

PETERBOROUGH



**MINUTES OF THE AUDIT COMMITTEE MEETING
HELD AT 7:00PM, ON
MONDAY, 19 NOVEMBER 2018
BOURGES/VIERSEN ROOM, TOWN HALL, PETERBOROUGH**

Present: Councillors Over (Chairman), Ellis, Fuller, Aitken, Shaheed, Shaz Nawaz and Warren

Officers in

Attendance: Peter Carpenter, Acting Corporate Director of Resources
Steve Crabtree, Chief Internal Auditor
Dan Kalley, Senior Democratic Services Officer

Also in

Attendance: Suresh Patel, Director Ernst & Young LLP

25. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Elsey. Councillor Fuller attended as substitute

26. DECLARATIONS OF INTEREST

No declarations of interest were received.

27. MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 24 SEPTEMBER 2018

The minutes of the meeting held on 24 September 2018 were agreed as a true and accurate record with the following alteration:

Item 22 which read "The Audit Committee considered and **RESOLVED** (Unanimously) that there were no write-offs to report" should be amended to read "The Audit Committee considered and **RESOLVED** (Unanimously) to note the write-offs contained in the report."

28. EXTERNAL AUDIT PLAN

The Audit Committee received a report in relation to the External Audit Plan from Ernst and Young LLP (EY).

The Acting Corporate Director of Resources, introduced the report, which set out the key risks of the audit of the 2018/19 accounts. The accounts delivered covered both Peterborough City Council and the Combined Authority.

The Director EY explained the content of the report and members were asked to note the key risks set out by them. Although this was an outline plan, EY were currently undertaking the risk assessment process. Members were informed that the report outlined key areas of focus for the 2018/19 audit and it was not envisaged that there would be any major changes to the final plan. The Committee's attention was drawn to subsidiaries and interests in other entities which the council may have as consideration needed to be given to consolidating these interests on an annual basis.

It was suggested that a further addition to the work programme on the new accounting standards was brought before the Committee before the end of the financial year.

Two new accounting standards had been introduced this year. The first concerned financial instruments around assets and liabilities, which was having less of an impact across the public sector in comparison to the private sector, although it may be an issue if the Council had any complicated investments. The Department for Communities and Local Government (DCLG) had recently announced that gains and losses expected to influence the bottom line were now governed by a statutory override which allowed for retention of that statutory override for a period of five years.

The method used to calculate Materiality had changed and had been reduced from 2% to 1.8% of gross expenditure to recognise the financial outturn of Local Authorities.

The fee charged by EY had been reduced to reflect the new contract and it was emphasised that there would be no reduction in the quality of service the Council received. Members were informed that the use of new technology and the new analytics portal allowed for a more efficient service and a reduction in the duplication of work which justified the revised fee.

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- In essence IFRS16 resulted in operational leases being brought over to the balance sheet and would revolve around the transfer of Amey assets, such as dust carts and the arrangements in place for their replacement in future years.
- The Materiality calculation had been changed across the sector to 1.8% to reflect the high level of interest by other stakeholders within the accounts and therefore lower the testing levels to give more assurance.
- The new contract had been agreed and fees were unlikely to be reduced further at this time.
- New members of the external auditing team were now in post. A number of sessions had already taken place between them and the finance team at the Council to ensure smooth transitions.
- The Risk Assessment within the report identified two areas of significant risk, management override and revenue recognition and the committee were assured that EY were satisfied that all was being done at this stage to minimise these risks and to date there was no evidence to show anything was inappropriate.
- The portal security was a robust solution to deliver data and complied with GDPR requirements.

The Audit Committee considered and **RESOLVED** (Unanimously) to:

1. Note the key risks set out by Ernst Young LLP in their report and their audit approach to meet those risks
2. Identified to Ernst Young LLP any other matters Audit Committee considers will influence the audit.
3. Note that the Public Sector Audit Appointments scale fee will apply unless additional work is required as set out on page 32 of the report
4. Add a report on the new accounting standards IFRS9, IFRS15 and IFRS16 to the work programme.

The Audit Committee received a report in relation to the Internal Audit mid year progress.

The Chief Internal Auditor introduced the report and advised members that in March last year the audit plan was presented which set out the work that would be undertaken throughout the year. A new approach had been adopted and the new plan was more risk based and would be regularly reviewed.

The report highlighted the background commentary on work conducted to date and attention was drawn to the number of audits per year which had increased from 73 to 80. Additional resources were currently being sought to accommodate the additional workload this created.

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- The additional work required by the Audit Department would have an effect on resources. The costs incurred in conducting the additional seven internal audits would be offset against the vacancy currently within the team and the Combined Authority would cover the costs incurred by their element. The actual cost would be provided to Members by the Chief Internal Auditor.
- The internal auditors were not proposing to adopt the materialism percentages used by EY as the internal audit was focused more around risk as opposed to value and therefore considered other issues.
- Grant funds were used for the purpose for which they were allocated and not to the costs of audits. Part of the stipulations of the grants were regular reviews by Audit or similar which must be signed off by Service Director Financial Services or the Chief Executive. The costs associated with these reviews were met by the department as they fall outside of the scope of grant funds.
- The plan was re-assessed regularly to allow items of greater risk to the council to be dealt with as they occur which was reflected in some items appearing to drop off the plan and then reappearing.
- The committee had the opportunity to request an audit on specific items. The Audit Department would bring their Emerging Risks Report to the committee in February when the work programme could be discussed and following this a more detailed plan would be presented in March.
- The committee may want to consider the Annual Governance Statement which would highlight what they think of the issues and how they are being addressed. This may influence items to be included in the plan.
- Income from the Combined Authority was governed by a Service Level Agreement, not only for audit but for all services provided, which had been agreed at £24,000. Two reviews have been completed to date and three are currently in progress.
- The Asset Management Plan and the Asset Acquisition Strategy Proposal to the Medium Term Financial Strategy (MTFS) would be discussed at the next meeting in February and the committee would have the capacity to endorse and challenge the reports at that meeting.

The Audit Committee considered and **RESOLVED** (Unanimously) to note the progress of the Internal Audit Plan for 2018/2019 and the action points above.

ACTION

The Chief Internal Auditor, Steve Crabtree agreed to provide Members with the additional costs which would be incurred in conducting the additional internal audits.

30. COMBINED AUTHORITY OVERVIEW

The Audit Committee received a report in relation to an overview of the Combined Authority following a specific request by the Chair of Audit Committee at the September 2018 meeting.

The Chief Internal Auditor introduced the report which provided an overview to Members of the Committee as to decision making arrangements adopted at the Combined Authority.

The Combined Authority adopted a new Constitution in September and this report included that revised structure. The structure now included additional sub committees introduced as a result of increased workloads, additional programmes and changes to funding and each area was assigned to a dedicated portfolio holder. Governance arrangements were also set in the Constitution and decisions would be made dependent on the Chair, with specific quorate requirements in place and approvals now being made by the Board rather than the Mayor.

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- It was confirmed that each Committee would include a Member and a reserve from Peterborough, including opposition Members. Not all committees had met at this stage.
- The revised arrangements looked more secure and should provide more continuity as Members had expressed concern that there had been a high turnover of board members in the past.
- Internal audit was provided to the Combined Authority by Peterborough City Council who needed to be covered in the service they provided and ensure they provided impartial advice to the correct governance structures within the Combined Authority.

The Audit Committee considered and **RESOLVED** (Unanimously) to note the decision making arrangements adopted by the Combined Authority.

31. USE OF CONSULTANTS - UPDATE REPORT

The Audit Committee received a report in relation to the use of consultants.

This was as a result of the Sustainable Growth Scrutiny Committee review into Peterborough City Council's use of consultants, the subsequent endorsement of their recommendations by Cabinet, and the agreement of Audit Committee to undertake an ongoing monitoring role.

The Acting Corporate Director of Resources introduced the report. Members were informed that the definition of a consultant was defined as a professional who provided professional or expert advice in a particular area. The overall impact of a consultant was that clients had access to deeper levels of expertise than would be feasible to retain in house. Agency costs related to staff covering normal jobs, mostly in social care.

Spend had reduced since 2010 and considering the pro rata spend up to September, the trend should continue. 2017/2018 figures included about £221,000 of charges relating to the Combined Authority which had since been recharged. This was relevant as should a Transparency Report analysis be carried out as these costs would appear against costs applicable for consultancy.

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- Agency expenditure to date this year was unknown however the Acting Corporate Director of Resources agreed to obtain the figure.
- The need for consultants and agencies was recognised however Members expressed concern that there appeared to be a number of local consultancies who had connections to the council and/or its members and/or officers.
- There was a drive to source consultants locally and this was in line with a previous government initiative which promoted councils to use local resource over and above wider national resources if relevant.
- Some consultants were procured through lawyers and Deloitte LLP with specific procurement contracts in place with specific values attached to them, which when used up, needed to be procured again. Individual consultants were appointed through an approval process which was signed off by Human Resources (HR) who monitored their use.
- The Acting Corporate Director of Resources agreed to investigate the costs in relation to the Independent Chair of Safeguarding Children's and Adults Boards, with an associated cost of £52,150.00 in comparison the costs associated with the Chair of CDOP and Chair of Serious Case Review Sub Committee for the year 16/17 was £2,475.00.
- Members would prefer to see agency fees reduced by bringing more services in house.
- The Audit Committee was the ideal forum to monitor and review expenditure on consultants.
- To compile the report was relatively easy now there was a methodology in place which was repeatable and provided consistent answers.
- Some fees would be covered by grant funding or the Combined Authority and members would have liked to know the overall spend on consultants taking this into account.

The Audit Committee considered and **RESOLVED** (Unanimous) to note the report on the use of consultants for the financial years 2016/17, 2017/18 and up to September 2018 and agreed the action points.

ACTIONS

The Acting Corporate Director of Resources agreed to:

1. Obtain the figure for Agency Expenditure to date this year.
2. Obtain the reason for the difference in costs between PSCB work - Independent Chair of Safeguarding Children's and Adults Boards, the cost of which was £52,150.00 and the costs associated with PSCB Support - Chair of CDOP and Chair of Serious Case Review Sub Committee 16/17 the costs of which were £2,475.00.
3. Find out if, of the two agencies mentioned in the previous action point, one agency was less expensive than the other.

32. WORK PROGRAMME 2018/19

The Audit Committee received a report in relation to the Work Programme through to March 2019.

The work programme was to be updated to include a report on the new accounting standards which needed to be presented before the end of the financial year.

Members were also provided with an update in relation to the Regulation of Investigatory Powers Act 2000 (RIPA). An assessment of the Council's RIPA arrangements were due to commence on 20 November 2018.

The Audit Committee considered and **RESOLVED** (Unanimously) to note the report.

7:00pm – 7.57pm

Chairman