

**(DRAFT) ANNUAL REPORT FROM  
THE CHAIRMAN OF AUDIT COMMITTEE  
2017 / 2018**

*Assurance*

*Governance*

*Accountability*

*Risk Management*

*Independence*

## **AUDIT COMMITTEE: ANNUAL REPORT 2017 / 2018**

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## FOREWORD FROM THE CHAIRMAN OF AUDIT COMMITTEE

I am pleased to provide the Audit Committee's Annual Report for the municipal year 2017 / 2018. The Council is requested to note the work carried out by the Audit Committee in improving the governance arrangements across the Council.

The report shows how the Audit Committee 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. In addition, it also covers the remit of Member standards.

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 Chairman. Audit 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.

Going forward, 2018 / 2019 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. The Audit Committee holds a unique position to challenge and scrutinise the activities of the Council, with the support of Officers and my fellow Councillors, long may this continue.

With these new changes and a continuing trend to improve Council services a new Constitution and Ethics Committee has been formed to look at issues affecting the Council's Constitution and to look more in depth at Councillors conduct.

## INTRODUCTION

This is the 10<sup>th</sup> 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 exemplary organisation, operating the highest standards of governance. This report demonstrates how the Audit Committee has successfully fulfilled its terms of reference and has endeavoured to improve 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 Membership had increased to 8 in 2015/16, but has since reduced from 2016/17 to 7.

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

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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"

- processes; and
- Providing additional assurance through a process of independent and objective review.

The Terms of Reference for the Audit Committee can be found at **Annex A** of this report.

This report sets out the work undertaken by the Audit Committee for 2017 / 2018 and specifically highlights those areas where its scrutiny and review process has made a difference to performance. The Audit Committee has overseen good progress in all areas under its supervision.

Audit Committee members have had the opportunity to attend the Ernst & Young training conferences offered to Audit Committee Members across the East of England region.

## MEMBERSHIP AND MEETINGS

During 2016 / 2017, the Audit Committee met on the following dates:

- 26 June 2017
- 25 September 2017
- 20 November 2017
- 12 February 2018
- 26 March 2018

There is a cross representation of all parties in accordance with the make-up of the Council. The members for 2017 / 2018 were (excluding substitutes):

Table 1: Audit Committee Membership 2017 / 2018 :

| Conservative                                | Peterborough Independent Forum | Liberal Democrats | Labour  |
|---|--------------------------------|-------------------|---|
| Aitken (Chair)<br>Over (Vice Chair)<br>Bull | Sharp                          | Shaheed           | S Nawaz (July onwards)<br>Mahabadi<br>Murphy (May – July) |

Senior officers from the Council are also present, including the Interim Director of Law and Governance, Interim Corporate Director Resources, Service Director Financial Services, Chief Internal Auditor and the Head of Resilience. Dependent on the subject matter on the agendas, other officers will attend in addition to external representation from the Councils' External Auditors.

## KEY ACTIVITIES AND TRAINING DURING THE MUNICIPAL YEAR

### Background

The Audit Committee's original terms of reference covers 7 main areas:

- Internal Audit
- Internal Control and Corporate Governance
- Annual Accounts
- Risk management
- External Audit
- Counter Fraud and Irregularities
- Members Code of Conduct

## **Internal Audit**

### **2.2.1 Terms of Reference**

- 2.2.1.1** To consider the annual report and opinion of the Corporate Director Resources 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.
- 2.2.1.2** To consider summaries of specific internal audit reports as requested.
- 2.2.1.3** To consider reports dealing with the management and performance of the providers of internal audit services.
- 2.2.1.4** To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale
- 2.2.1.9** To commission work from internal and external audit.
- 2.2.1.15** To consider the council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

26 June 2017

- *Capital and Treasury Outturn Report.* The report is submitted each year, as part of the financial reporting cycle. The purpose of the report was for the Audit Committee to consider the 2016/17 capital outturn and adherence to prudential indicators.
- *Annual Audit Opinion.* Internal Audit produces an Annual Audit Plan which forms the basis of their audit activity. Progress is noted throughout the year and an independent annual report is produced highlighting assurances obtained across the organisation as well as any misgivings into the effectiveness of controls. The report also sets out the teams' performance. Where standards have not been maintained across the Council, Audit Committee are provided with Executive Summaries of Audit reports for further scrutiny. Internal Audit concluded that they were able to provide reasonable assurance based on the work reviewed in the year.

20 November 2017

- *Internal Audit Mid-Year Opinion.* 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.

12 February 2018

- *Internal Audit Plan 2018/19 Planning Approach and emerging themes.* The Audit Committee noted the proposed work for internal audit in 2018/19

26 March 2018

- *Internal Audit Strategy.* The Committee received a report looking at Internal Audit strategic plans.

- *Review of Committee Effectiveness.* The Committee received a report providing Members with details of an internal assessment of the operations of the Audit Committee against best practice.

## **Internal Control and Corporate Governance**

### **2.2.1 Terms of Reference**

- 2.2.1.1** To consider the annual report and opinion of the Corporate Director Resources 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.
- 2.2.1.5** To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.  
Regulatory Framework
- 2.2.1.10** To maintain an overview of the Council's constitution in respect of contract procedure rules, and Financial Regulations.
- 2.2.1.11** To review any issue referred to it by the Chief Executive or a Director, or any Council body.
- 2.2.1.14** To oversee the production of the authority's Annual Governance Statement and to recommend its adoption.
- 2.2.1.15** To consider the council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

26 June 2017

- *Draft Annual Governance Statement.* A key role of the Audit Committee is to oversee the Authority's control environment and its associated system of internal controls and assurance processes. The Audit 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.
- Audit Committee reviewed the draft Annual Governance Statement on 26 June 2017. The Committee agreed to final changes to the Statement prior to its inclusion in the Statement of Accounts.
- *Updates to the Constitution.* The Audit Committee received a report on updates to the Council's constitution, following referral from the Member, Officer Working Group (now Governance Board). The report sought the Committee's views on proposed amendments and updates to the Council's constitution, including Regulatory Committee Functions, Standing Orders, and Petitions Scheme. Members requested that the call-in for Planning Applications was less harsh and re-worded before being submitted to Council for approval.

25 September 2017

- *Treasury Management Mid-Year update.* The Committee received an update on the Treasury Management. In addition the Committee also noted the approval of use of loans within the officer's delegation scheme.

20 November 2017

- *Consultation on 2018/19 Treasury Management Strategy.* The Committee were provided a draft narrative of the Treasury Management Strategy 2018/19 to for comment and input on Treasury Management policies before receipt of a completed revised version in February 2018 once the Capital Programme for the next 10 years is agreed.

12 February 2018

- *Consultation on 2018/19 Treasury Management Strategy.* The Audit Committee received a more finalised version of the Treasury Management Strategy that was to be presented to Full Council in March 2018. The Audit Committee noted and approved the strategy.
- *Consultation on 2018/19 Asset Management Strategy.* The Audit Committee received a report on the Asset Investment Strategy. The Committee approved the strategy before approval at Full Council in March 2018.
- *Uncollectable Debts in excess of £10,000.* The Audit Committee noted the uncollectable debts and welcomed more frequent reports in the future.

26 March 2018

- *Updates to the Constitution:* The Audit Committee debated and analysed proposed updates to the Constitution, including formalising Member training, updates to the petition scheme and updates to the Member/Officer protocol
- *Consultants Policy:* The Audit Committee received and noted the updates to the Consultants Policy to ensure a more robust process is in place.

## **Annual Accounts**

### **2.2.1 Terms of Reference**

#### **Accounts**

- 2.2.1.16** 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.
- 2.2.1.17** To consider the external auditors report to those charged with governance on issues arising from the audit of the accounts.

26 June 2017

- *Draft Statement of Accounts for the Year ended 31 March 2017.* The Audit Committee reviewed and the Statement of Account on 26 June 2017 prior to its submission to the external auditors for audit. The Committee reviewed and commented on the Statement of Accounts prior to the Chief Finance Officer's (Sec 151 Officer) certification by the 30 June 2017.

25 September 2017

- Following scrutiny by External Audit, the *Audit of Statement of Accounts and Report to those charged with Governance* was submitted to the Audit Committee. The Committee received and approved the "Report to those charged with governance (ISA260) 2016/17 Audit" from Ernst & Young LLP, the

Council's external auditors; and received and approved the audited Statement of Accounts 2016/17.

20 November 2017

- *Impact of changed Statutory deadline for approval of statement of accounts.* The Committee agreed and noted the change of date to sign off the statement of accounts had moved to May 31. This means that the Audit Committee meeting in June 2018 will now be held in July 2018.

## **Risk Management**

### **2.2.1 Terms of Reference**

Regulatory Framework

- 2.2.1.12** To monitor the effective development and operation of risk management and corporate governance in the council.

20 November 2017

- *Risk Management Strategic Risk.* Audit Committee received a report of the strategic risks impact on the Council and the mitigating actions to address these. At the meeting the Committee were informed that a new working group was being headed by the Corporate Director Growth and Regeneration.

26 March 2018

- *Risk Management Strategic Risk.* Audit Committee received a report of the strategic risks impact on the Council and the mitigating actions to address these. At the meeting the Committee were informed that the new working group had agreed its terms of reference.
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## **External Audit**

### **2.2.1 Terms of Reference**

- 2.2.1.5** To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
- 2.2.1.6** To consider specific reports as agreed with the external auditor.
- 2.2.1.7** To comment on the scope and depth of external audit work and to ensure it gives value for money.
- 2.2.1.8** To liaise with the Public Sector Audit Appointments Ltd (PSAA) over the appointment of the council's external auditor.
- 2.2.1.9** To commission work from internal and external audit.

26 June 2017

- *Audit Fees 2016/17.* The Audit Committee considered the proposed Audit Fees for 2017/18. The Audit Committee noted and commented on the proposed fees in keeping with previous years fees.
- *Ernst & Young Verbal update.* The Audit Committee received a short update on the work of the external auditors. The Committee noted the planned work for the year 2017/18.



25 September 2017

- *Response to Public Sector Audit Appointments Proposal to Ernst & Young as external auditors for 5 years from 2018/19.* The Committee were asked to confirm the appointment of Ernst & Young as external auditors for a period of five years from 2018/19.

20 November 2017

- *Ernst & Young Annual Audit Letter for year end 31 March 2017.* The Committee received a report on the annual findings letter of the external auditors.
- *Ernst & Young progress report.* The Audit Committee noted the progress made by the external auditors for the year 2017/18.

12 February 2018

- *External Audit Plan for end March 2018.* The Audit Committee received a report outlining the Audit Plan for Ernst and Young for end of March 2018. Members noted the report and agreed to the work carried out.
- *Certification of claims and returns annual report.* Audit Committee scrutinised and endorsed the Annual Audit and Inspection Letter in respect of 2016 / 2017 and Annual Grant Claims Certification.

26 March 2018

- *External Audit Progress report:* Audit Committee received a verbal update on the progress of EY in terms of the 2017/18 statement of accounts.
- *Sector update:* EY presented to the Committee an update of the overall sector for the beginning of the 2018/19 first quarter

## **Counter Fraud & Irregularities**

### **2.2.1 Terms of Reference**

Regulatory Framework

- 2.2.1.13** To monitor the effective development and operation of risk management and corporate governance in the council.

26 June 2017

- *Fraud and Investigations Team Annual Report.* Audit 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 and requested to be provided with regular updates in terms of team resources.

26 June 2016 / 22 September 2016 / 21 November 2016 / 27 March 2017

- *Use of Regulation of Investigatory Powers Act 2000 (RIPA).* At its meeting held on 24 March 2014,

Audit Committee considered and agreed an alternative reporting mechanism which introduced a standing information item on each Audit Committee agenda in respect of the Use of Regulation of Investigatory Powers Act 2000 (RIPA). This meant that only when the RIPA power was utilised by PCC would there be a report presented to Audit Committee. To date there has been no RIPA use to report to Audit Committee. Ultimately, this change in reporting mechanism has permitted the Committee to work more efficiently and has avoided the presentation of repetitive reports.

12 February 2018

- *Use of Regulation of Investigatory Powers Act 2000 (RIPA)*. The Committee noted that RIPA had been used for surveillance cameras at a known fly-tipping point. The Committee noted that nothing had been filmed during the surveillance period.

26 March 2018

- *Counter Fraud Policies*. The Committee received a report in relation to the Council's policies to tackle fraud.

## **2.2.1 Terms of Reference**

### **Regulatory Framework**

- 2.2.1.10** To maintain an overview of the Council's constitution with the exception of those matters under the remit of the Executive or a regulatory committee.

### **Member Code of Conduct**

**2.2.1.18** Promoting and maintaining high standards of conduct by Councillors and co-opted members;

**2.2.1.19** Assisting the Councillors and co-opted members to observe the Code of Conduct;

**2.2.1.20** Advising the Council on the adoption or revision of the Code of Conduct;

**2.2.1.21** Monitoring the operation of the Code of Conduct;

**2.2.1.22** Advising, training or arranging to train Councillors and co-opted members on matters relating to the Code of Conduct

## **2.2.2 Terms of Reference of the Hearing Panel (Sub-committee to the Audit Committee)**

The Hearings Panel is a sub-committee of the Audit Committee. The Panel has the following functions:

- 1) When matters are referred by the Monitoring Officer granting dispensations to Councillors and co-opted members allowing them to (a) participate in the debate and / or (b) vote on any matter in which they have a disclosable pecuniary interest;
- 2) On matters being referred by the Monitoring Officer deciding whether complaints concerning members should be investigated;
- 3) Hearing complaints that have been referred to them by the Monitoring Officer pursuant to the Complaints procedure;
- 4) The agreement of relevant procedures for the undertaking of its functions, when appropriate to be included within the Constitution

## **Code of Conduct Complaints**

During the Civic year 2017/18 there were seven Council and one Parish council complaints received under the code of conduct.

## **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:

- The preparation and scrutiny of the Statement of Accounts and the impact of International Financial Reporting Standards on these;
- General overview of the committee covering Information Governance; Regulation of Investigatory Powers Act (RIPA); Risk Management; Code of Conduct; and Whistleblowing.
- Ernst and Young have run two conferences for Audit Committee Members across the East of England regions.

In addition, members have access to a committee handbook which provides additional support / information.

## **FUTURE DEVELOPMENTS AND PLANS FOR 2018 / 2019**

Overall, the Audit Committee want to continue to develop and build on our current achievements. For 2018 / 2019 and this will involve:

- Continuing to drive up standards of corporate governance;
- Continuing to equip existing and any new Members to fulfil the Audit Committee's responsibilities by providing or facilitating training on all aspects of the Audit Committee's remit;
- Assisting and supporting officers to promote the work of the Audit Committee and the roles of internal audit, external audit and risk management;
- Supporting the continued production of high quality and compliant statutory accounts;
- Helping to further increase awareness within the Council of its governance arrangements, with particular emphasis on information and tackling fraud and corruption; 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 new Committee titled Constitution and Ethics Committee was agreed at Annual Council on 21 May 2018. This new Committee will take on some of the functions of the Audit Committee most notably it will now take on Standards Complaints and issues affecting the Council's constitution and code of conduct.

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

### 2.2.1 Terms of Reference

- 2.2.1.1 To consider the annual report and opinion of the Corporate Director Resources 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.
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- 2.2.1.6 To consider specific reports as agreed with the external auditor.
- 2.2.1.7 To comment on the scope and depth of external audit work and to ensure it gives value for money.
- 2.2.1.8 To liaise with the Public Sector Audit Appointments Ltd (PSAA) over the appointment of the council's external auditor.
- 2.2.1.9 To commission work from internal and external audit.

### Regulatory Framework

- 2.2.1.10 To maintain an overview of the Council's constitution with the exception of those matters under the remit of the Executive or a regulatory committee.
- 2.2.1.11 To review any issue referred to it by the Chief Executive or a Director, or any Council body.
- 2.2.1.12 To monitor the effective development and operation of risk management and corporate governance in the council.
- 2.2.1.13 To monitor Council policies on "raising concerns at work" and the anti-fraud and anti-corruption strategy and the Council's complaints process.
- 2.2.1.14 To oversee the production of the authority's Statement on Internal Control and to recommend its adoption.
- 2.2.1.15 To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

### Accounts

- 2.2.1.16 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.
- 2.2.1.17 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)

### **Member Code of Conduct**

- 2.2.1.18** Promoting and maintaining high standards of conduct by Councillors and co-opted members;
- 2.2.1.19** Assisting the Councillors and co-opted members to observe the Code of Conduct;
- 2.2.1.20** Advising the Council on the adoption or revision of the Code of Conduct;
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- 2.2.1.22** Advising, training or arranging to train Councillors and co-opted members on matters relating to the Code of Conduct

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- 2)** On matters being referred by the Monitoring Officer deciding whether complaints concerning members should be investigated;
- 3)** Hearing complaints that have been referred to them by the Monitoring Officer pursuant to the Complaints procedure;
- 4)** The agreement of relevant procedures for the undertaking of its functions, when appropriate to be included within the Constitution

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