

PETERBOROUGH



**MINUTES OF THE AUDIT COMMITTEE MEETING
HELD AT 7:00PM, ON
MONDAY, 15 JULY 2019
BOURGES/VIERSEN, TOWN HALL, PETERBOROUGH**

Present: Councillors Over (Chairman), Joseph, Hogg, A Coles, Skibsted and Warren

Officers in

Attendance: Peter Carpenter, Acting Corporate Director of Resources
Steve Crabtree, Chief Internal Auditor
Dan Kalley, Senior Democratic Services Officer
Fiona McMillan, Director of Law and Governance and Monitoring Officer
Kirsty Nutton, Head of Corporate Finance
Louise Cooke, Group Auditor
Julie Taylor, Group Auditor

Also in

Attendance: Suresh Patel, Director Ernst & Young LLP
Dan Cooke, Manager, Governance and Public Sector Audit Ernst & Young LLP

1. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Shaheed. Councillor Hogg attended as substitute.

2. DECLARATIONS OF INTEREST

No declarations of interest were received.

3. MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 25 MARCH 2019

The minutes of the meeting held on 25 March 2019 were agreed as a true and accurate record.

4. AUDIT OF STATEMENT OF ACCOUNTS TO THOSE CHARGED WITH GOVERNANCE (ISA260)

The Audit Committee received a report in relation to the Audit of Statement of Accounts to those charged with Governance (ISA260).

The purpose of the report was for the Committee to receive and note the Audit results report for the year ended 31 March 2019 from Ernst and Young (EY).

The Head of Corporate Finance introduced the report and commented that the first stage involving sign off of the draft accounts by the Chief Finance Officer had been completed by 31 May 2019. The report in front of committee was now at its second stage, having been to the external auditors for comment. Members were directed to the Supplementary Agenda which highlighted updated information since the reports were originally published. There were still some areas of work outstanding, but it was hoped that these would be completed this week.

The Associate Partner, Ernst & Young, informed members that, subject to the completion of some outstanding matters, an unqualified audit was anticipated before the 31 July deadline and there would be no matters to report on the value for money conclusion and an outline of the work supporting that conclusion was given. One of the new risks identified since the audit plan in February included the minimum revenue provision which was seen to be compliant of regulations and the code and the calculation was fair. The other was the value for money (VFM) arrangements around procurement which followed an internal audit on the IT strategy and arrangements had been found to be sufficient, notwithstanding the actions taken and planned over the next year and there were no matters to report on the VFM conclusion. The inclusion of additional items would necessitate an increase in the audit fee which would be discussed on completion of the audit.

Certified completion of the audit would be delayed due to the government accounts submission process which had caused delays nationally.

The Manager, Governance and Public Sector Audits, Audit Ernst & Young LLP, advised the committee that the clearance of income and expenditure sample testing work had been completed on expenditure items and only two final income items remained outstanding. Information which was outstanding on the property, plant and equipment valuations had now been received and this item was now in the review stage. Clearance of issues arising from the technical review of the accounts, the internal review, was also in its final internal review phase together with clearance on items on the audit log. Completion of the subsequent events review and management representation letters would be completed next week nearer the signing date.

IAS19 procedures on the pension disclosures remained outstanding as a response was still awaited from the pensions auditor. However discussions had taken place regarding the impact of the report and the only area of concern was assets and investments, where the figure may change at the final date of their financial statements. The council had already made the necessary adjustments should the pension auditors advise this for all participants of the fund.

The McCloud ruling regarding government pension schemes, which concerned transitional protection offered to some members of certain pension schemes deemed the current practice to be unlawful discrimination. This ruling impacted mainly judges and firefighters however as a result of the court case and the loss of the subsequent appeal, it was decided there would be an impact on all government pension schemes, including local government. An adjustment had been made in the council accounts in this respect which auditors are satisfied with the treatment.

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

- Minimum Revenue Provision (MRP) differences centered on discussions with the Ministry for Housing and Communities and Local Government (MHCLG) and a number of councils faced the same issues. It was explained that this had been a short term strategy to achieve a longer term sustainable budget and another meeting was planned to obtain final clarification from MHCLG. However, as per previous year the External Auditors had cleared the Council's treatment of this in its accounts.
- This was the first time an unqualified statement was made public regarding the auditing of Peterborough City Council's for the 2018/19 Accounts.
- Should the stock market crash in a Brexit "no deal" scenario, the way the country operated would change and different rules would be applied as the government would need to act differently.

- Audit fees had decreased in the last few years to reflect the changes in the way the audit was prepared but would now need to increase as more items came under scrutiny. It was in the best interest of the council to have clean audited accounts and be seen to have their financial affairs in order to maintain public confidence.

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

1. Receive and approve the “Audit Results Report - (ISA260) for the year ended 31 March 2019” from Ernst & Young (EY), the Council’s external auditors.
2. Receive and approve the 2018/19 Management Representation Letter.
3. Receive and approve the audited Statement of Accounts 2018/19.
4. To delegate to the Chairman to approve further changes if needed before the deadline of 31 July 2019.

5. **AUDIT FEES 2019/20**

The Audit Committee received a report in relation to the proposed Audit Fees 2019/20.

The purpose of the report was for the Committee to recommend approval of the 2019/20 external audit fee proposal.

The Acting Corporate Director Resources introduced the report and confirmed that the scale was set by Public Sector Appointments Ltd. The 2019/20 audit was the second under a five year appointing period. The 2019/20 scale fee was the same as for the 2018/19 which represented a 23% reduction on the 2017/18 fee.

In proposing the fee EY has assumed that there were no significant increases in the Council’s financial risks compared to 2018/19. In addition the letter listed some examples of additional risks which could attract additional fees. It was anticipated that additional fees would be requested as the Council was likely to have to prepare group accounts for 2019/20 for the first time with the incorporation of Aragon Direct Services.

The Audit Committee considered and **RESOLVED** (Unanimously) to approve the 2019/20 external audit fee proposal.

6. **ANNUAL GOVERNANCE STATEMENT 2018/19**

The Audit Committee received a report in relation to the Annual Governance Statement 2018/19.

The purpose of the report was to provide the Committee with an overview of the processes and procedures by which the Council managed its affairs.

The Acting Corporate Director Resources introduced the report. The report was to ensure that there was integrity in the way the accounts were delivered and these were based on the seven Chartered Institute of Public Finance and Accounting (CIPFA) principles and the Local Authority Chief Executives (SOLACE) Framework.

The report outlines from the head of the paid service and the lead member of the Council that the governance processes were in place to ensure that the Council was on the correct footing. The report highlighted the risks around the medium term Financial Strategy and gaps in the budget with regards to identifying repeatable savings. Members were informed that there were a number of new governance areas for action. These were highlighted as being:

- Budget Resilience;
- Partnerships and Procurement Arrangements;
- Monitoring;
- Health and Safety;
- Business Continuity;
- Cyber Security.

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

- Every organisation needed to understand and be able to assess where it's weakness lay. The Council was well equipped to tackle any weaknesses and improve these.
- In terms of risks to the IT systems it was important that further work was carried out with Cambridgeshire County Council. Both councils aimed to adhere to the Local Government Association cyber security standards and staff across both organisations had to complete relevant online training. In terms of wider security the move to Sand Martin House had helped the Council as it had enabled the IT infrastructure to be fully tested. Moving back to Microsoft 365 would further enhance the security around IT as the most suppliers and external organisations the Council worked with also used the system.
- In terms of consultants the Council had recently put in place a more stringent recruitment process.
- In addition, any spend over £10,000 now needed a business case before it was given the go ahead.

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

1. Note the arrangements for compiling, reporting on and signing the Annual Governance Statement;
2. Review and comment on the Annual Governance Statement including any areas which should be amended; and
3. Subject to changes identified above, agree and approve the statement for signature by the Chief Executive and Leader of the Council for inclusion in the statement of accounts

7. ANNUAL INTERNAL AUDIT OPINION 2018/19

The Audit Committee received a report in relation to the Annual Internal Audit Opinion 2018/19

The purpose of the report was to provide the Committee with an overall opinion on the soundness of the control environment in place to minimise risk to the Council.

The Chief Internal Auditor introduced the report which outlined the work carried out by internal auditors in year. Members were informed that Internal Audit had also carried out work for the leisure trust Vivacity and also the Combined Authority. The overall conclusion was that Peterborough City Council had a sound governance framework from which those charged with governance can gain reasonable assurance.

Members were informed that resources had been an issue in the past and that a vacancy was being recruited to. However the team were always able to successfully complete audits by year end.

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

- The Audit Plan was flexible and covered work with outside organisations and partners. Members were informed that the new Shareholders Committee had been setup to keep an overview of the Council's work with outside and partner bodies and Internal Audit will take an active role in monitoring.
- Where audits focused on governance arrangements between the Council and external operators, it was essential that correct terms of reference were set up when working with outside organisations which would allow the audit team to have open book accounting rights and access.

The Audit Committee considered and **RESOLVED** (Unanimous) to receive, consider, provide challenge to and endorse the attached Chief Internal Auditors annual report for the year ended 31 March 2019.

8. FRAUD AND INVESTIGATIONS ANNUAL REPORT 2018/19

The Audit Committee received a report in relation to the Fraud and Investigations Team Annual Report 2018/19

The purpose of the report was to provide the Committee with an overview of the work carried out during the past year to minimise the risks of fraud, bribery and corruption occurring at the Council.

The Chief Internal Auditor introduced the report. The report set out the various categories of fraud, the cost to local authorities and monies recovered. The Chartered Institute of Public Finance and Accountancy (CIPFA) had estimated that the total value of fraud detected or prevented in 2017/18 was £302m for local authorities in the UK and details of their findings were contained within the report. The main areas of concern were council tax, housing, blue badges and business rates and further analysis of these results were also included in the report.

The National Fraud Initiative was a large exercise to verify datasets across numerous categories. Data quality remained an area to be addressed, for example, records of those deceased not being updated and duplication together with surname / forename fields being transposed. Creditor errors were also identified and the council had been able to recover almost £2,000 made in overpayments. Council tax fraud and single persons discounts were vigorously investigated and identified on a continuous basis. Overpayment of council tax support fraud had been identified and over £7,000 recovered. The council was now jointly working with the Department for Work and Pensions (DWP) to identify and prosecute cases of council tax and benefit fraud. Investigations into Stage Two Corporate Complaints had risen and the cases were more complex however there had been an increase in those resolved at Stage One.

The council had provided data as part of the National Fraud Initiative for comparison with data supplied by other authorities.

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

- The Audit Team used data matching services such as Experian to check the identity and number of persons living at a given address, which could produce results such as the number of live loans to different people at one address. This was used to tackle fraudulent benefit and council tax claims.
- Should malpractice be reported within a partner group and the Council had a contractual link with that company, it would be able to investigate any claims

of fraud. However if there was no link, the Council could refer the complaint to the organisation concerned or suggest to the complainant that the claim be made elsewhere. In cases of council funding or a contract to provide services, the council would investigate any claims.

- Members requested details of the National Fraud Survey highlighting the actual figures from Peterborough and it was agreed a briefing note would be circulated.
- Peterborough City Council was good at identifying fraud in some areas, most notably around blue badges and had been successful in a number of prosecutions. Council tax and blue badge prosecutions did not consider for costs to be recovered with the primary focus seen as the publicity deterrent.
- The value of debts and costs recovered by the Council varied. Where Council Tax overpayments were being recovered a payment plan would usually be agreed in order to recover any monies owed.
- Investigations by their nature differed greatly. Some investigations could be conducted quite quickly and only involve one interview.
- From the Councils experience, Courts generally did not award costs to local authorities.
- Trading Standards investigations and any financial recoveries through Proceeds of Crime were not reflected in this report.

The Audit Committee considered and **RESOLVED** (Unanimous) to receive, consider, provide challenge to and endorse the attached annual report on the investigation of fraud and other issues during 2018/19.

ACTIONS:

1. Chief Internal Auditor to circulate a briefing note with a breakdown of Peterborough's figures submitted as part of the National Fraud Survey.

9. INSURANCE SERVICE AND INSURANCE FUND ANNUAL REPORT 2018/19

The Audit Committee received the annual report in relation to the Insurance Service and Insurance Fund Annual Report 2018/19

The purpose of the report was to provide the Committee with an overview of the work carried out during the past year to provide an effective insurance function which provided cover for all aspects of the Council while minimising cost.

The Chief Internal Auditor introduced the report which included insurance provided for both the Council and partner organisations and outlined key elements from the report. He advised the level of claims received had been much lower than other authorities and reflected the council's effectiveness in rejecting claims. Employee claims could increase with the formation of Aragon Services as motor claims for fleet vehicles previously covered elsewhere would become the responsibility of the council and officers had been working hard to ensure a smooth transition of cover.

Property issues were generally the result of vandalism, break-ins or theft. There had been an increase in the value of claims in the past year influenced by an issue at Sand Martin House. Public liability claims covered highways, including potholes and trees causing subsidence and work had been undertaken to ensure compliance with the Infrastructure Code of Practice. Vivacity assets held at the museum had been revalued for the first time in 20 years. Support had been given to other local authorities to assist them in reducing claim backlogs.

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

- Community Groups were not currently covered by council insurance and had to be encouraged to take out their own policies and members were seeking assurance that they would be included under council cover when helping the council. This could not be confirmed and would require further investigation. If there were changes to the way the council operated, cover and premiums would need to be reviewed to ensure cover was adequate.
- The council self insured and held £3.4 million in reserve to cover theft, subsidence and accidental damage to property which had been qualified by an Actuary. The reserve was increased annually.
- Insurance cover was provided by Zurich and the council was not intending to join the Local Government Mutual Society (LGM) as it currently had no proven track record.
- Payments made in relation to pothole claims was low due to regular inspections by the Highways Team, prompt repairs and many claims being repudiated.
- Damage to property due to overhanging trees and shrubs had been accentuated by the long dry summer which had given rise to tree induced subsidence. Consultations had taken place with the Nature & Historic Environmental Manager to identify areas where trees were troublesome and to develop tree stock and hedgerow management, adopting a proactive manner. Tranche Three of last year's budget included an additional sum of £250,000 to cover tree maintenance following a series of court cases concerning tree damage.
- Being a New Town, many trees were planted at the same time and had all reached maturity together and required attention at the same time.

The Audit Committee considered and **RESOLVED** (Unanimous) to receive, consider, provide challenge to and endorse the attached annual report on the provision of the Insurance Service and the Insurance Fund during 2018/19.

10. REVIEW OF EFFECTIVENESS OF THE AUDIT COMMITTEE

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

The purpose of the report was to provide the Committee with an update as to the progress of developing the audit plan.

The Chief Internal Auditor introduced the report and stated that the report was a review of committee effectiveness. This was benchmarked by an internal assessment against the checklist prescribed by CIPFA. The overall assessment was that the Committee was effective and was in compliance with the standards. Training remained a key issue as membership changed frequently.

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

- A briefing note was to be circulated outlining cases of other local authorities audit committee's failures to scrutinise the auditing function of that council.
- It took a number of years to understand the workings of the Audit Committee and it was essential that new members of the Committee received regular training.
- It was agreed that a pre-meeting and training session would take place around a week before the actual meeting. This would enable members the opportunity to look in depth and get a better understanding of the reports coming to Audit Committee.

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

1. To consider the draft response to the CIPFA Toolkit checklist for Audit Committees, which records that the Committee meets all of the good practice statements;
2. To consider the draft responses to the CIPFA Knowledge and Skills Framework for local authority audit committees; and
3. To agree any actions which the Committee considers appropriate to amend or enhance the Committee's arrangements in light of the completed Knowledge and Skills Framework assessment and the CIPFA Audit Committee Toolkit checklist.

ACTIONS:

1. Chief Internal Auditor to supply briefing note of the pitfalls of other Audit Committees.
2. Pre-meeting to be arranged a week before the main meeting for Audit Committee Members.

11. BUDGET MONITORING REPORT FINAL OUTTURN 2018/19

The Audit Committee received a report in relation to the budget monitoring final outturn 2018/19.

The purpose of the report was to provide the Committee with an outturn position for both the revenue budget and capital programme for 2018/19.

The Acting Corporate Director Resources introduced the report which had been presented to Cabinet in June and included the final revenue, reserves and capital position. It illustrated how the council financed and measured itself and included key performance indicators for the year.

The final revenue position improved over the year to a £2.1million overspend, a significant improvement on the £6million reported in August 2018. This was made up of £4.5million related to Children's Services, unachieved back office transformational savings and Amey contract mobilisation costs, which were offset by capital finance savings of £3.7million, additional income from the Empower loan which had been carried over, and a surplus on business rates. The overall year end reserves improved slightly from the original predictions.

The debt situation was also outlined with the council paying back debts of £22million and taking on £60million in new debt. Whilst funding is generally sought through third parties such as grants and the Combined Authority first, as these sources were gradually reducing, local authorities were borrowing more from the Public Works Loan Board.

Throughout the year £6.3million was delivered in capital receipts, £3.4million above target, which were used to repay debt and offset revenue contributions to the Minimum Revenue Provision. There were two loans to Axiom Housing redeemed within the year after they formed their own internal treasury function to facilitate their

own financing. The remaining two loans to the council were £23million to Empower and £940,000 to Peterborough Limited.

The council delivered against all prudential indicators set out in the report.

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

- Savings anticipated through joint working with Cambridgeshire County Council would become more evident once systems were aligned and the People and Communities Directorate were currently working towards that which would in turn facilitate business process engineering to align procedures and achieve cost savings.
- The move to Microsoft 365 will further align systems with Cambridgeshire County Council and other local authorities and savings could be achieved through the purchase of licences..
- The savings achieved against the costs of moving from Google to Office 365 would be included in the 2021 budget.
- Collaboration with other councils, such as Fenland and Rutland with Trading Standards and Licensing is ongoing. To enhance this further, there needed to be better alignment of procedures and processes.

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

1. Note the final outturn position for 2018/19 (subject to finalisation of the statutory statement of accounts) of a £2.119m overspend on the Council's revenue budget.
2. Note the reserves position outlined in section 6 and Appendix C, which includes a contribution from the capacity building reserve of £2.119m, as a result of departmental overspends highlighted in the revenue outturn report in Appendix A and further detail of the People & Communities directorate in Appendix B.
3. Note the outturn spending of £95.9m in the Council's capital programme in 2018/19 outlined in section 7.
4. Note the performance against the prudential indicators outlined in Appendix D.
5. Note the performance on payment of creditors, collection performance for debtors, local taxation and benefit overpayments outlined in Appendix E.

12. USE OF CONSULTANTS

The Audit Committee received a report in relation to the use of Consultants for the financial year 2018/19.

The purpose of the report was to provide the Committee with an update on the use of Consultants over the past financial year.

The Acting Corporate Director Resources introduced the report and explained that there had been a slight increase in consultancy fees in comparison with 17/18. A more stringent process was now in place to reduce spending going forward.

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

- Agency costs had increased due mainly to the pressures placed on adult and children social care.

The Audit Committee considered and **RESOLVED** (Unanimous) to note the update report on the use of Consultants for the financial year 2018/19.

13. FEEDBACK REPORT

Members noted the feedback report and welcomed the addition of a pre-meeting/training session a week before the main meeting.

The Audit Committee considered and **RESOLVED** (Unanimous) to note the feedback report and to agree to the creation of a pre-meeting.

14. WORK PROGRAMME

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

7:00pm – 8.29pm
Chairman