

3rd ANNUAL REPORT FROM THE CHAIR OF AUDIT COMMITTEE 2009 / 2010

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 2009 / 2010. 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.

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.

The Council achieved a score of 3 out of 4 overall on the new, tougher, Use of Resources Assessment. The Audit Committee plays a significant role in relation to the Use of Resources Assessment. Firstly, the Audit Committee's own arrangements comply with good practice and, secondly, the Audit Committee oversees many other arrangements that are reflected in the assessment.

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.

2010 / 2011 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. As I pass on the role of Chair to Councillor Collins, the role of the Audit Committee will become more intensive to ensure good and effective stewardship of resources are working and I'm confident that the Committee is well placed to do that during 2010 / 2011 and beyond.

Councillor Matthew Dalton
Chair of the Audit Committee
May 2010

AUDIT COMMITTEE: ANNUAL REPORT 2009 / 2010

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INTRODUCTION

This is the third annual report produced by Peterborough City Council's Audit Committee. It is produced in accordance with latest best practice¹ 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 2009 / 2010 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.

¹ Best practice as contained in the CIPFA, IPF document "A Toolkit for Local Authority Audit Committees"

MEMBERSHIP AND MEETINGS

During 2009 / 2010, the Audit Committee met on the following dates:

- 1 June 2009
- 29 June 2009
- 7 September 2009
- 28 September 2009
- 2 November 2009
- 8 February 2010
- 29 March 2010

The Audit Committee has 7 members, which represents the political make up of the Council. The members for 2009 / 2010 were:

- Councillor M Dalton (Chair)
- Councillor North (Vice Chair)
- Councillor Gilbert
- Councillor Harrington (replaced by Councillor Goldspink from 2 November 2009)
- Councillor Hussain
- Councillor Kreling
- Councillor Rush

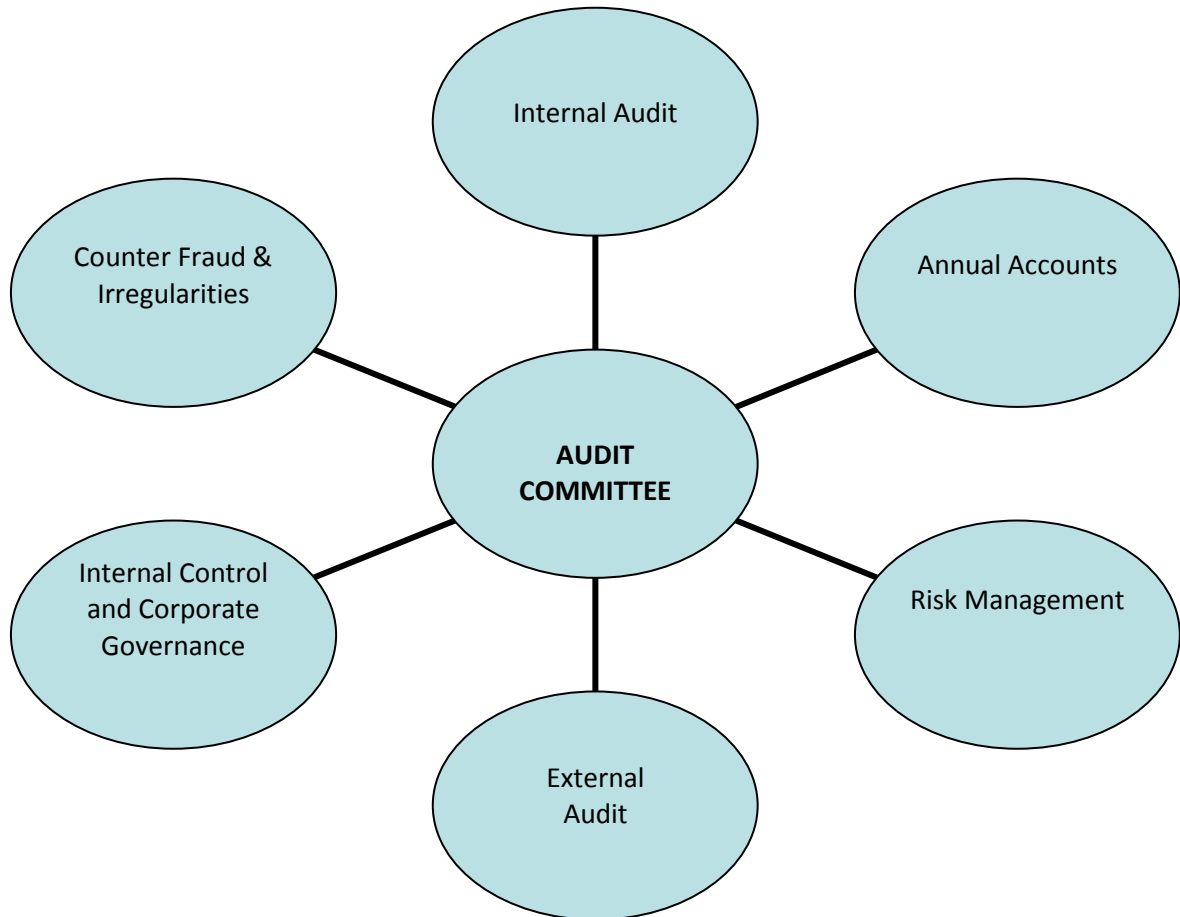
Membership attendance is set out in **Appendix B**. A number of Audit Committee members also sit on various other committees and panels. On occasions there may be clashes with the Audit Committee and where this occurs, apologies are received for any episodes of non-attendance and where available, substitutes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

KEY ACTIVITIES AND TRAINING DURING THE MUNICIPAL YEAR

The first meeting within the year took place in June 2009. While there were no local elections in May that year, the nucleus of the membership remained the same, albeit a change in chair, with a similar number of meetings planned throughout the year.

The Audit Committee's current terms of reference (**Appendix 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 1 June 2009, 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 2008 / 2009 Annual Governance Statement and the Chief Internal Auditors Annual report and opinion.

An update was provided on 2 November 2009 on addressing previous weaknesses identified within the Annual Governance Statement together with the development of the next statement through the newly created Strategic Governance Board. A further update was provided on 29 March 2010.

The Audit Committee Handbook was fully updated and agreed by the Committee on 8 February 2010.

Annual Accounts

The Committee reviewed and scrutinised the 2008 / 2009 Revenue and Capital Outturn and Statement of Account on 29 June 2009 prior to its submission to the external auditors for audit. The Committee then approved the Statement of Accounts for 2008 / 2009 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 2009.

As part of the accounts process, Members have also considered the implications of the introduction of International Financial Reporting Standards (IFRS) within local government and reviewed the progress towards its implementation. This was in the form of a training session to Members on 2 November 2009.

Internal Audit

The Audit Committee received quarterly reports highlighting internal audit performance against targets and quality assurance results at each meeting to able 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 resulted 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.

At its 29 March 2010 meeting the Committee considered a report on the 2010 / 2011 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.

Internal Audit reviewed its Audit Charter and received committee support / approval in February 2010.

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 7 September 2010 meeting. Corporate activities around developing, implementing and embedding risk management were presented.

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. Committee assessed the Assurance Framework in conjunction with works from Internal Audit, External Audit and the Risk Management processes twice in the year - 2 November 2009 and 29 March 2010.

Counter Fraud & Irregularities

On 29 June 2009, 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) at the meeting on 8 February 2010.

External Audit

At its 28 September 2009 meeting the Committee considered the Audit Commission's Annual Governance report on the Audit of the 2008 / 2009 Accounts and approved and agreed the:

- audited Statement of Accounts for 2008 / 2009 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.

At its 2 November 2009 meeting the Committee considered the Interim Audit Report to Management in respect of 2008 / 2009, together with the assessed Use of Resources scores.

On 8 February 2010, the Committee scrutinised the Annual Audit and Inspection Letter in respect of 2008 / 2009 and considered the Annual Audit and Inspection Plan 2009 / 2010. In a new development, External Audit now provides an annual assessment on grant claims within the authority and this was provided to Audit Committee on 29 March 2010.

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;
- Risk management and business continuity;
- International Financial Reporting Standards;
- Investigating fraud and the use of RIPA; and
- Use of Resources and the Comprehensive Area Assessment.

To further assist Member development, the Chief Internal Auditor fully revised the Audit Committee Handbook. The second edition was endorsed by Committee on 8 February 2010.

FUTURE DEVELOPMENTS AND PLANS FOR 2010 / 2011

Overall, the Audit Committee want to continue to develop and build on our current achievements. For 2010 / 2011 this will involve:

- Continuing to drive up standards and meet the ongoing requirements of the Use of Resources assessment;
- 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, including monitoring the implementation of the International Financial Reporting Standards;
- 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:

- Treasury Management, and the responsibility for the scrutiny of the treasury management strategy;
- Detailed strategic risk register profiles;
- The revision of Contract Regulations; and
- Quarterly updates on the use of RIPA.

APPENDIX A**2.2 AUDIT COMMITTEE: TERMS OF REFERENCE²****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.

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

AUDIT COMMITTEE ATTENDANCE

APPENDIX B

MEMBERS	2009					2010	
	1 Jun	29 Jun	7 Sept	28 Sept	2 Nov	8 Feb	29 Mar
CLlr Dalton (Chair)	✓	✓	✓	✓	✓	✓	✓
CLlr North (Vice Chair)	× (1)	✓	× (2)	✓	× (1)	✓	✓
CLlr Gilbert	✓	× (1)	× (1)	× (1)	✓	✓	× (1)
CLlr Harrington	× (1)	✓	✓	✓			
CLlr Hussain	× (1)	× (1)	× (1)	✓	× (3)	× (1)	×
CLlr Kreling	✓	✓	✓	✓	✓	✓	✓
CLlr Rush	✓	✓	✓	✓	✓	× (2)	× (4)
CLlr Goldspink					✓	✓	× (1)

(1) Apologies received

(2) Apologies received and substitute member attended - CLlr Collins

(3) Apologies received and substitute member attended - CLlr Khan

(4) Apologies received and substitute member attended - CLlr Fitzgerald

AUDIT COMMITTEE ATTENDANCE

APPENDIX B

OFFICERS	2009					2010	
	1 Jun	29 Jun	7 Sept	28 Sept	2 Nov	8 Feb	29 Mar
KEY CONTACT OFFICERS							
Executive Director (Strategic Resources)	-	✓	-	✓	-	-	-
Chief Internal Auditor	✓	✓	✓	✓	✓	✓	✓
Head of Strategic Finance	✓	✓	-	✓	✓	✓	✓
OTHER SERVICE AREAS IN ATTENDANCE							
Financial Services Manager: Corporate Accounting	-	✓	-	-	-	-	-
Legal Services: Lawyer	✓	✓	✓	✓	✓	✓	✓
Fraud Investigation & Manager	-	✓	-	-	-	-	-
Resilience Services Manager	-	-	✓	-	-	-	✓
Democratic Services: Governance Support	✓	✓	✓	✓	✓	✓	✓
EXTERNAL REPRESENTATION							
PwC: Senior Manager	-	✓	-	-	✓	✓	✓
Relationship Manager	-	-	-	✓	-	-	-

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