progress these sales forward.
- Members questioned how the credit crunch had affected the Council's income. Members were advised that a full estimate on the effect of the credit crunch had been undertaken before the budget. Members were further advised that monitoring was in progress and would be reported back to the Committee at a later date.
- A query was raised regarding the commentary for "estate utilisation", it stated that the "impact on the capital programme would be re-evaluated should the recession continue longer than forecast". Members

questioned how long the Council's forecast for the recession currently was. Members were informed that the Medium Term Financial Strategy was in the process of being set and the recession was currently expected to last for at least two more years.

- Members questioned why a “refresh of policies in relation to CRB checks”, as highlighted in the Assurance Framework summary, was required. Members were advised that weaknesses in the current arrangements had been identified therefore a refresh was required.

ACTION AGREED:

The Committee:

- (1) Received, scrutinised and approved the revised Assurance Framework;
- (2) Noted the progress on the significant governance issues reported in the Annual Governance Statement 2008 / 2009; and
- (3) Considered whether additional areas of assurance were required.

9. Internal Audit – Quarterly Report 2009 / 2010 (To 30 September 2009)

The Committee received a report which highlighted Internal Audit performance and progress with regards to the 2009 / 2010 Audit Plan.

The report was comprised of a number of sections, including:

- Appendix A – Progress of Audit Plan 2009 / 2010 (To 30 September 2009)
- Appendix B – Audit Reports Issued in Quarter 2: Limited / No Assurance
- Appendix C – Revised Internal Audit Plan 2009/10

The Chief Internal Auditor provided the Committee with an overview to the report and highlighted the main points including the progress made against the plan, the responses to the audit reports, the status of recommendations, other performance matters and the revision of the 2009 / 2010 audit plan. Members were advised that due to resourcing issues relating to sickness the delivery of the audit plan was at risk, this was also impacted by a vacant Trainee Auditor post within the team and it was uncertain of when the recruitment process would commence. Therefore, in view of this and the continued requests by management for unplanned work the audit plan had been reviewed and was attached at Appendix C.

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

- Members sought further clarity as to why “inadequate resources were allocated to debt recovery within the Transactional Services Team”, as highlighted in Appendix B of the report. Members were advised that when the review was undertaken the team had been going through a re-structure. The issues were looking to be addressed and additional resources were to be brought in.

- Members queried when the vacant Trainee Auditor post, which was impacting on the delivery of the Audit Plan, would be filled. Members were informed that the post was looking to be filled around June 2010.
- In Appendix A, the Voyager School was highlighted as having numerous high level recommendations made against it. Members queried why the number of recommendations was so high. Members were advised that the main issues were around procurement controls, these had not been included in the original assessment. Members were further advised that a re-assessment of secondary schools was currently being undertaken.
- In Appendix A, Operations Directorate, the audit review of Jack Hunt Pool refurbishment was highlighted as also having a number of high level recommendations made. Members queried why this was and were informed that numerous actions had been highlighted for two departments to action and discussions were currently being undertaken.
- In Appendix A, City Services, Members further questioned the recommendations made for Budgetary Control. Members were advised that responses had been received from City Services but a meeting was needed to progress the responses forward. Members were further advised that an update on City Services would be provided at the next meeting of the Audit Committee within the Executive Summary due to the level of assurance identified.
- Members questioned the possibility of recognising when a school achieved full assurance to highlight to them the Council's appreciation of the work that they undertook. Members were advised that full assurance achievers would be too low as none of the schools were likely to achieve this. Members were further advised that a lot of work was currently being undertaken with the schools and regular bulletins were being produced by Children's Services.
- Members commented that if a school achieved a significant assurance level and no high recommendations, then this could be mentioned in the bulletins produced by Children's Services.

ACTION AGREED:

The Committee received the report and noted that:

- (1) The Chief Internal Auditor was of the opinion that based on the works conducted during the 6 months to 30 September 2009, internal control systems and governance arrangements remained generally sound;
- (2) The progress made against the plan and the overall performance of the section; and
- (3) The approval of the revised 2009 / 2010 Audit Plan.

10. Feedback and Update Report

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

Members were advised that the Audit Committee Handbook was nearly completed and would be reissued to all committee members.

Members were further advised on the processes in place for monitoring and managing staff sickness.

Members were advised that the legal department would report back at the next meeting on the Urban Regeneration Company.

There were no requests from the Committee for any further information to be provided on any other items.

ACTION AGREED:

The Committee noted the Feedback and Update Report.

11. Audit Committee Work Programme 2009 / 2010 (Including Any Training Needs)

The Chief Internal Auditor submitted the latest version of the draft Work Programme 2009/2010 for consideration and approval.

Members were advised that if they required any specific training needs they were to email the Chair of the Committee.

ACTION AGREED:

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

The meeting closed at 7.48 p.m.