

AUDIT COMMITTEE

MONDAY 23 MARCH 2020
7.00 PM

Bourges/Viersen Room - Town Hall

THE CHAIRMAN WILL ASSUME THAT MEMBERS HAVE READ THEIR PAPERS PRIOR TO THE MEETING TO AVOID UNNECESSARY INTRODUCTIONS TO REPORTS. IF ANY QUESTIONS ARE APPARENT FROM THE REPORTS THEY SHOULD BE PASSED TO THE REPORT AUTHOR PRIOR TO THE MEETING

AGENDA

Page No

1. **Apologies for Absence**
2. **Declarations of Interest**

At this point Members must declare whether they have a disclosable pecuniary interest, or other interest, in any of the items on the agenda, unless it is already entered in the register of members' interests or is a "pending notification " that has been disclosed to the Head of Legal Services.

- | | | |
|----|---|-----------|
| 3. | Minutes of the Meeting Held on 27 January 2020 | 3 - 8 |
| 4. | EY Audit Plan | 9 - 68 |
| 5. | Annual Audit Committee Report | 69 - 84 |
| 6. | Internal Audit: Draft Internal Audit Plans 2020/21 | 85 - 126 |
| 7. | Counter Fraud Policies | 127 - 152 |

INFORMATION AND OTHER ITEMS

8. **Use of Regulation of Investigatory Powers Act 2000 (RIPA)**

The Committee is asked to **NOTE** that there have been no RIPA authorisations in this quarter.

- | | | |
|----|--|-----------|
| 9. | Approved Write-Offs Exceeding £10,000 | 153 - 162 |
|----|--|-----------|



There is an induction hearing loop system available in all meeting rooms. Some of the systems are infra-red operated, if you wish to use this system then please contact Daniel Kalley on 01733 296334 as soon as possible.

Did you know? All Peterborough City Council's meeting agendas are available online or via the modern.gov app. Help us achieve our environmental protection aspirations and view this agenda online instead of printing it.

Emergency Evacuation Procedure – Outside Normal Office Hours

In the event of the fire alarm sounding all persons should vacate the building by way of the nearest escape route and proceed directly to the assembly point in front of the Cathedral. The duty Beadle will assume overall control during any evacuation, however in the unlikely event the Beadle is unavailable, this responsibility will be assumed by the Committee Chair. In the event of a continuous alarm sounding remain seated and await instruction from the duty Beadle.

Recording of Council Meetings: Any member of the public may film, audio-record, take photographs and use social media to report the proceedings of any meeting that is open to the public. Audio-recordings of meetings may be published on the Council's website. A protocol on this facility is available at:

<http://democracy.peterborough.gov.uk/ecSDDisplay.aspx?NAME=Protocol%20on%20the%20use%20of%20Recording&ID=690&RPID=2625610&sch=doc&cat=13385&path=13385>

Committee Members:

Councillors: D Over (Chairman), A Shaheed, Warren, Joseph, Coles, Jones and D Fower

Substitutes: Councillors: Lillis, Burbage, Iqbal and Nawaz

Further information about this meeting can be obtained from Daniel Kalley on telephone 01733 296334 or by email – daniel.kalley@peterborough.gov.uk



**MINUTES OF THE AUDIT COMMITTEE MEETING
HELD AT 7:00PM, ON
MONDAY, 27 JANUARY 2020
BOURGES/VIERSEN, TOWN HALL, PETERBOROUGH**

Present: Councillors Over (Chairman), Joseph, Shaheed, A Coles, Fower, S Nawaz and Warren

Officers in

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

Also in

Attendance: Councillor David Seaton, Cabinet Member for Finance

32. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Jones. Councillor Shaz Nawaz attended as substitute.

33. DECLARATIONS OF INTEREST

No declarations of interest were received.

34. MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 18 NOVEMBER 2019

The minutes of the meeting held on 18 November 2019 were agreed as a true and accurate record.

35. INTERNAL AUDIT PLAN 2020/21: APPROACH AND EMERGING THEMES

The Audit Committee received a report in relation to the Internal Audit Plan: Approach and Emerging Themes.

The purpose of the report was to provide Members with details of current and emerging issues which were seen as potential risks to the delivery of quality services to the Council. It provided an opportunity for Members to consider these themes and provide input into the development of the Audit Plan.

The Chief Internal Auditor introduced the report and informed members that the report outlined proposals on future audits. Information to complete the audits came from various sources including the risk register, discussions with team managers and national issues. The team could not cover all aspects throughout the year, however effort would be put into trying to obtain assurances as far as possible. Some areas of work were grouped together so that the team can cover as much work as possible.

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

- With regards to the Fair Tax Mark procurement had set out a questionnaire six to eight weeks ago to start building up a knowledge base. A change in procurement rules would take place if they did not comply.
- In terms of Brexit there was still a period of 11 months of negotiations. As these negotiations progressed the Council would have to look at their framework and make changes as appropriate, this would include looking at the Councils supply chains to see if there were any EU implications.
- The audit team prioritised work by pulling together all audits and looked at those areas with the biggest risk. This was then measured and assessed and a score applied. However members were informed that some risks might not score highly at the start of the year but become issues during the year in which case the team would then put more focus on that issue.
- The Audit plan was a fluid document and could be changed within the throughout the municipal year depending on any issues that may come up.
- In terms of the Business Improvement District, there was no way of knowing whether businesses were going to pay the levy. A vote was due to be taken in October this year.

The Audit Committee considered and **RESOLVED** (Unanimously) to note and comment upon the emerging themes to be considered for inclusion in the 2020 / 2021

36. NATIONAL FRAUD INITIATIVE: INVESTIGATING ALLEGATIONS OF FRAUD

The Audit Committee received a report in relation to the National Fraud initiative: Investigating Allegations of Fraud.

The purpose of the report was to provide Members with details of current initiatives to investigate fraud.

The Chief Internal Auditor introduced the report. Members were informed that the Cabinet Office had recently published data over a two year period outlining cases of fraud that had been reported by local authorities. The report outlined matches that occurred, helping local authorities identify common issues across the board. There had been an initial 2400 data matched results requiring review

which these were labelled either high, medium or low risk. Some of the findings around blue badges highlighted that some could still be used fraudulently as the Council did not know if someone had passed away, however this was being rectified as family members now had to record if a relative had a blue badge. With regards to Council Tax and the single person discount there had been a number of investigations taken place that had identified an extra £61,000 income for the Council.

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

- With regards to parking permits there was a review currently in place and this would be made available to members once all work had been carried out.
- One of the biggest issues the Council faces in terms of detecting fraud early is the quality of the data. In an ideal world it would be beneficial if one system records the data which can then filter to other data sources, making it easier to update any anomalies in the system.
- In terms of cyber fraud this was an area that ordinarily would not form part of this exercise, however it was an area to look at in more detail separately going forward.

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

1. Note progress and the outcomes to date in relation to tackling fraud against the Council through the National Fraud Initiative; and
2. Note results from national studies to raise awareness of the extent and types of fraud impacting on the public purse.

37. ASSET INVESTMENT ACQUISITION STRATEGY AND ASSET MANAGEMENT PLAN

The Audit Committee received a report in relation to the Asset Investment Acquisition Strategy and Asset Management Plan.

The purpose of the report was to provide the Committee with an opportunity to comment on the draft strategy and plan before being adopted by Full Council as part of the Medium Term Financial Strategy (MTFS).

The Acting Corporate Director Resources introduced the report and explained that the Asset Management Plan and Acquisition Strategy set out the rules around how the Council can purchase assets and manage these. The report had already gone to Cabinet for their comments and feedback and formed part of the MTFS. Both strategies had been substantially re-written for the 2019/20 financial year and have to be updated on a yearly basis. Although there was no information on the climate change emergency this was to be updated following the report to be published by the Executive Director of Place and Economy. The current value of the property portfolio was £425 million and included 1700 assets in total.

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

38. 2020/21 DRAFT TREASURY MANAGEMENT STRATEGY (TMS)

The Audit Committee received a report into the 2020/21 Draft Treasury Management Strategy (TMS).

The purpose of the report was to allow the Audit Committee the opportunity review the prudential indicators in line with consultation timelines for the MTFS.

The Acting Corporate Director Resources stated that part of scrutiny process was for the Audit Committee to review the draft treasury management strategy before being approved. The Prudential code in 2003 underpinned the MTFS. There were nine indicators in total that the formed part of the draft strategy. If there were any changes to the indicators that were needed it would have to go through Full Council.

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

- The Council tries to attract grants from external funding first. Council borrowing was a last resort, it was therefore beneficial to maximise external funding first. As outlined in the report the Council had a maturity profile in which to redeem debt on a regular basis.
- Guidance was given two years ago in response to a few councils investing large sums of money in asset acquisition without taking account of the risks. The Ministry of Housing Communities and Local Government produced the guidance as this was not in the spirit of what debt was for. There were examples of local authorities buying industrial units that were more than 22 miles outside the range of what the guidance had indicated was reasonable.
- Councils now had to weigh up whether it was worth having a housing revenue account if the interest was too high.
- There were occasions where councils borrowed from other councils in order to assist cash flow. Some of the best interest rates were from borrowing from other local authorities.

The Audit Committee considered and **RESOLVED** (Unanimous) to review and comment on the draft 2020/21 Treasury Management Strategy (TMS) before it is approved as part of the Medium Term Financial Strategy (MTFS) at Full Council in March 2020

39. USE OF CONSULTANTS – UPDATE REPORT

The Audit Committee received a report in relation to the use of consultants for the financial year 2019/20

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 the additional spend on consultants this year was due to the work being carried out by Grant Thornton which had so far identified over £14 million of savings to the Council. However the amount spent on agency staff had reduced significantly in comparison to previous years. Processes were in place for approving some agency staff.

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

- Consultants were primarily used for large projects and purposes and for specific reasons. In addition consultants had deliverables and reports on this would have to be signed off by senior officers. The Council did not always have the necessary resources and skills to be able to deliver on some projects or areas of work. There were always going to be times when the Council needed to call upon consultants or agency staff due to the demands placed on permanent staff to deliver services to the public.
- Officers agreed to see if it was possible to compare the amount the Council used on consultants with other similar sized authorities.
- The increase in consultants figure was primarily down to work carried out over the budget, looking at ways the Council could make savings. So far the consultants had identified £18 million in potential savings.
- The Council followed the institute of procurements definition of consultancy when defining what a consultant was.
- Reena consulting were brought in as they were specialists in energy and were able to validate the figures given so that firms could bid for the empower loan.
- Ernst Young had been auditors for few years and understand the Councils accounts, however it would be a conflict of interest for them to be used to identify savings. In addition the Council had asked the Local Government Association (LGA) to assist as well.

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

40. FEEDBACK REPORT

The Audit Committee received a report in relation to the feedback from previous actions raised.

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

41. WORK PROGRAMME

The work programme was to be updated to remove the external examination of internal audits as this took place every five years and had been completed last year.

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

7:00pm – 7.56pm
Chairman

AUDIT COMMITTEE	AGENDA ITEM No. 4
23 MARCH 2020	PUBLIC REPORT

Report of:	Peter Carpenter - Acting Corporate Director: Resources	
Cabinet Member(s) responsible:	Cllr Seaton – Cabinet Member for Finance	
Contact Officer(s):	Peter Carpenter - Acting Corporate Director: Resources Kirsty Nutton - Head of Corporate Finance	Tel. 384564 Tel. 384590

ERNST & YOUNG LLP AUDIT PLAN FOR THE YEAR ENDED 31 MARCH 2020

R E C O M M E N D A T I O N S	
FROM: Peter Carpenter - Acting Corporate Director Resources	Deadline date: 23 March 2020
<p>It is recommended that Audit Committee:</p> <ol style="list-style-type: none"> 1. Note the key risks set out by Ernst Young LLP in their report and associated audit approach - Appendix A 2. Note the responses to the Draft Audit Report from Peterborough City Council. 3. Note the delay in the Audit start date which is after the 31 July 2020, the date recommended in legislation. 4. Note the correspondence from Ernst Young LLP regarding the challenges with the delivery of this year's External Audit and the position on the audit fees – Appendix B. 5. Notes that the Public Sector Audit Appointments scale fee will apply unless additional work is required as set out on page 41 of the report. 6. Identifies to Ernst Young LLP any other matters the Audit Committee considers will influence the audit. 	

1. ORIGIN OF REPORT

1.1 This report is submitted to Audit Committee in line with its Work Programme.

2. PURPOSE AND REASON FOR REPORT

2.1 The purpose of this report is to involve the Audit Committee in determining the audit approach and to identify any additional issues it considers relevant to the audit.

2.2 This report is for Audit Committee to consider under its Terms of Reference -

- 2.2.2.5 *To consider the external auditors annual letter, relevant reports and the report to those charged with governance.*
- 2.2.2.7 *To comment on the scope and depth of external audit work and to ensure it gives value for money*

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	NO	If yes, date for Cabinet meeting	n/a
---	-----------	----------------------------------	-----

4. BACKGROUND AND KEY ISSUES

- 4.1 The Audit Plan has been prepared to inform the Council about the responsibilities of its external auditors and how those responsibilities will be discharged. It has been discussed and agreed jointly by Council representatives and External Audit (EY).
- 4.2 The plan (Appendix A) has been developed to consider the impact of the recent key developments and risks based upon discussion with management and understanding of the Council and the local government sector.
- 4.3 The Draft Audit Plan sets out the proposed materiality levels applied by EY, including the level of uncorrected misstatements that will be reported (page 9 with further details on page 26) which is lower than previous years. EY set the materiality level in accordance with national auditing guidelines and standards. The Council have challenged the reduction in materiality level which is contained in paragraph 4.5.
- 4.4 EY are required to consider whether the Council has in place ‘proper arrangements’ to secure economy, efficiency, and effectiveness on its use of resources. The Value for Money (VFM) section (from page 23) highlights a significant risk due to the scale of the financial challenge that the Council faces, in common with most local authorities. EY’s approach will focus on 2019/20 savings and the link to longer term transformational change and reviewing the financial plan for 2020/21 and the longer term.
- 4.5 The following table provides a summary of those risks marked as Red in the Draft Audit Plan, with an associated PCC management comment. (Page reference shown refer to the Appendix Draft Audit Plan).

EY Report – summary of points raised	PCC Management comment
1. Misstatement due to fraud or error - the incorrect application of MRP accounting and inappropriate use of capital receipts – risk has changed since last year. (p.6, p.14)	<p>The council’s Minimum Revenue Provision (MRP) policy was agreed by Council on 4 March and has not changed from that adopted in recent years.</p> <p>As noted in recent press articles, MHCLG conducted further enquiries into the council’s accounting treatment and found that the council had acted legally in its application of capital receipts.</p> <p>Since the inception of the MRP policy, and throughout the MHCLG investigations, the council have ensured that EY are fully apprised of the accounting treatment with no adverse opinions received.</p>
2. Misstatements due to fraud or error – inappropriate use of capital receipts. (p.6, p15)	<p>The council has been in recent communication with EY with regards to the technical accounting treatment as to when the receipt of an asset sale is recorded in the financial statements. The council has clarified the recognition criteria with EY’s technical accounting expert and does not foresee this to be an additional risk.</p>
3. Recoverability of NHS Accounts Receivable Balances. (p.8, p.19)	<p>As noted on the 2018/19 Statement of Accounts (SoA) the Cambridgeshire and Peterborough Clinical Commissioning Group is a third party which owes the council a material amount. The aged debt profile ie amounts that remain unpaid beyond a year is increasing which in turn affects the success of recovery of these sums. The</p>

	<p>officers of the council recognise this risk with concerted efforts on ensuring recovery escalated accordingly alongside proactive and ongoing discussion with the CCG.</p>
<p>4. Group Accounting and the scope of the group audit (p.8, p.19)</p>	<p>The council have considered the need for group for a number of years which is disclosed by way of a Note in past SoAs. This year due to the value of activity in Peterborough Ltd (trading as Aragon) Group Accounts will be prepared.</p> <p>The additional work that this entails has been factored in the closure timetable. Key team members have undertaken relevant training, and analysis of the expenditure is being undertaken now in advance of final year end processes.</p> <p>EY also audit the Peterborough Ltd accounts as both the council and the company expect synergies on external audit to be gained from this arrangement.</p>
<p>5. Implementation of new auditing and accounting standards (p.8, p.20)</p>	<p>Although the implementation of IFRS16 is not due to be included in the SoA until 2020/21 the council has been proactive in its accounting approach with work nearly complete on its impact for the future year and disclosure requirements for 2019/20.</p> <p>The impact of this implementation was also included in the Medium Term Financial Strategy (MTFS) as approved by Council 4 March 2020.</p>
<p>6. Materiality for the Council's financial statements has been set at £5.240 million, which represents 1.0% of the prior years gross expenditure on net cost of services plus financing and investment expenditure. In the prior year we applied a threshold of 1.8%. (p.9)</p>	<p>The Council has been open and transparent with EY about the Council's financial situation as reported in the MTFS as approved by Council 4 March 2020.</p> <p>The Robustness Statement contained in the MTFS has been discussed in detail with preparatory work being initiated by the council with EY in advance of the audit commencement in June.</p> <p>The risk for the council is achieving a sustainable financial position over the medium to longer term, rather than specifically in the 2019/20 year.</p>
<p>7. Increased Audit Fee – At this stage, our estimate is that these changes in audit scope for our 2019/20 external audit which are not assumed in the scale fee will lead to a £77,000 increase in the fee. Therefore, the estimate of the proposed fee is an increase from £83,570 to £160,570. (p.41)</p>	<p>This is an additional pressure that the council will need to factor into the final 2019/20 position and has not previously been forecast in budgetary control reports.</p> <p>The council are keen to work with EY to understand the costings and ensure that working papers are designed to mitigate this increase in fee as much as possible.</p> <p>This increase in fee comes at a time when EY are advising its clients of the delay in completing their audits compared to previous years and in accordance with the expectations brought about with the reduced timescales contained in legislation, see following section of</p>

- In January 2020 the Council received e-mail correspondence from EY summarising the result of a consultation undertaken with various EY clients regarding major changes to the audit timetable. The key points are as follows: EY will report the Audit Results in late September / October rather than by the end of July as the council has experienced since the earlier timescales were introduced.
- There are no plans to perform early substantive audit testing as in previous years. The council has been able to manage workloads of key staff through and ensure that the earlier auditing timescales were met.
- The interim audits, will just cover the walk-throughs of the key financial systems and individual engagement teams will discuss with Finance the appropriate timing of this. In the past the council has used the 'interim audit' to enable work to be completed pre-audit and for the council to agree accounting approaches, which involve a degree of subjectiveness, in advance of the final audit ie the need for group accounts.

The revised EY proposal is to implement a phased approach across all its local government clients. For PCC this means the Council's Audit, which was due to start mid-May 2020 with completion by 31 July 2020, will now not start until June 2020 and will not be completed until later in the year, September or October 2020. This change in approach is resulting in the council's finance team needing to reorganise its workloads, and associated workforce planning, to accommodate this extended audit period at a time when the council is focused on delivering a financially sustainable budget position for 2021/22.

- 4.6 Appendix B is a copy of the correspondence from Janet Dawson of EY, referred to above, sent to Chief Financial Officers in February 2020. It addresses the concerns regarding the timetable for financial reporting and auditing plus the position on the audit fees determined by the Public Sector Audit Appointments Limited (PSAA).

5. CONSULTATION

- 5.1 The Plan has been circulated to relevant officers for comment, including the Acting Corporate Director: Resources, and Head of Corporate Finance.

6. ANTICIPATED OUTCOMES OR IMPACT

- 6.1 Approval of the External Audit Plan 2019/20 and comment on any issues the Committee considers relevant.

7. REASON FOR THE RECOMMENDATION

- 7.1 The Plan provides a summary of the Auditor's proposed work. Members can ask questions and make comments to the External Auditor on its contents and coverage.
- 7.2 To enable Audit Committee to understand the new accounting standards and the current and any potential future impact on the Council from their adoption into the Code.

8. ALTERNATIVE OPTIONS CONSIDERED

- 8.1 It is a requirement of the Audit Code to agree the plan but the Committee may influence the content of the plan.

9. IMPLICATIONS

Financial Implications

- 9.1 There are significant direct implications arising from this Plan. Fees identified are no longer commensurate with previous years with a proposed 92% fee increase over and above that set by the Public Sector Audit Appointments body and that included in Medium Term Financial

Strategy.

Legal Implications

9.2 None.

Equalities Implications

9.3 None.

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

10.1 The Accounts and Audit Regulations 2015
The Local Audit and Accountability Act 2014
The National Audit Office's 2015 Code of Audit Practice
The Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd

11. APPENDICES

11.1 Appendix A - Peterborough City Council Outline Audit Plan Year ended 31 March 20

Appendix B - Correspondence from Janet Dawson of EY

This page is intentionally left blank

Peterborough City Council

Provisional Audit Plan

Year ended 31 March 2020

9 March 2020



Audit Committee
Peterborough City Council

9 March 2020

Dear Audit Committee Members

Provisional Audit Plan - 2019/20

We are pleased to attach our Provisional Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2019/20 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This Provisional Audit Plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council and outlines our planned audit strategy in response to those risks. At the date of this report, our planning and interim procedures remain ongoing. We will inform the Audit Committee if there are any significant changes or revisions once we have completed these procedures and will provide an update to the next meeting of the committee.

The Council's Chief Financial Officer and Chair of Audit Committee will have received a copy of the letter from Janet Dawson, our UK Government and Public Sector Assurance Leader dated 10 February 2020, which discusses the Sustainability of UK local public audit. The Council's finance team have attended a Chief Financial Officer forum held in our Cambridge office in January 2020 to discuss the proposed delivery plan for the 2019/2020 external audit. The proposed timetable for your external audit has been discussed in our planning meetings on the 13th February 2020 and also in an email sent by our Cambridge office lead, Mark Hodgson on the 14th February 2020. In section 7 of this audit plan we report an audit timeline to ensure we deliver a high quality audit in a timeframe agreed with officers.

Continued over the page.



Audit Committee
Peterborough City Council

9 March 2020

Provisional Audit Plan - 2019/20 continued..

Our provisional audit plan responds to the current financial, strategic, operational and reputational risks facing the Council. The most significant event that has informed our audit risk assessment is the circumstances which have led to the Council's application to the Ministry of Housing, Communities and Local Government (MHCLG) for a capitalisation direction of £10million as part of setting its 2020/2021 budget. We have reviewed and noted the concerns expressed by the Council's Chief Financial Officer in the robustness statement included in the 2020/2021 budget papers presented to the Council's Cabinet meeting on the 25th February 2020.

Whilst we have no significant concerns on the arrangements the Council has put in place to date to engage MHCLG officials, local stakeholders and public sector partners on the actions, assumptions and assertions set out in its 2020/2021 budget, we are concerned about the increasing fragility of the Council's short, medium and longer term financial position. Over the next month, we will determine whether to issue a written recommendation to the Council under section 24 (schedule 7) of the Local Audit and Accountability Act 2014. At this stage, we think such a written recommendation will have the impact on assisting in monitoring the Council's response and progress in securing its future financial resilience and direct the Council to report the results of this activity in the public domain. To inform our final view on this matter, we are undertaking audit procedures now to establish the current timetable, risks and implications of a decision by MHCLG on the Council's application for a capitalisation direction and the robustness of assumptions supporting any immediate actions the Council are taking in response.

We have updated our audit risk assessment to respond to the heightened risks and public profile associated with the Council's increasingly fragile financial position. This includes a reduction to our audit performance materiality compared to the prior year as well as increased audit risks and testing associated with accounting judgements that could be used to provide a short to medium term revenue and general fund benefit to the Council. These additional audit risks and procedures will increase the scope of our work and lead to additional audit fees. We have set out our provisional estimate of the implications for the scope of our work and audit fee throughout this report.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties. We welcome the opportunity to discuss this report with you on 23 March 2020 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully
Neil Harris

Associate Partner
For and on behalf of Ernst & Young LLP
Enc

Contents



18

Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the via the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The “Terms of Appointment and further guidance (updated April 2018)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee and management of Peterborough City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Peterborough City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee, and management of Peterborough City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01 Overview of our 2019/20 audit strategy



Overview of our 2019/20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud Risk	No change in risk or focus	<p>As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.</p> <p>The Council is under significant financial pressure to achieve a balanced budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way to achieve these targets and one way management override can manifest. As management is in a unique position to manipulate accounting records directly or indirectly by overriding controls that otherwise appear to be operating effectively, we have identified the key areas at risk of manipulation as set out below.</p>
Misstatements due to fraud or error - the incorrect capitalisation of revenue expenditure and REFCUS	Fraud risk	No change in risk or focus	We consider the risk applies to capitalisation of revenue expenditure and revenue expenditure funded from capital under statute (REFCUS). Management could manipulate revenue expenditure by incorrectly capitalising expenditure which is revenue in nature and should be charged to the comprehensive income and expenditure account.
Misstatements due to fraud or error - the incorrect application of MRP accounting	Fraud risk	Change in audit focus	<p>The Authority must make an annual contribution from revenue to reduce its overall borrowing requirement. This is termed the Minimum Revenue Provision (MRP). The MRP is determined prudently in accordance with statutory guidance.</p> <p>Over the last 18 months, the Authority's approach to MRP has been subject to media attention as well as scrutiny by Ministry of Housing, Communities & Local Government (MHCLG). Given this level of scrutiny and that MRP could be manipulated to artificially reduce expenditure we have identified the MRP calculation as a significant risk.</p>
Misstatements due to fraud or error - inappropriate use of capital receipts	Fraud Risk	New area of focus	The adjustments between accounting basis and funding basis under regulation changes the amounts charged to General Fund balances. Regulations are varied and complex, resulting in a risk that management misstatement accounting adjustments to manipulate the General Fund balance. We have identified the risk to be highest for adjustments concerning the application of capital receipts.

Overview of our 2019/20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Valuation of property, plant and equipment assets under depreciated replacement cost model	Significant Risk	No change in risk or focus	<p>Property, plant and equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet. For assets valued using depreciated replacement cost (DRC) this risk is heightened due to the specialised nature of the assets and insufficient availability of market-based evidence to assist the valuation.</p> <p>As the Council's DRC asset base is significant, and the outputs from the valuer are subject to estimation, there is a significant risk PPE may be under/overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.</p>
Valuation of other Land and Buildings and Investment Properties	Inherent Risk	No change in risk or focus	<p>The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p>
Pension Liability Valuation & Pensions Assets	Inherent Risk	No change in risk or focus	<p>The Council makes extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Cambridgeshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £332 million. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.</p>

Overview of our 2019/20 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Recoverability of NHS Accounts Receivable Balances	Inherent Risk	New area of focus	<p>The Council has a significant accounts receivable (debtor) balance. As at 31 March 2019 the balance was £53.6million. There is a risk that the Council may not receive the payments from their suppliers. We are aware that a significant amount of the balance relates to one NHS debtor of £11million. The Council is working closely with NHS bodies to resolve the recoverability of the balance.</p> <p>Given that there might be some subjectivity to the recoverability of these debtors, we will test the Council's judgements to third party and corroborative evidence. We have therefore raised this as an inherent risk in our audit strategy.</p>
Group Accounting and the scope of the group audit	Inherent Risk	New area of focus	<p>The Council will be preparing group accounts for the first time in 2019/20 due to the consolidation of the Live Peterborough Limited financial statements with the single entity Council financial statements. We identify this as an inherent risk as the Council has not prepared group accounts in the past and this can be a complex area of accounting. Once we have established the transactions and accounting judgements for the group accounts and consolidation of the subsidiary company, we will finalise the impact this has on our group audit scope and procedures.</p>

In addition to the risks outlined above we have identified an area of audit focus.

Area of focus	Change from PY	Details
Implementation of new auditing and accounting standards	New area of focus	<p>IFRS 16 Leases: Implementation of IFRS 16 will be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. This Code has yet to published, but in July 2019 CIPFA/LASAAC issued 'IFRS 16 leases and early guide for practitioners'. There will be some disclosure requirements for the 2019/20 statement of accounts.</p> <p>Going Concern Compliance with ISA 570: This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements.</p>

Overview of our 2019/20 audit strategy

Materiality - Peterborough City Council - Single Entity financial statements

Planning
materiality
£5.24m

Materiality for the Council's financial statements has been set at £5.240 million, which represents 1.0% of the prior years gross expenditure on net cost of services plus financing and investment expenditure. In the prior year we applied a threshold of 1.8%. We have judged it appropriate to adopt a lower level of materiality based on the risks we have identified around the Council's budget position and the higher public interest and profile this has.

Performance
materiality
£3.93m

Performance materiality has been set at £3.930 million, which represents 75% of materiality.

Audit
differences
£0.26m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement and cash flow statement) greater than £0.262 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

We also identify areas where misstatement at a lower level than our overall materiality level might influence the reader and develop an audit strategy specific to these areas, including:

- ▶ Remuneration disclosures including councillor allowances: we will agree all disclosures back to source data, and councillor allowances to the agreed and approved amounts.
- ▶ Related party transactions we will test the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

Overview of our 2019/20 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Peterborough City Council and Group give a true and fair view of the financial position as at 31 March 2020 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness (Value for Money).

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of Peterborough City's audit, we will discuss these with management as to the impact on the scale fee.



25

02 Audit risks





Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error *

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

As part of our work to identify fraud risks during the planning stages, we have identified those areas of the accounts that involve management estimates and judgements as the key areas at risk of manipulation.

These are set out on the following pages.

What will we do?

In order to address this risk we will carry out a range of procedures including:

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

To address the residual risk of management override we perform specific procedures which include:

- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, for example using our journal tool to focus our testing on specific journals such as those created at unusual times or by staff members not usually involved in journal processing;
- ▶ Assessing key accounting estimates for evidence of management bias; and
- ▶ Evaluating the business rationale for significant unusual transactions

Our response to significant risks (continued)

Misstatements due to fraud or error - the incorrect capitalisation of revenue expenditure and REFCUS *

What is the risk?

The Council is under significant financial pressure to achieve budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way to achieve these targets.

We consider the risk applies to capitalisation of revenue expenditure and revenue expenditure funded from capital under statute (REFCUS). Management could manipulate revenue expenditure by incorrectly capitalising expenditure which is revenue in nature and should be charge to the comprehensive income and expenditure account.

What will we do?

In order to address this risk we will carry out a range of procedures including:

- ▶ Sample testing, at a lower testing threshold, additions to property, plant and equipment to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised; and
- ▶ Using our data analytics tool to identify and test journal entries that move expenditure into capital codes.

Financial statement impact

We have identified a risk of expenditure misstatements due to fraud or error that could affect the income and expenditure accounts.

We consider the risk applies to capitalisation of revenue expenditure and REFCUS and could result in a misstatement of cost of services reported in the comprehensive income and expenditure statement.

In 2018/19 the Council incurred £95.9 million capital expenditure (of which REFCUS represented £20.5 million).

Our response to significant risks (continued)

Misstatements due to fraud or error - the incorrect application of MRP accounting *

Financial statement impact

We have identified a risk of expenditure misstatements due to fraud or error that could affect the income and expenditure accounts.

We consider the risk applies to the calculation of the minimum revenue provision calculation and could result in a misstatement of cost of services reported in the comprehensive income and expenditure statement.

What is the risk?

The Council is under significant financial pressure to achieve budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way to achieve these targets.

We consider the risk applies to application and calculation of the minimum revenue provision.

The Authority must make an annual contribution from revenue to reduce its overall borrowing requirement. This is termed the Minimum Revenue Provision (MRP). The MRP is determined prudently in accordance with statutory guidance.

Over the last 18 months, the Authority's approach to MRP has been subject to media attention as well as scrutiny by Ministry of Housing, Communities & Local Government (MHCLG). Given this level of scrutiny and that MRP could be manipulated to artificially reduce expenditure we have identified the MRP calculation as a significant risk.

What will we do?

In order to address this risk we will carry out a range of procedures including:

- ▶ Testing the application of MRP to ensure the calculation met the statutory guidance;
- ▶ Re-performing the MRP calculation; and
- ▶ Engaging our EY MRP technical specialist to review the Authority's MRP policy and disclosure.

Our response to significant risks (continued)

Misstatements due to fraud or error - inappropriate use of capital receipts *

What is the risk?

The Council is under significant financial pressure to achieve its revenue budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way of achieving these targets.

We consider the risk applies to the application and use of capital receipts in the financial statements.

The adjustments between accounting basis and funding basis under regulation changes the amounts charged to General Fund balances. Regulations are varied and complex, resulting in a risk that management misstatement accounting adjustments to manipulate the General Fund balance. We have identified the risk to be higher for adjustments concerning the application of useable capital receipts and deferred capital receipts.

What will we do?

Our approach will focus on:

- ▶ Sample testing the application of capital receipts in the capital financing requirement to ensure they meet the definition of sources of funding;
- ▶ Sample testing deferred capital receipts to ensure any conditions have been correctly applied; and
- ▶ Using our data analytics tool to identify and test journal entries adjustments that impact capital receipts.

Financial statement impact

We have identified a specific risk of misstatements due to fraud or error that could affect the income and expenditure accounts and the balance sheet.

We consider the risk applies to the application of capital receipts in the comprehensive income and expenditure statement (CIES) and balance sheet (via the capital financing requirement).

In 2018/19 the Council applied £19.4 million of capital receipts funding in the Capital Financing Requirement.

Our response to significant risks (continued)

Valuation of property, plant and equipment assets under depreciated replacement cost model

Financial statement impact

We have identified a specific risk of misstatements due to fraud or error that could affect the balance sheet.

We consider the risk applies to the valuation of property, plant and equipment using the depreciated replacement cost method in the balance sheet.

What is the risk?

Property, plant and equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet. For assets valued using depreciated replacement cost (DRC) this risk is heightened due to the specialised nature of the assets and insufficient availability of market-based evidence to assist the valuation.

As the Council's DRC asset base is significant (£246 million), and the outputs from the valuer are subject to estimation, there is a significant risk PPE may be under/overstated or the associated accounting entries incorrectly posted.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

What will we do?

Our approach will focus on:

- ▶ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample test key asset information used by the valuers in performing their DRC valuations (e.g. floor plans to support valuations based on price per square metre and the specialised nature of the assets);
- ▶ Consider the use of EY valuation specialists to review a sample of the underlying assumptions used to value any material specialist DRC assets;
- ▶ Review DRC assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- ▶ Consider changes to useful economic lives as a result of the most recent valuation; and
- ▶ Test accounting entries have been correctly processed in the financial statements.

Audit risks

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?

Valuation of other Land and Buildings and Investment Properties

The fair value of Property, Plant and Equipment (PPE) (£318 million) and Investment Properties (IP) (£29.6 million) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

What will we do?

We will:

- ▶ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Review assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- ▶ Consider changes to useful economic lives as a result of the most recent valuation; and
- ▶ Test accounting entries have been correctly processed in the financial statements.

Audit risks

Other areas of audit focus (continued)

What is the risk/area of focus?

Pension Liability Valuation & Pensions Assets

The Council makes extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Cambridgeshire County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £332 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.

We undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What will we do?

We will:

- ▶ Liaise with the auditors of Cambridgeshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Peterborough City Council. This includes identifying, documenting and reviewing the controls over the accuracy and completeness of information extracted from the Membership Administration system and provided to the actuary for the 2019 triennial valuation dataset;
- ▶ Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used, by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and by considering any relevant reviews by the EY actuarial team; and
- ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19 considering fund assets and the Council's liability.

Audit risks

Other areas of audit focus (continued)

What is the risk/area of focus?

Recoverability of NHS Accounts Receivable Balances

The Council has a significant accounts receivable (debtor) balance. As at 31 March 2019 the balance was £53.6 million. We are aware that a significant amount of the balance relates to one NHS debtor of £11million. The Council is working closely with NHS bodies on the recoverability of the debtor. There is a risk that the Council may not receive the payments from their NHS suppliers.

Given that there might be some subjectivity to the recoverability of these debtors the Council will need to consider the level of any provision for bad debts. We have therefore raised as an inherent risk in our audit strategy.

Group Accounting

In July 2018 the Council incorporated Live Peterborough Limited, a local authority trading company (LATCo), with the Council as the sole owner. Activity has increased in the company in 2019/20 to a level that is considered material. This will require the Council to prepare group accounts.

We identify this as an inherent risk as the Council has not prepared group accounts in the past and this can be a complex area of accounting.

What will we do?

We will:

- ▶ Corroborate the relevant NHS debtor balances and ensure that the amounts consistent with confirmations received directly from the NHS bodies (third party information); and
- ▶ Test any NHS bad debt provisions or NHS debtor write-offs to ensure that these are calculated in line with IAS 37.

We will:

- ▶ Review the group assessment prepared by the Council, ensuring that the accounting framework and accounting policies are aligned to the Peterborough City Council group;
- ▶ Scope the audit requirements for Live Peterborough Limited based on their significance to the group accounts. Liaising with the EY external auditor of Live Peterborough Limited and potentially issuing group instructions that detail the required audit procedures they are to undertake in order to provide us with assurance for the opinion we will issue on the group accounts;
- ▶ Ensure the appropriate consolidation procedures and the Code of Practice are applied when preparing the Council group accounts.

Other areas of audit focus (continued)

What is the risk/area of focus?

IFRS16 - leases

IFRS 16 Leases was issued by the IASB in 2016. Its main impact is to remove (for lessees) the traditional distinction between finance leases and operating leases. Finance leases have effectively been accounted for as acquisitions (with the asset on the balance sheet, together with a liability to pay for the asset acquired). In contrast, operating leases have been treated as “pay as you go” arrangements, with rentals expensed in the year they are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

Implementation of IFRS 16 will be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. This Code has yet to be published, but in July 2019 CIPFA/LASAAC issued 'IFRS 16 leases and early guide for practitioners'.

This early guidance provides comprehensive coverage of the requirements of the forthcoming provisions, including:

- ▶ the identification of leases
- ▶ the recognition of right-of-use assets and liabilities and their subsequent measurement
- ▶ treatment of gains and losses
- ▶ derecognition and presentation and disclosure in the financial statements,
- ▶ the management of leases within the Prudential Framework.

The guidance also covers the transitional arrangements for moving to these new requirements, such as:

- ▶ the recognition of right-of-use assets and liabilities for leases previously accounted for as operating leases by lessees
- ▶ the mechanics of making the transition in the 2020/21 financial statements (including the application of transitional provisions and the preparation of relevant disclosure notes).

What will we do?

IFRS 16 - leases introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases.

The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet.

Although the new standard will not be included in the CIPFA Code of Practice until 2020/21, work will be necessary to secure information required to enable authorities to fully assess their leasing position and ensure compliance with the standard from 1 April 2020 and some narrative disclosures are required for 2019/20.

In particular, full compliance with the revised standard for 2020/21 is likely to require a detailed review of existing lease and other contract documentation prior to 1 April 2020 in order to identify:

- ▶ all leases which need to be accounted for
- ▶ the costs and lease term which apply to the lease
- ▶ the value of the asset and liability to be recognised as at 1 April 2020 where a lease has previously been accounted for as an operating lease.

We will discuss progress made in preparing for the implementation of IFRS 16 - leases with the finance team over the course of our 2019/20 audit.

Other areas of audit focus (continued)

What is the risk/area of focus?

Going Concern Compliance with ISA 570

This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.

The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee.

The CIPFA Guidance Notes for Practitioners 2019/20 accounts states 'The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.'

'If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis.'

What will we do?

The revised standard requires:

- ▶ auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias;
- ▶ greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Authority obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements;
- ▶ improved transparency with a new reporting requirement for public interest entities, listed and large private companies to provide a clear, positive conclusion on whether management's assessment is appropriate, and to set out the work we have done in this respect. While the Council are not one of the three entity types listed, we will ensure compliance with any updated reporting requirements;
- ▶ a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and
- ▶ necessary consideration regarding the appropriateness of financial statement disclosures around going concern.

The revised standard extends requirements to report to regulators where we have concerns about going concern.

We will discuss the detailed implications of the new standard with finance staff during 2019/20 ahead of its application for 2020/21.



03

Value for Money Risks





Value for Money

Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

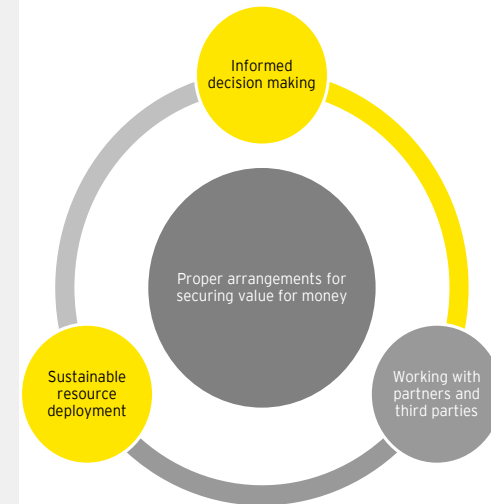
We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level.

As part of our value for money planning risk assessment for 2019/20, we will consider the steps taken by the Council to consider the impact of Brexit and Coronavirus on its future service provision, medium-term financing and investment values. Although the precise impacts cannot yet be modelled, we would expect that Authorities will be carrying out scenario planning and that Brexit and Coronavirus impacts will feature on operational risk registers. Our risk assessment will consider both the potential financial impact of the issues we identify, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders.

We have identified one significant risk in the slide below. We will continue to update our assessment of risks associated with value for money throughout the audit and will update you if any additional risks are identified.



37



Value for Money Risks

What is the significant value for money risk?

We reported in previous years our views on the financial resilience of the Council and in particular the scale of the financial challenge it faces. Like most local authorities, the Council's finances continue to be stretched. There are significant gaps in the budget over the period of the Medium Term Financial Strategy which have still not been addressed.

The cumulative unmitigated budget gap to 2022/23 is £30.6 million and this also includes the successful delivery of £26.3 million of savings up to that period and some savings which are still subject to finalisation. It also includes a £10million capitalisation direction currently with MHCLG for approval.

The Chief Financial Officer has expressed concerns on the fragility of the Council's financial position in the robustness statement presented to 25th February 2020 Cabinet supporting the 2020/2021 budget. In particular, there is a risk the Chief Financial Officer could trigger the production of a Section 114 report if the Council could not report a balanced budget for 2020/21, where:

1. the Capitalisation Direction approval is not confirmed by 31 March 2020; or
2. realistic transformational plans, for reducing the cost of service delivery required to deliver a balanced and sustainable budget for future years, are not developed, and implementation commenced by July 2020.

Whilst the Council is taking action to identify ways to bridge the gaps, there remains a significant risk to its financial resilience.

What arrangements does the risk affect?

- Taking informed decisions; and
- Deploying resources in a sustainable manner.

What will we do?

Our approach will focus on:

Phase 1 - Financial Resilience Concerns (March to April 2020):

- ▶ Robust review of the Council's Medium Term Financial Strategy and the concerns raised by the Chief Financial Officer, including correspondence with MHCLG on the capitalisation direction application;
- ▶ Developing an understanding of how the Council identifies its budget gaps and risk mitigations;
- ▶ Consideration of exercising our statutory powers at this point (by April 2020) and if appropriate issuing a statutory written recommendation under section 24 (schedule 7) of the Local Audit and Accountability Act 2014.

Phase 2 - Council's Response to Financial Resilience Concerns (April to July 2020):

- ▶ Developing an understanding of how the Council quantifies and quality assures its savings plans;
- ▶ Reviewing the extent to which the Council is addressing the future budget gaps identified within its Medium Term Financial Strategy, including the robustness of assumptions and judgements associated with savings and transformation plans.

For both of these areas, we will consider using specialist support to work with the audit team in reviewing, challenging and exercising appropriate professional scepticism on the savings and transformation plans.



39

04

Audit materiality

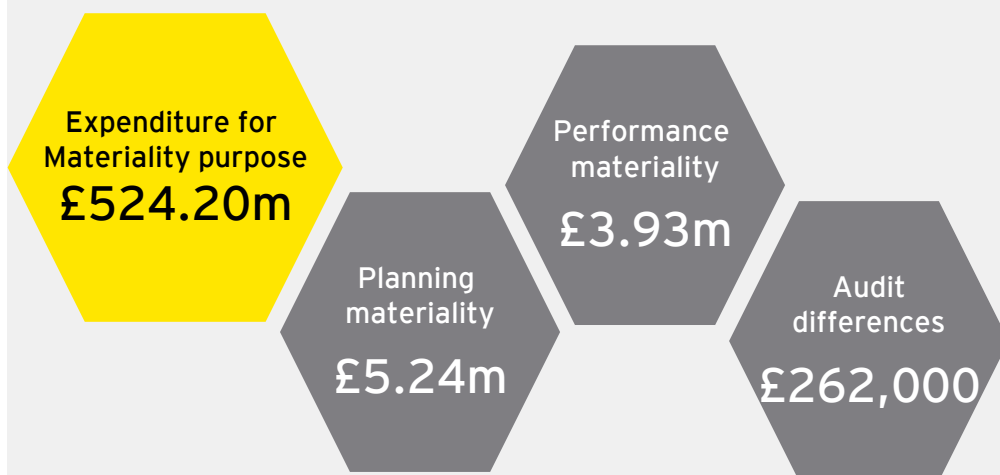


Materiality

Materiality

For planning purposes, materiality for 2019/20 has been set at £5.240 million. This represents 1% of the Council's prior year gross expenditure on net cost of services plus financing and investment expenditure and other operating expenditure. This value has reduced from the 1.8% value used in the prior year due to the risks we have raised around the Council's financial position. We have provided supplemental information about audit materiality in Appendix C.

40



We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £3.93 million which represents 75% of planning materiality. We have considered a number of factors such as the number of errors in the prior year and any significant changes when determining the percentage of performance materiality. We have used the higher end of the range.

Audit difference threshold - we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee, or are important from a qualitative perspective.

Specific materiality - We have set a lower materiality for Senior Officer's Remuneration, Members' Allowances and Exit Packages disclosures which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this.

Group materiality - We will update the Committee at the next available opportunity about the materiality level we have used in the audit of the group accounts. Given the size of Live Peterborough Limited this is unlikely to be significantly different from the values presented here.



05 Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

Our intention is to carry out a fully substantive audit in 2019/20 as we believe this to be the most efficient audit approach. Although we are therefore not intending to rely on individual system controls in 2019/20, the overarching control arrangements form part of our assessment of your overall control environment and will form part of the evidence for your Annual Governance Statement.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Committee.

Internal audit:

As in prior years we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit work, where they raise issues that could have an impact on the financial statements.



Scope of our audit

Earlier deadline for production of the financial statements

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July. These changes provide risks for both the preparers and the auditors of the financial statements.

At the end of January 2020, 85 organisations had not yet received their audit opinion on the 2018-2019 financial statements. The factors that have led to this unprecedented position are extensive, impact all audit suppliers in the PSAA contract and need to be considered by public sector finance professionals and Audit Committees. In summary, the types of issues and challenges we have seen include:

- ▶ Financial reporting and decision making in local government has become increasingly complex, for example from the growth in commercialisation, group accounts, financial resilience challenges, speculative ventures and investments.
- ▶ Some local authorities have a shortage of financial reporting skills, capabilities and weaknesses in audit readiness (including keeping pace with technological advancement in data management and processing for audit).
- ▶ There has been a significant increase in the specialised skills, time and cost required by auditors to address regulatory expectations. This includes responding to regulator feedback and a zero tolerance on audit quality failures.
- ▶ Public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff and multidisciplinary teams (for example valuation, pensions, tax and accounting) during the compressed timetables.

In order to ensure we are able to adhere an agreed timescale to complete our audit, we are supporting the Council by undertaking the following actions:

- ▶ Working with the Council to engage early in complex or challenging accounting areas, such as group accounting.
- ▶ Facilitating faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2019/20 financial year.
- ▶ Working with the Council to improve the use of EY Client Portal. This will streamline our audit requests through a reduction of emails and improved means of communication, while providing on-demand visibility into the status of audit requests and the overall audit status. Effective use of the portal also reduces the risk of duplicate requests and provides better security of sensitive data.
- ▶ Agreeing the team and timing of each element of our work with you and matching that to officer availability.
- ▶ Agreeing the supporting working papers that we require to complete our audit, and ensure you understand what we consider to be good quality audit evidence.

We held a workshop on 10 January 2020 with senior officers from across the region who are responsible for signing the financial statements and supporting their teams to provide supporting working papers. The workshop aimed to provide clarity around the pressures of delivering high quality audits in the current environment and discussed our plan to ensure we deliver a high quality audit in a timeframe agreed with officers. It also provided an opportunity for officers to ask questions in an open and transparent forum.

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the year and redeploy the team to other work to meet deadlines elsewhere. Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.



06

Audit team



Audit team and use of specialists

Audit team

The engagement team is led by Neil Harris who takes over from Suresh Patel. Neil has significant public sector audit experience, with a portfolio of Local Authorities (including upper tier Councils) and Local Government Pension Funds and is a member of the Chartered Institute of Public Finance and Accountancy (CIPFA).

Neil is supported by Dan Cooke, Manager, who is responsible for the day-to-day direction of audit work and is the key point of contact for the chief accountant. This will be Dan's second year as manager on the audit.

Specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where we expect either EY or third party specialists provide input for the current year audit are:

Area	Specialists	
	EY	Council
Valuation of Land and Buildings	Real Estates team	Wilkes Head & Eve & NPS
Pensions disclosure	EY Actuaries	Hymans
MRP accounting	EY MRP Specialist	N/A
Financial Resilience	EY Advisory	N/A

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



47

07

Audit timeline





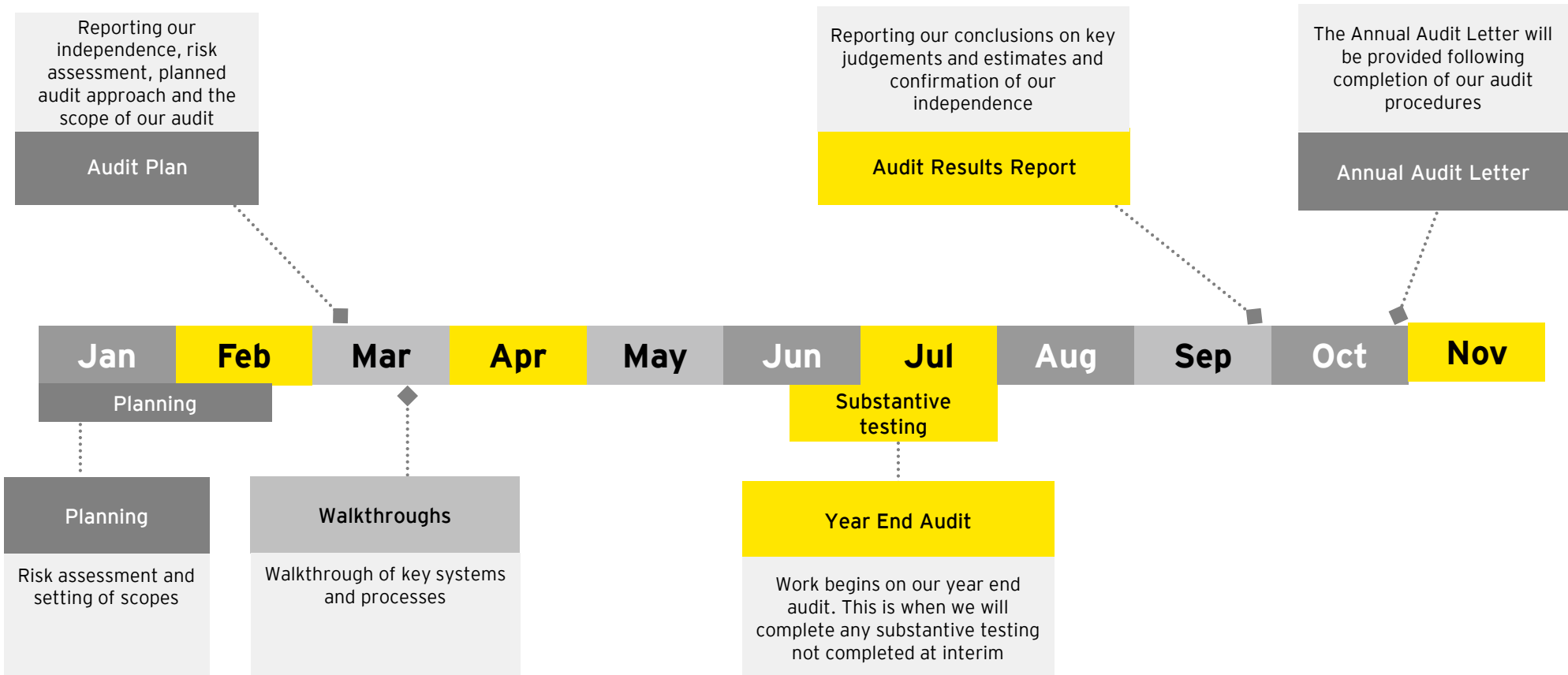
Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2019/20.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.





49

08

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage

- ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;
- ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;
- ▶ The overall assessment of threats and safeguards;
- ▶ Information about the general policies and process within EY to maintain objectivity and independence.
- ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard.

Final stage

- ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;
- ▶ Details of non-audit services provided and the fees charged in relation thereto;
- ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;
- ▶ Written confirmation that all covered persons are independent;
- ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;
- ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and
- ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Neil Harris, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

To date we have not provided any services which are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01. Any provision of services would need to be approved in accordance with your policy on pre-approval. The ratio of non-audit fees to audit fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 0%.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4. There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other communications

EY Transparency Report 2019

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2019:

[https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/\\$FILE/ey-uk-2019-transparency-report.pdf](https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/$FILE/ey-uk-2019-transparency-report.pdf)

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
 - Tax advocacy services
 - Remuneration advisory services
 - Internal audit services
 - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We do not provide any non-audit services which would be prohibited under the new standard.



54

09

Appendices



Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Scale fee 2019/20	Final Fee 2018/19
	£	£
Total Fee - Code work	83,570 (Note 2)	106,334 (Note 1)
Total fees	TBA	106,334

All fees exclude VAT

Note 1: The 2018/19 Code work includes an additional fee of £22,764, which relates to additional work for significant risks including MRP, PFI, PPE Valuations and value for money risks around financial resilience and contracts. We agreed the variation with officers and the PSAA.

Note 2: For 2019/20, the scale fee will be impacted by a range of factors (see following page) which will result in additional work. The issues we have identified at the planning stage which will impact on the fee include:

- The lowering of our audit materiality from the prior year and the impact this has on our audit testing across all of the Council's primary financial statements and supporting notes.
- The need to scope and audit the group accounts for the first time.
- The need to audit the significant and heightened risks presented in this audit plan, which includes incorrect capitalisation of expenditure, MRP and incorrect use of capital receipts.
- The need to engage EY Real Estate to review the valuation of DRC assets.
- The need to engage our advisory experts to support our assessment of the Council's future plans to address concerns on its future financial resilience.

We will continue to discuss the impact of these factors with management and the impact on the final fee.

At this stage, our estimate is that these changes in audit scope for our 2019/2020 external audit which are not assumed in your scale fee will lead to a £77,000 increase in the fee. Our estimate of the proposed fee is an increase from £83,570 to £160,570. During the course of our audit, we will provide management with an estimate and supporting breakdown to just each element of our additional fees. Our additional fees are subject to approval by PSAA.

In addition, we are driving greater innovation in the audit through the use of technology. The significant investment costs in this global technology continue to rise as we seek to provide enhanced assurance and insight in the audit.

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion being unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will also seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Fees (continued)

We do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity. For an organisation such as Peterborough City Council the extent of audit procedures now required mean it will take approximately 2,000 hours to complete a quality audit. A commercial benchmark for this size of external audit would be in the region of £200,000. Your scale fee is £83,570 and our current estimate is a final fee of £160,570.

Summary of key factors

1. **Status of sector.** Financial reporting and decision making in local government has become increasingly complex, for example from the growth in commercialisation, speculative ventures and investments. This has also brought increasing risk about the financial sustainability / going concern of bodies given the current status of the sector.
 - ▶ To address this risk our procedures now entail higher samples sizes of transactions, the need to increase our use of analytics data to test more transactions at a greater level of depth. This requires a continual investment in our data analytics tools and audit technology to enhance audit quality. This also has an impact on local government with the need to also keep pace with technological advancement in data management and processing for audit.
2. **Audit of estimates.** There has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities.
 - ▶ To address these findings, our required procedures now entail higher samples sizes, increased requirements for corroborative evidence to support the assumptions, use of our internal specialists and increased correspondence with external specialists.
3. **Regulatory environment.** Other pressures come from the changing regulatory landscape and audit market dynamics:
 - ▶ Parliamentary select committee reports, the Brydon and Kingman reviews, plus within the public sector the Redmond review and the new NAO Code of Audit practice are all shaping the future of Local Audit. These regulatory pressures all have a focus on audit quality and what is required of external auditors.
 - ▶ This means continual investment in our audit quality infrastructure in response to these regulatory reviews, the increasing fines for not meeting the requirements plus changes in auditing and accounting standards. As a firm our compliance costs have now doubled as a proportion of revenue in the last five years. The regulatory lens on Local Audit specifically, is greater. We are three times more likely to be reviewed by a quality regulator than other audits, again increasing our compliance costs of being within this market.

Fees (continued)

Summary of key factors (cont'd)

4. As a result Public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff and multidisciplinary teams (for example valuation, pensions, tax and accounting) during the compressed timetables.
- ▶ We need to invest over a five to ten-year cycle to recruit, train and develop a sustainable specialist team of public sector audit staff. We and other firms in the sector face intense competition for the best people, with appropriate public sector skills, as a result of a shrinking resource pool. We need to remunerate our people appropriately to maintain the attractiveness of the profession, provide the highest performing audit teams and protect audit quality.
 - ▶ We acknowledge that local authorities are also facing challenges to recruit and retain staff with the necessary financial reporting skills and capabilities. This though also exacerbates the challenge for external audits, as where there are shortages it impacts on the ability to deliver on a timely basis.

Next steps



In light of recent communication from PSAA, we will need to quantify the impact of the above to be able to accurately re-assess what the baseline fee is for the Council should be in the current environment. Once this is done we will be able to discuss at a more detailed level with you.

Appendix B



Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee.

Our Reporting to you




Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	Audit Plan - 27 March 2020
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report - September/October 2020

Required communications with the Audit Committee (continued)

Required communications	 What is reported?	 When and where
Major Local Authorities	<p>For the audits of financial statements of public interest entities our written communications to the Audit Committee include:</p> <ul style="list-style-type: none"> ▶ A declaration of independence ▶ The identity of each key audit partner ▶ The use of non-member firms or external specialists and confirmation of their independence ▶ The nature and frequency of communications ▶ A description of the scope and timing of the audit ▶ Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits ▶ Materiality ▶ Any going concern issues identified ▶ Any significant deficiencies in internal control identified and whether they have been resolved by management ▶ Actual or suspected non-compliance with laws and regulations identified relevant to the Audit Committee ▶ The valuation methods used and any changes to these including first year audits ▶ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework ▶ The identification of any non-EY component teams used in the group audit ▶ The completeness of documentation and explanations received ▶ Any significant difficulties encountered in the course of the audit ▶ Any significant matters discussed with management ▶ Any other matters considered significant 	<p>Audit Plan - 27 March 2020</p> <p>Audit Results Report - September/October 2020</p>

Appendix B



Required communications with the Audit Committee (continued)

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit Results Report - September/October 2020	
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	Audit Results Report - September/October 2020	
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Audit Results Report - September/October 2020	
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report - September/October 2020	

Appendix B

Required communications with the Audit Committee (continued)

Our Reporting to you



Required communications	 What is reported?	 When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Audit Results Report - September/October 2020</p> <p>Audit Plan - 27 March 2020</p>
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	<p>Audit Results Report - September/October 2020</p>
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of 	<p>Audit Results Report - September/October 2020</p>
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	<p>Audit Results Report - September/October 2020</p>

Appendix B

Required communications with the Audit Committee (continued)



Our Reporting to you

Required communications	 What is reported?	 When and where
Group audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	Audit Results Report - September/October 2020 Audit Plan - 27 March 2020
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report - September/October 2020
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report - September/October 2020
Auditors report	<ul style="list-style-type: none"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report - September/October 2020
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit Results Report - September/October 2020 Audit Plan - 27 March 2020

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- ▶ The locations at which we conduct audit procedures to support the opinion given on the Council financial statements; and
- ▶ The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

Addressed to Chief Financial Officers and Audit Committee Chairs for
PSAA audited bodies (Local Government, Police and Crime
Commissioners, Chief Constables, Fire and Rescue Authorities)

10th February 2020

Ref: jd/ln

Direct line: 020 7951 2195

Sent by email

Email: jdawson01@uk.ey.com

Dear Chief Financial Officer and Audit Committee Chair

Sustainability of UK local public audit

I am writing to you to address the concerns we all share regarding the timetable for financial reporting and auditing. I also want to set out our position on the audit fees determined by Public Sector Audit Appointments Limited (PSAA). This will support conversations your Audit Partner will be having with you as we plan and deliver your 2019/20 external audit. I have also reflected on the themes emerging from my attendance at the Local Public Audit Stakeholder forum last month and conversations we have had at five Chief Financial Officer fora since December 2019.

UK local public audit market context

At the end of January 2020, 85 organisations had not yet received their audit opinion on the 2018-2019 financial statements. The factors that have led to this unprecedented position are extensive, impact all audit suppliers in the PSAA contract and need to be considered by public sector finance professionals and Audit Committees. In summary, the types of issues and challenges we have seen include:

1. Financial reporting and decision making in local government has become increasingly complex, for example from the growth in commercialisation, speculative ventures and investments.
2. Some local authorities have a shortage of financial reporting skills, capabilities and weaknesses in audit readiness (including keeping pace with technological advancement in data management and processing for audit).
3. There has been a significant increase in the specialised skills, time and cost required by auditors to address regulatory expectations. This includes responding to regulator feedback and a zero tolerance on audit quality failures.
4. Public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has

contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff and multidisciplinary teams (for example valuation, pensions, tax and accounting) during the compressed timetables.

We have increased investment in our audit quality programme, technology, compliance, talent and recruitment initiatives and will continue to do so. We are focussed on consistently delivering high quality audits, as a poor quality audit affects our reputation and yours. We are proud of having the highest quality scores of the audit suppliers in PSAA's recent audit quality report and as a firm having had no fines or sanctions imposed by the Financial Reporting Council (FRC) for any audits conducted in the past five years.

Regulatory, contractual and legal context

We support the Financial Reporting Council's (FRC) recent quality report and statements arising from recent corporate failures, which have highlighted that tight reporting deadlines are a contributory factor to audit failings and their expectation that audit firms should delay signing opinions to ensure audit quality.

Our contract with PSAA states that we will not issue an opinion where the audit is not complete.

We also believe the requirements of the Accounts and Audit Regulations 2015 have not been explained effectively to you. You are currently required to publish a statement of accounts, annual governance statement and narrative statement by the 31st July with or without an audit opinion. If you are not able to publish an audit opinion at that time, you should explain why. This means the 31st July is not a statutory audit deadline. I and your Audit Partner will support you in meeting your requirements under the 2015 regulations whilst safeguarding our high standards of audit quality.

All of these points were discussed at the recent Local Public Audit Stakeholder forum. We support the pressing need for CIPFA and the ICAEW to work with officials from the Ministry of Housing, Communities and Local Government (MHCLG) to revisit and confirm in writing their response and expectations on the timetable and requirements for financial reporting and external audit. We understand that ICAEW has asked that such measures include a relaxation of the 31st July publication deadline for the 2019/20 financial statements or a permanent change to the 2015 regulations.

Either way, we believe the current timetable and expectations for financial reporting and external audit are unsustainable and need to change.

Delivering our 2019/20 external audits

Since December 2019, I and colleague Audit Partners have had conversations with five Chief Financial Officer groups, outlining the framework we will use to plan, schedule and deliver 2019/20 external audits under the terms of our contract with PSAA. Our delivery model takes account of plans to conclude our outstanding 2018/19 external audits.

I am providing regular updates to PSAA to provide assurance on the sustainability of our delivery plan and how we are continuing to safeguard high standards of audit quality.

Because of our views on the factors driving an unsustainable timetable, to ensure we deliver the best quality audit, I have informed PSAA, NAO and Local Public Audit Stakeholder forum that we will be scheduling a number of 2019/20 external audits for completion after the 31st July 2020.

Each of our regional office leads has agreed with me a delivery plan for the 2019/20 external audits. The proposed timing of your external audit has been determined using a consistent set of principles to ensure we have a fair and equitable basis for scheduling audits before the 31st July and those afterwards. These principles include our assessment of your preparedness for audit, expectation on level of audit errors and findings, the degree of risk and complexity including any significant changes since the prior year and maximising our availability of qualified and experienced audit staff and specialists.

Audit costs and fees

I am having ongoing discussions with PSAA on the current context with local public audit and our associated costs. I recognise you already have or may wish to respond to PSAA's recent letter to Chief Financial Officers on their current approach to consulting with you on how it determines your audit fee.

I have said to PSAA that we do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity, and the audit profession context for cost and fee increases, including the attractiveness of audit, investment in technology, innovation and the regulatory environment. This is exacerbated by submitting a tender response in 2016/17 financial year 18 months before the delivery period for the five-year cycle we are now currently in.

Since 2016/17, the public sector audit market has changed considerably. This is not only due to the concerns I have set out above that have led to an unsustainable timetable and expectations for financial reporting and external audit, but also because:

1. Some local public audit bodies have insufficient digital and IT systems and are unable to meet the standards required of an increasingly data-driven audit. In delivering those audits, we have incurred additional costs which were not reflected in our bid for the current PSAA contract.
2. Our cost of compliance to maintain our licence to practice and maintain high quality and sustainable local public audit has doubled since 2017.
3. We need to invest over a five to ten-year cycle to recruit, train and develop a sustainable specialist team of public sector audit staff. We and other firms in the sector face intense competition for the best people, with appropriate public sector skills, as a result of a shrinking resource pool. We need to remunerate our people appropriately to maintain the attractiveness of the profession, provide the highest performing audit teams and protect audit quality.

In the face of all these unprecedented factors, we still remain committed to deliver high quality sustainable local public audit that serves the public interest and stakeholder needs. It is clear therefore that audit fees for local public audit will have to rise.

I recognise that until there are any changes to the way PSAA determines its scale fees, your Audit Partner should be communicating with you in a timely and effective fashion any proposed variations to your scale fee to reflect changes in audit scope, risks and findings.

Next steps

We welcomed the opportunity to respond to *Independent review into the arrangements in place to support the transparency and quality of local authority financial reporting and external audit in England* ("Call for Views") led by Sir Tony Redmond. The Call for Views together with the National Audit Office (NAO) Code of Audit Practice ("Code") present a significant opportunity to shape the long-term sustainability of local government, police, fire and rescue service financial reporting and auditing.

Your Audit Partner will be contacting you shortly and no later than the end of February 2020 to discuss the proposed timing of your 2019/20 external audit and a current estimate of your audit fee. Once those discussions have taken place, our regional office lead and your Audit Partner will write to you to confirm our delivery plan for the office that provides your 2019/20 external audit.

I would also like to offer to join appropriate Chief Financial Officer and Audit Committee Chair forums to discuss what we are doing to improve audit quality, the wider dynamics of local public audit and the future of audit.

By March 2020, we will publish our point of view on the various reviews underway into the long-term sustainability of local government financial reporting and external audit. We are committed to working with MHCLG, NAO, PSAA and all key stakeholders that form part of the Local Public Audit Stakeholder forum in support of this aim. Your Audit Partner will be able to discuss our point of view with you and at your future Audit Committee meetings.

In the meantime, if you have any questions on this letter, please do not hesitate to contact me using the details provided.

Yours faithfully,



Janet Dawson
UK Government and Public-Sector Assurance Leader
Ernst & Young LLP

AUDIT COMMITTEE	AGENDA ITEM No. 5
23 MARCH 2020	PUBLIC REPORT

Report of:	Fiona McMillan, Director of Law and Governance and Monitoring Officer	
Cabinet Member(s) responsible:	Councillor Seaton, Cabinet Member for Finance	
Contact Officer(s):	Dan Kalley, Senior Democratic Services Officer	Tel. 296334

ANNUAL AUDIT COMMITTEE REPORT

R E C O M M E N D A T I O N S	
FROM: Fiona McMillan, Director Law and Governance and Monitoring Officer	Deadline date: N/A
It is recommended that Audit Committee approve the draft Annual Audit Committee Report for submission to Council as shown in Appendix 1 .	

1. ORIGIN OF REPORT

1.1 This report is submitted to Audit Committee in line with the agreed Work Programme for the Municipal Year 2019 / 2020.

2. PURPOSE AND REASON FOR REPORT

2.1 The Audit Committee has been in operation since Annual Council in May 2006 (first meeting June 2006). The Committee has a wide ranging remit that underpins the Council's governance processes by providing independent challenge and assurance of the adequacy of risk management, internal control including internal audit, anti-fraud and the financial reporting framework. These are shown in its terms of reference.

2.2 This report is for the Audit Committee to consider under its Terms of Reference No. 2.2.1.15

To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	NO	If yes, date for Cabinet meeting	
---	-----------	----------------------------------	--

4. BACKGROUND AND KEY ISSUES

4.1 The attached Draft Annual Report has been produced (**Appendix 1**). The report shows:

- Background to the Committee, its roles, responsibilities and membership;
- An overview and coverage of its remit including Internal Audit, Accounts and Financial Management, External Audit, Risk Management, Control Assurance, Corporate

Governance, and Fraud and Irregularities; and

- Training provided to ensure that suitable challenge and scrutiny is adopted.

4.2 Members are advised that following the conclusion of this meeting the items discussed will be included in the Annual Report for completeness.

4.3 During the year the Audit Committee have had pre-meetings a week prior to the main meeting. This has given members the opportunity to understand better the audit process of the Council and is a feature that will continue.

5. CONSULTATION

5.1 None required

6. ANTICIPATED OUTCOMES OR IMPACT

6.1 Publication of the report will enable the public to gain an insight into the role of the Committee and will ensure that the Committee can continue to progress and develop in the future. The City Council continues to evolve its Audit Committee in line with best practice to provide effective challenge to the governance arrangements adopted.

6.2 Subject to approval by Audit Committee, it is intended to present the report to Council for noting as part of the Committee's annual update in order to demonstrate the work carried out to improve the governance arrangements across the Council.

7. REASON FOR THE RECOMMENDATION

7.1 To seek endorsement from Members that the Committee is delivering against its terms of reference and provided effective challenge to the organisation

8. ALTERNATIVE OPTIONS CONSIDERED

8.1 None

9. IMPLICATIONS

Financial Implications

9.1 None.

Legal Implications

9.2 None

Equalities Implications

9.3 None

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

10.1 The Councils Constitution

Chartered Institute of Public Finance and Accountancy (CIPFA)

11. APPENDICES

11.1 Appendix A - Draft Audit Committee Annual Report

This page is intentionally left blank

**ANNUAL REPORT FROM
THE CHAIRMAN OF AUDIT COMMITTEE
2019 / 2020**

Assurance

Governance

Accountability

Risk Management

Independence

AUDIT COMMITTEE: ANNUAL REPORT 2019 / 2020

INTRODUCTION

MEMBERSHIP AND MEETINGS

KEY ACTIVITIES AND TRAINING DURING THE MUNICIPAL YEAR

PLANS FOR 2020 / 2021

FOREWORD FROM THE CHAIRMAN OF AUDIT COMMITTEE

I am pleased to provide the Audit Committee's Annual Report for the municipal year 2019 / 2020. 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.

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, 2020 / 2021 will be another 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.

INTRODUCTION

This is the 12th 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 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 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 Audit Committee can be found at **Annex A** of this report.

This report sets out the work undertaken by the Audit Committee for 2019 / 2020 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.

¹ Best practice as contained in the Chartered Institute of Public Finance and Accountancy (CIPFA) document "A Toolkit for Local Authority Audit Committees"

This is the first year the Audit Committee has held briefing sessions the week prior to the meeting for Members to better understand the role of the Audit Committee. The Committee have held training sessions during the course of the year which has expanded knowledge of the service areas around the Council.

In the forthcoming year I hope that training for Members continues to be a focus, enabling the committee members to best effectively scrutinise the functions of the Council’s audit processes.

MEMBERSHIP AND MEETINGS

During 2019 / 2020, the Audit Committee met on the following dates:

- 15 July 2019
- 16 September 2019
- 18 November 2019
- 27 January 2020
- 23 March 2020

There is a cross representation of all parties in accordance with the make-up of the Council. The members for 2018 / 2019 were (excluding substitutes):

Table 1: Audit Committee Membership 2019 / 2020 as at 23 March 2020:

Conservative	Liberal Democrats	Labour
Over (Chair) Coles (Vice Chair) Warren	Shaheed	Fower Skibsted (to January 2020) Jones (from January 2020) Joseph

Senior officers from the Council are also present, including the Director of Law and Governance, Acting Corporate Director Resources and Chief Internal Auditor. 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 terms of reference covers 6 main areas:

- Internal Audit
- Internal Control and Corporate Governance
- Annual Accounts
- Risk management
- External Audit
- Counter Fraud and Irregularities

Internal Audit

2.2.2 Terms of Reference

- 2.2.2.1** 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.
- 2.2.2.2** To consider summaries of specific internal audit reports as requested.
- 2.2.2.3** To consider reports dealing with the management and performance of the providers of internal audit services.
- 2.2.2.4** To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale
- 2.2.2.9** To commission work from internal and external audit.
- 2.2.2.17** To consider the council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

15 July 2019

- *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.
- *Review of Committee effectiveness* – The Audit Committee reviewed its effectiveness over the past 12 months and the key areas that the Committee focused on.

18 November 2019

- *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.
- *Mayors Costs.* The Committee received a report outlining the internal audit undertaken in relation to the Mayors costs and the new processes that had been put in place.

27 January 2020

- *Internal Audit Plan 2019/20 Planning Approach and emerging themes.* The Audit Committee noted the proposed work for internal audit in 2019/20
- *National Fraud Initiatives.* The Audit Committee has remit to oversee the fraud initiatives of the Council and the methods by which the Council claims any overspend.

Internal Control and Corporate Governance

2.2.1 Terms of Reference

- 2.2.2.1** 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.
- 2.2.2.5** To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
Regulatory Framework
- 2.2.2.13** To review any issue referred to it by the Chief Executive or a Director, or any Council body.
- 2.2.2.17** To consider the council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

15 July 2019

- *Annual Governance Statement.* The production of the Annual Governance Statement (AGS) forms part of the annual closure of accounts process. It is not a financial exercise, but represents a corporate overview of the processes and procedures adopted by Peterborough to manage its affairs.
- Audit Committee reviewed the Annual Governance Statement on 15 July 2019. The Committee agreed to the final report and this was signed off within the legal timeframes.
- *Use of Consultants.* Following the review of consultants used by the Council in 2010 it was recommended and agreed that Audit Committee would monitor progress. The Committee received an update in July 2019.

16 September 2019

- *Use of Consultants.* Following the review of consultants used by the Council in 2010 it was recommended and agreed that Audit Committee would monitor progress. The Committee received an update in September 2019.

18 November 2019

- *Treasury Management Mid Year Update.* The Committee received an update on the Treasury Management Strategy. The report updated members on the prudential indicators that the Council adhere to when setting the Treasury Management Strategy.
- *Use of Consultants.* Following the review of consultants used by the Council in 2010 it was recommended and agreed that Audit Committee would monitor progress. The Committee received an update in November 2019.

27 January 2020

- *2019/20 Treasury Management Strategy.* The Audit Committee received the Treasury Management Strategy that was to be presented to Full Council in March 2020. The Audit Committee noted and

approved the strategy.

- *2019/20 Asset Management Acquisition Strategy and Asset Investment Plan.* The Audit Committee received a report on the Asset Investment Strategy. The Committee approved the strategy before approval at Full Council in March 2020.
- *Use of Consultants.* Following the review of consultants used by the Council in 2010 it was recommended and agreed that Audit Committee would monitor progress. The Committee received an update in January 2020.

Annual Accounts

2.2.2 Terms of Reference

Accounts

- 2.2.2.18** 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.
- 2.2.2.19** To consider the external auditors report to those charged with governance on issues arising from the audit of the accounts.

15 July 2019

- *Budget Monitoring Report Final Outturn 2018/19.* The report provides the Audit Committee with the outturn position for both the revenue budget and capital programme for 2018/19. The Committee also noted performance on payment of creditors and collection performance from debtors.
- *Statement of Accounts to those charged with Governance (ISA260).* The Committee considered the robustness of financial processes and the financial standing of an organisation. The Council achieved this through the publication of the draft Statement of Accounts ahead of the statutory deadline, and also through the completion of a successful external audit process. 2017/18 is the first year where the production and audit of the accounts must comply with tighter statutory deadlines introduced by the Accounts and Audit Regulations 2015.

Risk Management

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.

15 July 2019

- *Insurance Service and Insurance Fund Annual Report 2018/19.* The Audit Committee received a report presenting the work carried out during the past year to provide an effective insurance function which provides cover for all aspects of the Council whilst minimising the cost.

16 September 2019

- *Risk Management Report.* Audit Committee received a report of the strategic risks impact on the Council and the mitigating actions to address these.

External Audit

2.2.2 Terms of Reference

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

15 July 2019

- *Audit Fees 2019/20.* The Audit Committee considered the proposed Audit Fees for 2019/20. The Audit Committee noted and commented on the proposed fees in keeping with previous years fees.

16 September 2019

- *Ernst & Young Annual Audit Letter for year end 31 March 2019.* The Committee received a report on the annual findings letter of the external auditors.

Counter Fraud & Irregularities

2.2.2 Terms of Reference

Regulatory Framework

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

15 July 2019

- *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.

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 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 2019 / 2020

Overall, the Audit Committee want to continue to develop and build on our current achievements. For 2020 / 2021 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;
- Increase training for members of the Audit Committee, ensuring members are best placed to scrutinise effectively the work of the Council and its audit functions;
- 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.

2.2 AUDIT COMMITTEE: TERMS OF REFERENCE²

2.2.2 Terms of Reference

- 2.2.2.1 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.
- 2.2.2.2 To consider summaries of specific internal audit reports as requested.
- 2.2.2.3 To consider reports dealing with the management and performance of the providers of internal audit services.
- 2.2.2.4 To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.
- 2.2.2.5 To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
- 2.2.2.6 To consider specific reports as agreed with the external auditor.
- 2.2.2.7 To comment on the scope and depth of external audit work and to ensure it gives value for money.
- 2.2.2.8 To liaise with the Public Sector Audit Appointments Ltd (PSAA) over the appointment of the council's external auditor.
- 2.2.2.9 To commission work from internal and external audit.
- 2.2.2.10 To have oversight of the Regulation of Investigatory Powers policy and processes.
- 2.7.2.11 Authority to approve any changes regarding the Council's Whistle-Blowing policy and arrangements.
- 2.2.2.12 To consider reports in relation to the performance of the Council's companies, alongside comments from the Shareholder Cabinet Committee.

Regulatory Framework

- 2.2.2.13 To review any issue referred to it by the Chief Executive or a Director, or any Council body.
- 2.2.2.14 To monitor the effective development and operation of risk management and corporate governance in the council.
- 2.2.2.15 To monitor Council policies on "raising concerns at work" and the anti-fraud and anti-corruption strategy and the Council's complaints process.
- 2.2.2.16 To oversee the production of the authority's Statement on Internal Control and to recommend its adoption.

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

2.2.2.17 To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

Accounts

2.2.1.18 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.

2.2.1.19 To consider the external auditors report to those charged with governance on issues arising from the audit of the accounts.

This page is intentionally left blank

AUDIT COMMITTEE	AGENDA ITEM No. 6
23 MARCH 2020	PUBLIC REPORT

Report of:	Peter Carpenter, Acting Corporate Director of Resources	
Cabinet Member(s) responsible:	Councillor Seaton, Cabinet Member for Finance	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	Tel. 384557

INTERNAL AUDIT: DRAFT INTERNAL AUDIT PLANS 2020 / 2021

R E C O M M E N D A T I O N S	
FROM: Steve Crabtree, Chief Internal Auditor	Deadline date: N/A
<p>It is recommended that Audit Committee:</p> <ol style="list-style-type: none"> 1. Consider and agree to the Internal Audit Charter for 2020 / 2021 (Appendix A); 2. Consider and agree to the Internal Audit Code of Ethics 2020 / 2021 (Appendix B); 3. Consider and approve the Internal Audit Strategy for 2020 / 2021 (Appendix C); and 4. Consider and approve the Draft Internal Audit Plan for 2020 / 2021 (Appendix D) 	

1. ORIGIN OF REPORT

1.1 This report is submitted to the Audit Committee as a routine planned report on the development of the role and service delivery of Internal Audit and investigations.

2. PURPOSE AND REASON FOR REPORT

2.1 The purpose of this report is to ensure that the Council reviews and agrees the audit activity for the next audit year.

2.2 This report is for Committee to consider under its Terms of Reference:

- 2.2.2.1 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.
- 2.2.2.3 To consider reports dealing with the management and performance of the providers of internal audit services.
- 2.2.1.17 To consider the council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	NO	If yes, date for Cabinet meeting	N/A
---	-----------	----------------------------------	-----

4. BACKGROUND AND KEY ISSUES

4.1 INTRODUCTION

4.1.1 The report explains the strategic approach for Internal Audit that will be adopted to continue to provide effective assurance risks facing the Council and the strategic approach to tackling fraud against the Council for the coming year. An ongoing focus for 2020 / 2021 will be the ways in which we can assist management to meet the new challenges they face through redesign of controls to ensure that key risks are managed with reduced resources and by providing appropriate challenge, support and assurance to key programmes and projects which are enabling transformation and efficiencies.

4.1.2 The remit and work of the section is fully documented in the Internal Audit Charter. The Charter is subject to an annual review by the Committee and is compiled in accordance with the Public Sector Internal Audit Standards (PSIAS).

4.2 INTERNAL AUDIT CHARTER 2020 / 2021 (Appendix A)

4.2.1 The Charter sets out the purpose, objectives and scope of the activities of the service and has been developed to take account of the following requirements which have previously been reported to the Audit Committee:

- The PSIAS;
- The governance requirements set out in CIPFA Statement on the Role of the Head of Internal Audit in Public Sector Organisations (2019). (This supersedes the Statement on the Role of the Head of Internal Audit in Local Government (2010))

4.2.2 The Charter has been compiled to ensure compliance with PSIAS. It places the following requirements on public sector organisations' Internal Audit arrangements:

- (i) **Compliance** with the IIA Code of Ethics (and those of other professional bodies of which an auditor is a member, e.g. CIPFA). The IIA Code of Ethics sets out key principles and rules of conduct covering the following: Integrity; Objectivity; Confidentiality; and, Competency.
- (ii) **Purpose, authority and responsibility** of the Internal Audit activity must be formally defined in an Internal Audit Charter which should:
 - Define the terms "board" and "senior management" for the purposes of Internal Audit activity;
 - Cover arrangements for appropriate resourcing;
 - Define the role of Internal Audit in any fraud-related work; and
 - Include arrangements for avoiding conflicts of interest if Internal Audit undertakes non-audit activities.
- (iii) **Independence and objectivity**: the Chief Internal Auditor must report to a level within the organisation that allows the Internal Audit activity to fulfil its responsibilities. The Chief Internal Auditor must report functionally to the board. In practice this means that Audit Committee (as the Board) will be involved in:
 - Approving the Internal Audit Charter;
 - Approving the risk based Internal Audit Plan; and
 - Making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope or resource limitations.

- (iv) ***Proficiency and due professional care:*** Audit engagements must be performed with proficiency and due professional care. Internal auditors must possess the knowledge skills and other competencies needed to perform their individual responsibilities. The Chief Internal Auditor must hold a professional qualification (CMIIA, CCAB or equivalent) and be suitably experienced.
- (v) ***Quality assurance and improvement programme:*** the Chief Internal Auditor should develop an improvement programme that covers all aspects of the Internal Audit activity. An external assessment should be conducted at least once every five years and progress against any improvement plans, agreed following external assessment, must be reported to senior management and to Audit Committee.

4.2.3 The Audit Charter has been updated to reflect / reference current standards. There are no material changes.

4.3 **INTERNAL AUDIT: CODE OF ETHICS (Appendix B)**

4.3.1 The Code of Ethics sets out the expected behaviours of Internal Audit staff in relation to service delivery. The basis of standards of conduct has been reviewed and remains unchanged with reference to those followed by Internal Audit in previous years. The Code of Ethics has been developed to mirror the obligations in this area as per the PSIAS and is therefore considered to be in keeping with professional standards.

4.3.2 Aside from the Code of Ethics, the Chief Internal Auditor in the role of the Chief Audit Executive will also be cognisant of and comply with requirements laid down in CIPFA's Statement on the Role of the Head of Internal Audit in Public Sector Organisations (2019). It is also further acknowledged that all Internal Audit staff will operate in accordance with their own professional bodies' Code of Ethics, as well as any organisational Codes of Ethics or Conduct relating to their employer.

4.4 **INTERNAL AUDIT STRATEGY 2020 / 2021 (Appendix C)**

4.4.1 The Internal Audit function will:

- Provide the Section 151 Officer and Audit Committee with an overall annual opinion on the Council's governance, risk and control arrangements, which also supports the Annual Governance Statement;
- Review the Council's governance, risk management and control processes through a risk-based annual work plan which is aligned to the Council's objectives, giving assurance on the Council's wider risk profile, not just financial controls, and on key emerging risks;
- Support the organisation through changes in structure, culture and operating models;
- Demonstrate the value of audit by working proactively with those responsible for transformation and efficiency activities, to avoid duplication of audit and assurance effort and provide assurance across governance arrangements;
- Drive improvement in risk management, controls and governance by making effective recommendations to management arising from our work and monitoring and reporting on implementation;
- Assist management to optimise the control environment through a better understanding of risks which potentially enables fewer but better controls to be put in place;
- Co-operate effectively with external auditors and other review bodies functioning in the council;
- Use technology to improve the efficiency of audit testing – using data analytics and continuous audit methodologies – to foster greater compliance with policies and procedures;
- Improve governance through strengthening of the challenge role of Audit Committee, promoting appropriate compliance and ethical behaviours, and extending assurance arrangements to partnerships

4.4.2 The strategic approach set out above is underpinned by the Internal Audit Strategy which is set out in Appendix C and is aligned with Internal Audit best practice.

4.5 INTERNAL AUDIT PLAN 2020 / 2021 (Appendix D)

4.5.1 At Audit Committee in January 2020, Members were provided with details of emerging issues which Internal Audit were using to shape its Internal Audit Plans. This was produced following consultation with Directors and Heads of Service, reviews of strategic and operational risk registers, committee papers, budget proposals, strategies and plans. Since then, we have visited Departmental Management Teams to present draft plans for consideration.

4.5.2 The Plan for 2020 / 2021 aims to give the Council the best audit coverage within the resources currently available, in order to provide an Annual Audit Opinion to feed into the Annual Governance Statement. Assurances from other providers will be utilised where appropriate. The current allocation of the estimated 957 available days is shown below.

Internal Audit Work Activities	Days	%
Corporate Governance	55	6
Financial Governance	57	6
Information Governance	35	4
Procurement and Contracts	60	6
Programmes and Projects	42	4
Service Delivery	127	13
Cyclical/Annual	140	15
Other Resource / Assurance Provisions	175	18
Delivery of Audit Externally	266	28
TOTAL RESOURCES ALLOCATED	957	100

5. CONSULTATION

5.1 Consultation during the drafting of the documents and plans has been through the Directors and their respective management teams. Further consultation was undertaken with Members of the Audit Committee at the previous meeting when the Emerging Audit Issues were discussed.

6. ANTICIPATED OUTCOMES OR IMPACT

6.1 Internal Audit work schedules and resources will be set out for the 2020 / 2021 year.

7. REASON FOR THE RECOMMENDATION

7.1 Audit Committee have a role to oversee the effect delivery of audit resources to ensure that corporate governance arrangements across the Council are monitored, reviewed and are effective to delivering the Council agenda.

8. ALTERNATIVE OPTIONS CONSIDERED

8.1 There is a statutory duty for the S151 Officer to put in place appropriate arrangements for the provision of Internal Audit.

9. IMPLICATIONS

Financial Implications

- 9.1 This report does not give rise to any additional capital or revenue financial implications. Actions to communicate the policies and to ensure compliance will be undertaken within the existing budgets.

Legal Implications

- 9.2 None

Equalities Implications

- 9.3 Not applicable

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

- 10.1 Public Sector Internal Audit Standards
CIPFA: The Role of the Head of Internal Audit in Public Sector Organisations (2019)

11. APPENDICES

- 11.1 A: Internal Audit Charter
B: Internal Audit Code of Ethics
C: Internal Audit Strategy
D: Internal Audit Plan

This page is intentionally left blank

**PETERBOROUGH CITY COUNCIL
INTERNAL AUDIT CHARTER**

91

KEY CONTACTS		
Steve Crabtree	Chief Internal Auditor	☎ 384 557
Louise Cooke	Group Auditor	☎ 384 558
Julie Taylor	Group Auditor	☎ 384 559

February 2020

Next Review: By March 2021

1. INTRODUCTION

- 1.1 Organisations in the UK public sector have historically been governed by an array of differing internal audit standards. The Public Sector Internal Audit Standards (the PSIAS), which took effect from the 1 April 2013 and was revised in 2017, is based on the mandatory elements of the Institute of Internal Auditors (IIA) and International Professional Practices Framework (IPPF). It now provides a consolidated approach to promoting further improvement in the professionalism, quality, consistency, transparency and effectiveness of Internal Audit across the whole of the public sector.
- 1.2 The PSIAS require that all aspects of Internal Audit operations are acknowledged within an Audit Charter that defines the purpose, mission, authority and responsibilities of the service provision. The Charter therefore establishes the position of the service within Peterborough City Council (PCC); its authority to access records, personnel and physical properties relevant to the performance of engagements; in addition to defining the scope of Internal Audit activities. There is also an obligation under the PSIAS for the Charter to be periodically reviewed and presented to the Audit Committee, the Section 151 Officer and senior management. This Charter will therefore be revisited annually to confirm its ongoing validity and completeness, and be circulated in accordance with the requirements specified above.

2. PURPOSE

- 2.1 In accordance with the PSIAS, Internal Auditing is defined as:

"An independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

- 2.2 However, it should be appreciated that the existence of Internal Audit does not diminish the responsibility of senior management to establish appropriate and adequate systems of internal control and risk management. Internal Audit is not a substitute for the functions of senior management, who should ensure that Council activities are conducted in a secure, efficient and well-ordered manner with arrangements sufficient to address the risks which might adversely impact on the delivery of corporate priorities and objectives.

3. MISSION AND AIM

- 3.1 "To provide an independent risk based and objective assurance service which is responsive to the needs of Councillors and management, ensuring assurance, advice and insight enhances the values / vision of Peterborough City Council."

3.2 The aim of the Internal Audit service is to demonstrate effective adherence and operation of the Core Principles for the Professional Practice of Internal Auditing. This encompasses demonstrating integrity; competence and due professional care; being objective and free from undue influence; aligning with the strategic objectives and risks of the organisation; being appropriately positioned and resourced; quality and continuous improvement; effective communication; provides risk based assurance; is insightful, proactive and future focussed and promotes organisational improvement.

4. **AUTHORISATION**

4.1 The requirement for an Internal Audit Service is outlined within the Accounts and Audit Regulations 2015, which state that “*a relevant authority must undertake an adequate and effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance*”,

4.2 This statutory requirement for continuous Internal Audit has been formally recognised and endorsed within PCC’s Constitution, making Internal Audit primarily responsible for carrying out an examination of the accounting, financial and other operations of the Council, under the independent control and direction of the Section 151 Officer. The role of Section 151 Officer at PCC is fulfilled by the Acting Corporate Director of Resources.

4.3 Further, there are other requirements placed upon the Chief Audit Executive (see Section 4: Organisation and Relationships), to fulfil all aspects of CIPFA’s Statement on the Role of the Head of Internal Audit in Public Sector Organisations (2019).

4.4 The Internal Audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorised to have full, free, and unrestricted access to any and all of the organisation's:

- Records, documents and correspondence (manual and electronic) relating to any financial and other transactions;
- Physical properties, i.e. premises and land, plus cash, stores or any other Council property; and
- Personnel – requiring and receiving such explanations as are necessary concerning any matter under examination and generally assisting the Internal Audit activity in fulfilling its roles and responsibilities.

The above rights also include access to organisations and partners where PCC data is processed as part of contractual protocols where an open book / audit access arrangement is in place. An example of this is the ICT / Transactional Services provided by SERCO.

4.5 Such access shall be granted on demand and shall not be subject to prior notice, although in principle, the provision of prior notice will be given wherever possible and appropriate, unless circumstances dictate otherwise.

5. ORGANISATION AND RELATIONSHIPS

5.1 Within the PSIAS, the terms 'Chief Audit Executive,' 'Board' and 'Senior Management' are used to describe key elements of the organisation's governance, and the ways in which they interact with Internal Audit. The PSIAS require that the terms are defined in the context of the governance arrangements in each public sector organisation, in order to safeguard the independence and objectivity of Internal Audit. At PCC, the following interpretations are applied, so as to ensure the continuation of the current relationships between Internal Audit and other key bodies at the Council. The following terms are explained:

- Chief Audit Executive
- Board
- Senior Management
- External Audit
- Other Internal Audit Service Providers
- Other External Review and Inspection Bodies

5.2 Chief Audit Executive

At PCC, the Chief Audit Executive is the Chief Internal Auditor (CIA). The CIA has a direct line of reporting to the Acting Corporate Director of Resources who would approve all decisions regarding performance evaluation, appointment or removal of the CIA in consultation with senior management. In response to requirements laid down within the PSIAS, it is further confirmed that the CIA has a direct reporting line and free and unfettered access to the Section 151 Officer, Chief Executive and Monitoring Officer should it be required.

5.3 Board

5.3.1 In the context of overseeing the work of Internal Audit, the 'Board' will be the Audit Committee of the Council, which has been established as part of the corporate governance arrangements at the Council. The Committee is responsible for the following with reference to Internal Audit:

- Internal Audit Plans;
- Progress and performance against approved plans;
- Annual Audit Opinion; and
- Compliance with standards.

5.3.2 Internal Audit will work closely with the committee to facilitate and support its activities. Moreover, the CIA also has a direct reporting line, and free and unfettered access to the Chair should it be needed.

5.4 Senior Management

In the context of ensuring effective liaison between Internal Audit and senior officers, Internal Audit has regular access to Directors and Heads of Service. 'Senior Management' for the purposes of this Charter are the Corporate Management Team of which the Section 151 Officer is a key member.

5.5 External Audit

Internal Audit interact with the Council's External Auditors – Ernst and Young – in order to minimise any potential duplication of work and determine the assurance that can be placed on the respective work of the two parties.

5.6 Other Internal Audit Service Providers

Internal Audit will also liaise with other Council's Internal Audit Service providers, where shared service arrangements exist. In such cases, a dialogue will be opened with the other Council's equivalent Chief Audit Executive to agree a way forward regarding the future auditing of 'shared' services, which will be both efficient and cost effective for all parties involved, and cause least disruption to the area(s) being audited. Where assurance is being provided to the authority from another internal audit provider, this will be included within reports to the Audit Committee where it is utilised in providing assurance as part of the annual audit opinion.

5.7 Other External Review and Inspection Bodies

The Internal Audit Section confirms it will likewise co-operate with all external review and inspection bodies that are authorised to assess and evaluate the activities of the Council, to determine compliance with regulations, standards or targets. Internal Audit will, wherever possible, utilise third party assurances arising from this work.

6. **OBJECTIVES AND SCOPE**

6.1 The provision of assurance services is the primary role of Internal Audit and there is a duty of care on the Chief Audit Executive to give an annual internal audit opinion based on an objective assessment of the framework of governance, risk management and control. This responsibility to evaluate the governance framework far exceeds examination of controls applying to the Council's core financial systems. Instead, Internal Audit is required to scrutinise the whole system of risk management, internal control and governance processes established by management.

6.2 Internal Audit also has a secondary role, whereby it will provide consultancy services which are advisory in nature and generally performed at the request of the Council to facilitate improved governance, risk management and control, and potentially contribute to the annual audit opinion. This may include participation within working parties such as information governance and risk management.

- 6.3 A risk based Audit Plan will be developed each year to determine an appropriate level of audit coverage to generate an annual audit opinion, which can then be used to assist with the formulation of the PCC's Annual Governance Statement. Moreover, audit work performed will seek to enhance the Council's overall internal control environment. In the event of deficiencies in arrangements being identified during audit assignments, Internal Audit will put forward recommendations aimed at improving existing arrangements and restoring systems of internal control to a satisfactory level, where relevant.
- 6.4 In accordance with the PSIAS, the Internal Audit Service will evaluate and contribute to the improvement of:
- The design, implementation and effectiveness of the organisation's ethics related objectives, programmes and activities.
 - The effectiveness of the Council's processes for performance management and accountability.
 - The Council's IT governance provisions in supporting the organisation's corporate priorities, objectives and strategies.
 - The Council's risk management processes in terms of significant risks being identified and assessed; appropriate risk responses being made that align with the organisation's risk appetite, the capturing and communicating of risk information in a timely manner, and its use by staff, senior management and members to carry out their responsibilities and inform decision making generally.
 - The provisions developed to support achievement of the organisation's strategic objectives and goals.
 - The systems formulated to secure an effective internal control environment.
 - The completeness, reliability, integrity and timeliness of management and financial information.
 - The systems established to ensure compliance with legislation, regulations, policies, plans, procedures and contracts, encompassing those set by the Council and those determined externally.
 - The systems designed to safeguard Council assets and employees.
 - The economy, efficiency and effectiveness with which resources are used in operations and programmes at the Council.
- 6.5 In addition to the areas recorded above, where Internal Audit will give input to their continuing enhancement; the Service will also provide support to the Director in the discharge of their duties as the Section 151 Officer with responsibility for the probity and effectiveness of the Authority's financial arrangements and internal control systems.
- 6.6 **Managing the risk of fraud and corruption is the responsibility of management.** However, as part of the scope of Internal Audit, it will be alert in all its work to the risks and exposures that could allow fraud or corruption to occur and will monitor the extent and adequacy of risk controls built into systems by management, sharing this information with External Audit and other corporate investigators.
- 6.7 In the course of delivering services encompassing all the elements stated above, should any significant risk exposures and control issues subsequently be identified, Internal Audit will report these matters to senior management, propose action to resolve or mitigate these, and appraise the Audit Committee of such situations.
- 6.8 PCC's Anti-Fraud and Corruption arrangements are managed by the CIA, who is responsible for the associated corporate policies. The Anti-Fraud and Corruption Policy and the Whistleblowing Policy both make reference to the requirement to notify the CIA of all suspected or detected fraud, corruption or impropriety.

6.9 The CIA will produce an annual investigations report for the Audit Committee which encompasses the work undertaken during the year by the investigations team including any joint reviews with the internal audit team.

7. **INDEPENDENCE**

7.1 The Internal Audit Section operates within an organisational framework that preserves the independence and objectivity of the assurance function, and ensures that Internal Audit activity is free from interference in determining the scope of internal auditing, performing work and communicating results. The framework allows the CIA direct access to and the freedom to report unedited, as deemed appropriate, to the Audit Committee, the Chief Executive, Section 151 Officer, Monitoring Officer, External Audit and the Corporate Management Team.

7.2 The CIA has line management responsibility for the Insurance function, Corporate Investigations team and Stage 2 corporate complaints reviews. The CIA is also an authoriser for payments from the Councils (and Combined Authority's) bank accounts. Other officers within Finance also have this responsibility, and the CIA is used as the approver of last resort if others are absent. Prior to undertaking any additional management responsibility the CIA will consider and discuss with senior management any potential conflicts that may be evident and the appropriateness of undertaking the additional roles. Any reviews within these activity areas will be kept separate and reviewed independently of the CIA. In such circumstances the Group Auditor will report directly to the Acting Corporate Director of Resources.

7.3 All other Internal Auditors have no operational responsibilities or authority over any of the activities that they are required to review. As a consequence, they do not develop procedures, install systems, prepare records, or engage in any other activity, which would impair their judgement. In addition, Internal Auditors will not assess specific operations for which they were previously responsible, and objectivity is presumed to be impaired if an Internal Auditor provides assurance services for an activity for which they had responsibility within the previous 12 months. Internal Auditors may however provide consulting services relating to operations over which they had previous responsibility.

7.4 The CIA will confirm to the Audit Committee, at least annually, the organisational independence of the Internal Audit activity. The Internal Audit Team complete an annual declaration of interests that highlights any potential conflicts which may affect the ability to undertake an individual assignment. Additionally, the Internal Audit Brief requires a declaration to be made prior to the start of an assignment. Where this is evident an alternative team member will be assigned the audit review.

7.5 Where Internal Audit services are provided to external organisations, the nature of the work undertaken and resultant outputs will not be shared with PCC. Service Level Agreements are presently in place for Vivacity Leisure Trust and the Cambridgeshire and Peterborough Combined Authority where Internal Audit services are delivered by PCC.

8. PROFESSIONAL STANDARDS

- 8.1 PCC's Internal Auditors operate and comply in accordance with the revised PSIAS (2017).
- 8.2 The Internal Auditors are also governed by the policies, procedures, rules and regulations established by PCC. These include, but are not limited to Financial Regulations; Contract Standing Orders; Data Protection Policy; the Anti-Fraud and Corruption Policy and the Code of Conduct. Similarly, the Council's Internal Auditors will be aware of external bodies' requirements (e.g. as identified by CIPFA) and all legislation affecting the Council's activities.
- 8.3 The Council's Internal Auditors will additionally adhere to the Code of Ethics as contained within the PSIAS. Internal Auditors will also demonstrate due professional care in the course of their work and consider the use of technology-based audit and other data analysis techniques, wherever feasible and considered beneficial to the Council. They will similarly not be unduly influenced by their own interests or by others in informing judgements. All working arrangements and methodologies followed by PCC's Internal Auditors are set out in the Audit Manual.

9. AUDIT RESOURCES

- 9.1 The CIA will be professionally qualified (CMIIA, CCAB or equivalent) and have wide Internal Audit management experience to enable them to deliver the responsibilities of the role.
- 9.2 The CIA will ensure that there are appropriate resources to deliver an annual evidenced-based audit opinion. As stated in the CIPFA Application Note, *"No formula exists that can be applied to determine internal audit coverage needs. However, as a guide, the minimum level of coverage is that required to give an annual evidence-based opinion. Local factors within each organisation will determine this minimum level of coverage"*.
- 9.3 The Internal Audit Service has access to staff that have a suitable range of knowledge, skills, qualifications and experience to deliver requisite audit assignments. The type of reviews that will be provided in year include risk based and systems reviews, contract audits, grant certification work, consultancy input to new / modified systems, compliance and special / fraud investigations. In the event of special investigations being required, this will be pursued in conjunction with the Corporate Investigations team if considered appropriate.
- 9.4 If it is identified that there is a shortfall in a particular or specialist / technical skill the CIA will not agree to undertake the audit assignment which could impact on effectiveness or quality of output. In such circumstances external resources may be procured as appropriate until the in-house team gains the required skills.

9.5 As previously determined Internal Audit may undertake consultancy activity (additional activity requested by management) where it has the necessary skills and resources to do this. This will be determined by the CIA on an assignment basis in conjunction with the Acting Corporate Director of Resources where there is likely to be an impact on the delivery of the audit plan.

10. **AUDIT PLANNING**

10.1 The CIA will develop an Annual Audit Strategy, together with annual audit plans and a summary of annual audit coverage using a risk based methodology and an assessment tool. The key factors used in the assessment are:

- Materiality: The size of a system or process in terms of financial value or numbers of transactions or number of people affected.
- Corporate Importance: The extent to which the Council depends on the system to meet statutory or regulatory requirements or corporate priorities.
- Stability: The degree of change within the process.
- Vulnerability: Extent to which the system is liable to breakdown, loss, error or fraud.
- Specific concerns: Arising from management's assessment of risk as well as audit intelligence.

It will take into account documented corporate and operational risks, as well as any risks or concerns subsequently notified to Internal Audit by senior management. This will be submitted to Senior Management for their approval prior to being taken forward to the Audit Committee for final endorsement, in advance of the new financial year to which they relate.

10.2 Resources and required skills are identified as part of the annual planning process. As identified in 9.4 any shortfall in technical skills and/or differences in the resources available to meet the requirements of the audit plan will be highlighted to management and the Audit Committee as part of the planning methodology within the audit strategy along with the continuous review of the Internal Audit Training Strategy. It will outline the assignments to be carried out and the broad resources and skills required to deliver the plan. It will provide sufficient information for the Council to understand the areas to be covered and for it to be satisfied that sufficient resources and skills are available to deliver the plan. Areas included in the audit plan are highlighted in **Table 1**.

TABLE 1: AUDIT ACTIVITIES

- Core system assurance work
- Governance, Risk Management and Assurance Framework
- ICT governance and risk
- Corporate / Cross Cutting audits (including value for money reviews)
- Contracts and projects
- Departmental specific reviews
- Compliance activity e.g. schools
- Grant claim certification work
- Fraud and irregularities
- Follow up activity
- Internal consultancy / advice on risks, controls and procedures
- Fee paying audit work
- Member support

10.3 The Internal Audit Plan will be kept under review to identify any amendment needed to reflect changing priorities and emerging risks based on planning assessment methodology. It will be flexible, but will only contain a small element of contingency to accommodate fraud assignments which could not have been readily foreseen. However, in accordance with the internal audit assessment process, specific audit requests may take precedence over the original audit plan. If a request for additional work arises where the assessment criteria does not identify the review as high priority, Internal Audit will reserve the right to make a charge for any additional work that is still deemed required by the business. This will be done in consultation with the Acting Corporate Director of Resources and reported to the Audit Committee as appropriate. Resources, such as specialist or additional auditors may be required to supplement this.

11. REPORTING

11.1 The process followed for completing each audit is set out in **Table 2**. Upon completion of each audit assignment, an Internal Audit report will be prepared that:

- Provides an opinion on the risks and controls of the area reviewed, and this will contribute to the annual opinion on the internal control environment, which, in turn, informs the Annual Governance Statement; and
- Provides a formal record of points arising from the audit and management responses to issues raised, to include agreed actions with implementation timescales;
- Prompts management to implement agreed actions within targeted dates; and

- Is quality checked by senior officers within Internal Audit prior to circulation.

11.2 Exit meetings are accommodated enabling management to discuss issued Draft Audit Reports. Accountability for responses to Internal Audit recommendations lies with the Chief Executive, Directors, and / or Heads of Service, as appropriate, who can either, accept and implement guidance given or formally reject it. However, if audit proposals to strengthen the internal control environment are disregarded and there are no compensating controls justifying this course of action, an audit comment will be made in the Final Audit Report, reiterating the nature of the risk that remains and recognising that management has chosen to accept this risk. Similarly if following exit meeting discussions findings, recommendations or audit conclusions are disputed by the client every effort will be made to resolve any situations arising with the relevant directorate. In both instances, depending on the severity of the situation and risk, the matter may be escalated upwards to the Chief Executive and drawn to the attention of the Audit Committee.

TABLE 2: WORKING ARRANGEMENTS DURING AUDITS	
Audit Brief	Where possible 10 days' notice will be given prior to the commencement of a review, although audits can commence earlier subject to mutual agreement, or where the nature of the work necessitates an immediate start. A brief is produced and agreed with manager(s) prior to the commencement of the review.
Fieldwork	Assignment undertaking including interviews, testing etc.
Exit Meeting	Held at conclusion of fieldwork, or once draft report has been produced (see below), to discuss issues found (if not already provided during course of fieldwork).
Draft report	A draft report will be produced within 3 weeks of audit field work completion. A draft report meeting will be arranged with the Head of Service / Line Manager within 10 days of the report issue to discuss and formally obtain management responses. This will incorporate acceptance (or not) of actions together with timescales for implementation.
Final Report	Internal Audit incorporates management comments within the report along with agreed timescales to implement any agreed actions. The report will be re-issued as a final within 5 days of receiving the response. The report will be distributed in accordance with agreed protocols (see Table 4).
Non response	If management do not respond to the draft report or a meeting request, a reminder will be sent to the original recipients requesting a response within 10 working days. If a response is not received this will be escalated to the next management level after a further 5 days (day 15). After that time, if a response is not received within a further 5 days a notice will be sent to the original recipients and the relevant Director to state that the report will be finalised and recommendations will be marked as 'agreed without response'. Any such cases without agreement will be notified to Audit Committee within the regular progress reports.

Follow-up Review	Audit activities are normally followed up within 6 months of report finalisation but this can vary depending on target dates for implementation. Management are required to provide details of recommendation implementation which may be subject to further detailed review by Internal Audit.
------------------	---

11.3 Recommendations are rated and an overall opinion given on the service area reviewed (see **Table 3**). Final Audit Reports will be issued in line with agreed working protocols to the relevant nominated officers and subject to follow up work as necessary. Where there are no responses received from managers despite formally chasing, a report will be deemed as final and issued.

TABLE 3: AUDIT ASSURANCE	
Opinion / Assurance	Description
SUBSTANTIAL	The internal control system is well designed to meet objectives and address relevant risks, and key controls are consistently applied. There is some scope to improve the design of, or compliance with, the control framework in order to increase efficiency and effectiveness.
REASONABLE	The internal control system is generally sound but there are some weaknesses in the design of controls and / or the inconsistent application of controls. Opportunities exist to strengthen the control framework and mitigate further against potential risks.
LIMITED	The internal control system is poorly designed and / or there is significant non-compliance with controls, which can put the system objectives at risk. Therefore, there is a need to introduce additional controls and improve compliance with existing ones to reduce the risk exposure for the Authority.
NO	There are significant weaknesses in the design of the internal control system, and there is consistent non-compliance with those controls that exist. Failure to improve controls will expose the Authority to significant risk, which could lead to major financial loss, embarrassment or failure to achieve key service objectives.
RECOMMENDATION GRADES	
Grade	Description
CRITICAL	Fundamental control weakness that jeopardises the complete operation of the service. TO BE IMPLEMENTED IMMEDIATELY.

HIGH	Major control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency. To be implemented as a matter of priority.
MEDIUM	Moderate control weakness which reduces the effectiveness of procedures designed to protect assets and revenue of the Authority. To be implemented at the first opportunity.
LOW	Minor control weakness, which, if corrected, will enhance control procedures that are already relatively robust. To be implemented as soon as reasonably practical.

11.4 Following the end of the year, an Annual Report will be produced setting out Internal Audit's Opinion on the state of internal controls and governance across the Council. This will comment on:

- The scope including the time period to which the opinion covers;
- Any scope limitations;
- Consideration of all related projects including the reliance on other assurance providers;
- The risk or control framework or other criteria used as a basis for the overall opinion;
- The overall opinion, providing reasons where an unfavourable overall opinion is given; and
- A statement on conformance (or non-conformance) with the PSIAS and the results of the Quality Assurance and Improvement Programme.

11.5 Significant issues identified will be referred through to senior management for inclusion in the Annual Governance Statement.

11.6 All reports produced are set out in **Table 4**.

TABLE 4: PLANNING AND REPORTING FREQUENCY			
Report Produced	For	Reason	Content

<p>Audit Report</p>	<p>Service Manager / Headteacher Director / Chair of Governors Chief Executive s.151 officer Monitoring Officer Leader of the Council Cabinet Member for Finance Chair of Audit Committee</p>	<p>The end of each audit assignment as the main recipient and those charged with implementing the issues identified</p>	<p>Executive Summary Audit Opinion Detailed risk issues Agreed improvement plan</p>
<p>Progress Reports (based around the committee cycle)</p>	<p>Audit Committee</p>	<p>To provide the Council with progress at delivering the audit service and any key governance issues arising.</p>	<p>Progress against annual plan Any amendments to current annual plan Details of significant risk issues Details of non-responses or non-implementation of actions</p>
<p>Annual Opinion and Performance Report</p>	<p>Audit Committee External Audit S151 officer Monitoring Officer</p>	<p>The end of each year in accordance with PSIAS. An evaluation of the works undertaken and the level of assurance established.</p>	<p>Annual assurance report giving CIA's opinion on the control environment Achievement of the annual plan and performance data. Effectiveness of Internal Audit</p>

Annual Audit Plan	Audit Committee S.151 Officer External Audit	Beginning of year. Details of the service delivered and the future plans to provide assurance across the Council in accordance with PSIAS.	Audit Plan and days to be delivered Audit Charter Code of Ethics Performance indicators to monitor service delivery and quality
-------------------	--	--	--

12. INTERNAL AUDIT SERVICES PROVIDED TO EXTERNAL CUSTOMERS

12.1 Audit activities undertaken on behalf of other organisations follow similar protocols to that of PCC in terms of compliance with PSIAS. Internal Audit plans are developed on a risk based methodology in providing assurance and delivering an evidence based Annual Head of Internal Audit Opinion. Reporting and progress monitoring is produced in accordance with the respective audit committee and senior management team and terms of reference detailed within service level agreements.

13. QUALITY ASSURANCE AND IMPROVEMENT

13.1 The PSIAS require that the Internal Audit develops and maintains a quality assurance and improvement programme (QAIP) that covers all aspects of the Internal Audit activity. The QAIP is informed by both internal and external assessments, any changes to the PSIAS themselves, best practice guidance and research, and continued improvements in the use of the audit system Pentana. The results of the quality assurance programme together with progress made against the improvement plan will be reported to senior management and the Audit Committee.

13.2 Internal Assessments

13.2.1 Internal Assessments must include on-going monitoring of the performance of the internal audit activity. The Service operates in accordance with a number of key performance indicators.

13.2.2 Internal arrangements also include a bi-annual survey and post audit feedback from auditees. Should criticism be received, this will immediately be investigated and steps taken to resolve matters raised.

13.2.3 The PSIAS additionally require periodic self-assessments or assessments by other persons within the organisation with sufficient knowledge of Internal Audit practices. This obligation is satisfied by the CIA performing an annual self-assessment of the effectiveness of

Internal Audit, before the results are submitted to the Audit Committee. Presenting this information to the Audit Committee enables members to be assured that the Internal Audit Service is operating in a satisfactory manner such that reliance can be placed on the subsequent annual audit opinion provided by the CIA.

13.3 External Assessments

- 13.3.1 External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment, or a self-assessment with independent external verification. PCC was subject to an external review during 2018 – final report paper were submitted to Audit Committee in February 2019 – and was found to be fully compliant.

PETERBOROUGH CITY COUNCIL

INTERNAL AUDIT CODE OF ETHICS

INTRODUCTION

The purpose of a Code of Ethics is to promote an appropriate ethical culture for Internal Audit. The Code sets out the minimum standards for the performance and conduct of Peterborough City Council's (PCC) Internal Auditors. It is intended to clarify the standards of conduct expected when carrying out their duties and promote an ethical, professional culture at all times when undertaking audit duties.

PRINCIPLES

Internal auditors are expected to apply and uphold the following principles:

- **Integrity.** The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.
- **Objectivity.** Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.
- **Confidentiality.** Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- **Competency.** Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

INTEGRITY

PCC Internal Auditors shall:

- Perform their work with honesty, diligence and responsibility;
- Observe the law and make disclosures expected by the law and the profession;
- Not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation; and
- Respect and contribute to the legitimate and ethical objectives of the organisation.

OBJECTIVITY

PCC Internal auditors shall:

- Not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organisation;
- Not accept anything that may impair or be presumed to impair their professional judgement; and
- Disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

CONFIDENTIALITY

PCC Internal auditors shall:

- Be prudent in the use and protection of information acquired in the course of their duties but should ensure that requirements of confidentiality do not limit or prevent reporting within the authority as appropriate; and
- Not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the organisation.

COMPETENCY

PCC Internal auditors shall:

- Engage only in those services for which they have the necessary knowledge, skills and experience;
- Perform Internal Audit services with the International Standards for the Professional Practice of Internal Audit; and
- Continually improve their proficiency, effectiveness and quality of their services

MANAGING ARRANGEMENTS

To ensure compliance with the Code of Ethics:

- There is an annual review of the Code to reinforce understanding and confirm on-going commitment;
- Quality control processes are in place to demonstrate integrity in all aspects of the work;
- All staff are obliged to declare any potential conflicts of interest;
- Confidentiality is clearly understood and any breaches will not be tolerated; and
- Staff are aware and understand the organisations aims and objectives together with an appreciation of the policies and procedures which govern the areas to be audited.

PETERBOROUGH CITY COUNCIL INTERNAL AUDIT STRATEGY 2020 / 2021
--

1 INTRODUCTION

- 1.1 Internal Audit has a key role in supporting the Council and its Audit Committee in discharging its governance responsibilities. Its aim is to provide independent risk based and objective assurance which is responsive to the needs of Councillors and management, ensuring assurance, advice and insight enhances the values and vision of Peterborough City Council.
- 1.2 In accordance with the mandatory Public Sector Internal Audit Standards (PSIAS), the Chief Internal Auditor must “*establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation’s goals*”. The role, purpose and authority of Internal Audit is defined in our Charter, which is updated annually and presented to the Audit Committee for approval.
- 1.3 This document demonstrates how Internal Audit will support the Council in by delivering a relevant and focused Internal Audit Annual Plan for 2020 / 2021. It explains how the plan was developed, the resources required to fulfil it, and how we will continue to develop the audit service.
- 1.4 The strategy will be reviewed throughout the year to ensure its continued relevance, both in terms of supporting the council’s aims and in achieving a professional, modern audit service.

2 INTERNAL AUDIT PLANNING PROCESS

- 2.1 In an ever changing risk and control environment, it is important that audit plans can adapt quickly to the needs of the Council. To ensure the plan is flexible and meets the needs of the organisation in real time an assessment and planning tool will be used throughout the year on a rolling basis. This approach has been in operation since 2018 and has the advantage that each selected piece of work is the right one.
- 2.2 In January 2020 Audit Committee, received and discussed some emerging themes as part of the 2020/21 annual planning process. These were generated from our review of: departmental and strategic risk registers; discussions with senior management; the Council’s priorities; the Medium Term Financial Strategy; key decisions and reports taken to Cabinet, Scrutiny Committee and other committees; and contract and project registers. The themes considered were:

- **Corporate Governance** – an overview of governance arrangements not covered elsewhere, as well as compliance with our Local Code of Governance.
- **Financial Governance** – a key area considering the financial pressures faces by the council, and covering major financial systems.
- **Information Governance** - this includes data protection and management arrangements, including IT security, as well as major changes to IT infrastructure.
- **Contracts and Procurement** - this is an essential component of the audit process, especially given the dependence on external suppliers and partners.
- **Projects and Programmes** – there are a number of large projects designed to introduce new ways of working and to increase efficiency and cost effectiveness.
- **Service Delivery** - including those services delivered internally and by external bodies, such as joint ventures or wholly owned companies, and also within shared service arrangements.
- **Cyclical / Annual** - this includes work that is required rather than risk assessed, for example independent verification and grant certification; cyclical reviews of schools and our annual involvement in the National Fraud Initiative.

2.3 The list of ideas that this generated was then subject to an assessment, using our planning tool. The key factors being assessed are:

- **Materiality:** The size of a system or process in terms of financial value or number of transactions or number of people affected.
- **Corporate Importance:** The extent to which the Council depends on the system to meet statutory or regulatory requirements or corporate priorities.
- **Stability:** The degree of change within the process.
- **Vulnerability:** Extent to which the system is liable to breakdown, loss, error or fraud.
- **Specific concerns:** Arising from management’s assessment of risk as well as audit intelligence.

2.4 The Annual Audit Plan was then compiled on the basis of:

- The prioritised list of potential audit reviews generated by the above assessment.
- The number of audit days available for the year.
- The skills, knowledge and experience of audit staff.
- Information from other assurance providers.
- An allowance for statutory activities, ad hoc consultancy, planning and progress reporting and follow-up reviews.

2.5 During the year, we will re-assess new risks that emerge or concerns that are raised, and thus determine its priority for review compared to those areas already in the plan. Coordination between Internal Audit and risk management functions is of value here such that emerging local and national risks are identified. This new aspect of our planning methodology means that we cannot state with certainty which audits will be undertaken, however we will be able to ensure that each next piece of work is the highest priority one. Changes to the plan will be notified to the S151 officer and Audit Committee.

2.6 We will also plan to continue to develop assurance frameworks. This will map the controls in key areas to the sources of assurance for those controls. It will provide valuable insight for management and will also give the Chief Internal Auditor an oversight of the control framework at the Council, which will feed into the Annual Opinion report at the end of the year. The assurance framework will be based on the Three Lines of Defence model, which categorises assurance according to its source:

- **First Line of Defence:** Operational managers and staff carrying out day to day responsibilities and monitoring activities.
- **Second Line of Defence:** Oversight functions that set policy and process and monitor implementation, such as HR, Finance, Health and Safety, Legal, Procurement, ICT and Property.
- **Third Line of Defence:** Independent assurance providers, such as Internal and External Audit as well as regulators.

3 AUDIT RESOURCES

3.1 The Internal Audit Service is provided by an in-house team with an establishment of 6.10 FTE (as detailed below). The team is currently fully resourced, having recruited a Senior Auditor in 2019-20.

Post Name	FTE
Chief Internal Auditor	1.00
Group Auditor	1.60
Principal Auditor	0.50
Senior Auditor	2.00
Auditor	1.00
Total establishment	6.10

3.2 The Chief Internal Auditor is charged with management responsibility for both the Insurance and the Investigations Teams at Peterborough City Council, as well as undertaking any Stage 2 Corporate Complaints reviews. Management of these activities equates to approximately 0.5 FTE. Additionally, the Internal Audit Team provide audit services to two external organisations and the planned resource requirement for this is 1.3 FTE (split across all team). Thus the remaining FTE available to provide an audit service to Peterborough City Council is 4.3 FTE.

3.3 The flexible planning methodology means it is not possible to say at the outset how our resources will be utilised throughout the year. However, during the planning process we consider (and have management requests for) more areas for review than we have the resources to cover. **Appendix D** shows those areas (shaded) that we are currently predicting that we will not be able to cover based on our current resource levels and the risk profiling of audit areas.

- 3.4 Resource requirements are reviewed each year during this planning process, however, there is an additional review currently underway as part of the Budget 2020 process. This includes investigation of a shared service arrangement with Cambridgeshire County Council, as well as the possibility of reducing staffing numbers. Any changes to the structure and resourcing of Internal Audit will result in a further review of our programme of work, and this will be reported to the Audit Committee accordingly.
- 3.5 We are not aware of any work included within our plan which presents a conflict of interests for any team members. We will keep this under review during the year as individual reviews are scoped. Should a conflict arise, our Charter states that such audits will be reviewed independently from the CIA and we will determine the most appropriate arrangements at the time.

4 QUALITY ASSURANCE AND IMPROVEMENT

- 4.1 The Internal Audit team will operate to the mandatory professional standards outlined in the Public Sector Internal Audit Standards (PSIAS). We will continue to monitor and improve the quality of our work in the following ways:
- Robust, evidenced quality reviews of each piece of audit work by senior management.
 - Ongoing supervision and mentoring of staff, though 1:1s.
 - Assessment of the training needs of staff in conjunction with the internal audit training strategy and the corporate appraisal process.
 - Post-audit questionnaires obtaining the views of auditees.
 - Customer surveys to understand the requirements of management and their views on the quality of our service.
 - Producing and implementing an improvement plan based on any self or externally assessed reviews of our work.

5 AUDIT SERVICE DEVELOPMENT

- 5.1 We aim to continually review and improve our service to ensure it is of the highest quality and meets our aims, as set out in the Charter. Planned developments for 2020 / 2021 include:
- Implementation and further development of our Quality Improvement Assurance Plan;
 - An update of our follow-up process, to improve efficiency and ensure all actions are tracked and easily reportable;
 - A survey of senior management to understand their thoughts on the work that we do, and to assist in shaping the Internal Audit service going forward;
 - A review of our post-audit questionnaire, with the aim of increasing its return rate using electronic surveys;
 - Areas for staff development have been identified around commercialisation and alternative service delivery mechanisms such as joint venture arrangements. Consideration is being given as to how best training can be delivered for these subject areas; and

- Ongoing upgrades of our audit software, to ensure we are making full use of best practice enhancements as well as preparing for the migration of the present system Pentana with MKInsights in 2020.

6 OVERVIEW OF PLAN

The Plan for 2020 / 2021 aims to give the Council the best audit coverage within the resources currently available, in order to provide an Annual Audit Opinion to feed into the Annual Governance Statement. Assurances from other providers will be utilised where appropriate. The current allocation of the estimated 956 available days is shown in Table 1 below. Further details of specific audit reviews can be found in Appendix D.

TABLE 1: ANALYSIS OF AUDIT ACTIVITY BY CATERGORY		
Internal Audit Work Activities	Days	%
Corporate Governance	55	6
Financial Governance	57	6
Information Governance	35	4
Procurement and Contracts	60	6
Programmes and Projects	42	4
Service Delivery	127	13
Cyclical/Annual	140	15
Other Resource / Assurance Provisions	175	18
Delivery of Audit Externally	266	28
TOTAL RESOURCES ALLOCATED	957	100

6.1 Financial Governance

This covers audits of the main financial systems of the Council, which for 2020 / 2021 includes a review of the payments module within Mosaic (the Adult Social Care IT system) and the Direct Payments process, also within Adult Social Care. A key area of activity relates to the Councils budget position, and we will monitor the processes in place that ensure savings targets are robust and achieved. Many other aspects of our work will have a financial element to them, such as our reviews of contracts, projects, grants and schools. We will coordinate our work with our External Auditors to ensure that there is no duplication of effort and to obtain any assurance from the work that they do.

6.2 Corporate Governance

The work outlined in this section provides a high level overview of the governance arrangements at the Council, including the reshaping of Human Resources and Finance functions and the planned up-skilling of managers, compliance with the Code of Corporate Governance and input to the Annual Governance Statement. We will also continue to be involved in the Risk Management Board.

6.3 Information Governance

In this area we are planning to review the protocol for dealing with a cyber security incident, along with an overview of the project to merge the Peterborough and Cambridgeshire ICT estate and its impact on data security. We will also continue to attend the Strategic Information Governance Board, providing consultancy advice on the policy framework and emerging issues.

6.4 Other Service Delivery

Each year we aim to look at services delivered by external organisations in which we have an interest, such as joint ventures. This year that will include Medesham Homes and Aragon. We will also examine the shared services arrangements with Cambridgeshire and other authorities.

6.5 Anti-fraud Culture

The Chief Internal Auditor manages an Investigations Team, and reports to Audit Committee separately about their work. However, in delivering all of its work, Internal Auditors are alert to the risks and exposures that could allow fraud or corruption to occur. Our plan also includes time for pro-active fraud detection during this time of significant change in the Council, which will have an on impact staff and their working practices, increasing the risk of error and fraud. It will also include our annual work in relation to the National Fraud Initiative. Where suspected irregularities require investigating, we will re-prioritise our audit plan to enable time to be released from other audit work. We will also work with the Investigations Team where appropriate.

6.6 Service Delivery Risks

We have included a number of reviews in this area including temporary accommodation, parking services, licensing, asset management and the new Business Improvement District levy.

6.7 Procurement and Contracts

We assess the management of contracts as high priority at a strategic level and always include time in our plan. Those contracts we have identified so far for this year's plan are the Schools PFI, Passenger Transport and the Integrated Community Equipment Service contracts, but

we will continue to update our risk profile and may include others. We will also, as part of our follow-up process, review the amended contract with Norfolk Property Services.

6.8 Programmes and Projects

We assess the management of projects as high priority at a strategic level and always include time in our plan. This year we have the Climate Change Action Plan and the Peterborough Integrated Energy Infrastructure and Think Communities programmes identified for review. We will examine projects to ensure appropriate business cases have been made and that they are being managed effectively to achieve their objectives. This may also include a look at business benefits realisations, as the large transformation projects are key to the delivery of efficiencies and therefore necessary savings.

6.9 Grant Certification

As a result of the Council continuing to receive and obtain grant funding, the demand for Internal Audit to certify grant claims continues. Also included in this area of the plan is other verification work carried out in line with Government requirements, such as Troubled Families programme (known locally as Connecting Families) and the independent examination of the Mayor's Charities accounts.

6.10 Other Resource Provisions

This area includes time for:

- Completing 2019 / 2020 audits that have yet to be finalised at the beginning of 2020 / 2021
- Following-up the implementation of audit recommendations, normally within 6 months of the original audit;
- The provision of control advice and consultancy, which is requested on an ad-hoc basis from a variety of managers and officers. A large amount of this work consists of advice during the update or implementation of new systems or processes;
- Annual audit planning, progress monitoring and reporting;
- Other committee support, including reporting, Audit Committee training and a review of Audit Committee effectiveness; and
- Review and update of the Internal Audit Charter and Ethics statement, Quality Service Improvement Plans and review of Internal Audit effectiveness

6.11 External Works

PCC Internal Audit provides audit services to Vivacity-Peterborough (since 2010) and the Cambridgeshire and Peterborough Combined Authority (from May 2017). Both are managed through a Service Level Agreements and costs are chargeable. The work undertaken is client confidential and is reported to the organisations' own audit committees. A small amount of chargeable work is occasionally carried out for schools, specifically grant certifications.

This page is intentionally left blank

**PETERBOROUGH CITY COUNCIL
INTERNAL AUDIT PLAN 2020 / 2021**

AUDIT ACTIVITIES	
Provision for Internal Audit and Anti-Fraud activities that are not subject to risk assessment.	
SERVICE / SYSTEM	AUDIT SCOPE
Annual Audit Planning	Produce risk assessed annual plan and strategy, along with a review of: <ul style="list-style-type: none"> • Internal Audit effectiveness • Internal Audit Charter • Internal Audit Code of Ethics Policy • Quality Assurance Improvement Plan Includes reporting of the progress of the plan during the year. In accordance with PSIAS.
Annual Audit Opinion	Produce report detailing work carried out and Head of Internal Audit Opinion of Governance, Risk and Control, in accordance with PSIAS.
Audit Committee Support	This includes a review of Audit Committee effectiveness, update of the Audit Committee Handbook, provision of training and attendance at meetings.
Annual Corporate Governance Review	Review of senior management self-assessment assurance statements. Verification of (but not production of) final AGS. High level review of governance including compliance with Local Code of Governance and ethics/standards.
Schools	The Department of Education have proposed a 3 year cyclical audit regime for maintained schools. The outcome from the recent consultation has not been published, but we have included time to review the governance and financial management arrangements of up to 10 schools this year.
Fraud activities	National Fraud Initiative – ongoing provision of data and investigation of matches (next submission in October 2020 with results expected from February 2021) Investigations into alleged fraud or irregular activity, as required.
Working Groups / Boards / Committees	Attendance at working group/board meetings (for example: Risk Management, Information Governance, project and procurement boards and Brexit working group) and reviewing emerging issues.
Carry Forward Provision	Provision for the completion of 2019 - 20 audits
Follow Up Provision	Revisiting audits after 6 months to monitor the implementation of recommendations
Advice and Consultancy	Allowance exists for time spent on providing risk and control advice to officers, management and members, as well as ad hoc requests for consultancy work.
TOTAL AUDIT DAYS	
315	

**PETERBOROUGH CITY COUNCIL
INTERNAL AUDIT PLAN 2020 / 2021**

AUDIT ACTIVITIES	
Provision for Internal Audit time spent on auditing external organisations	
External work	We are the Internal Auditors for Vivacity and the Combined Authority. We also occasionally carry out NCLT grant certifications for schools. This work is chargeable and is not reported into PCC's Audit Committee
	266

**PETERBOROUGH CITY COUNCIL
INTERNAL AUDIT PLAN 2020 / 2021**

CERTIFICATION

Certification of grant claims in relation to funding received from government and other funding bodies, as well as other submissions we are required to make to government. These are not subject to risk assessment as they must be completed.

DESCRIPTION	OBJECTIVE	DIRECTORATE	AUDIT SCOPE
Disabled Facilities	6	People and Communities	Non ring-fenced capital funding towards Disabled Facilities grants that PCC can award to disabled clients for necessary housing alterations. Completion by July 2020
Bus Service Operators	6	Place and Economy	A grant to support bus services, including community transport services – Completion by September 2020
Taxi Infrastructure	1	Place and Economy	From DfT. ULEV Taxi Infrastructure Competition – completion by March 21
Integrated Transport Block	1	Place and Economy	From DfT via CPCA. Completion by September 2020
Highways Maintenance	1	Place and Economy	From DfT via CPCA. Completion by September 2020 (Needs Element, Incentive Element, Additional Incentive Element)
Pothole Action Fund	1	Place and Economy	From DfT via CPCA. Completion by September 2020
National Productivity Investment Fund	1	Place and Economy	From DfT via CPCA. Completion by September 2020
Norwood Lane	1	Place and Economy	From CPCA. Completion by September 2020
University	1	Place and Economy	From CPCA. Completion by September 2020
Connecting Families	2, 6	People and Communities	Payment by results scheme. Requirement to audit 10% of the claims for every submission. Also, to review the council's Outcomes Plan, which documents how PCC will apply the scheme. Claims reviewed monthly.
Mayor's Charities	N/A	Governance	Independent examination of the Mayor's Charities' accounts, in line with the Charity Commission's requirements.
TOTAL AUDIT DAYS			65

**PETERBOROUGH CITY COUNCIL
INTERNAL AUDIT PLAN 2020 / 2021**

Prioritised Audits for Review

The following audit areas have been subject to an assessment (of size, corporate importance, stability, vulnerability and specific concerns) and ranked accordingly. The assessment, and therefore the ranking, may change during the year as circumstances alter and new risks emerge. Audit reviews will be prioritised on the basis of this ranking, along with the number of audit days available, the knowledge and experience of staff and any timing requirements. The shaded areas represent audits that will not be possible with current resources.

SERVICE OR SYSTEM	OBJECTIVE	DIRECTORATE	OUTLINE AUDIT SCOPE	Priority	
				Rating	Score
Financial Resilience	All	Corporate	A review of the arrangements in place to ensure that savings targets are robust and that they are achieved. This may cover the progress of some specific savings proposals.	H	87
Shared / externally delivered services	All	Corporate	Performance and financial management of these arrangements, particularly where new arrangements, have been put in place.	H	67
Contracts	All	Corporate	A review of contract management and/or open book reviews of the operation of key contracts, for example: <ul style="list-style-type: none"> • Schools PFI (£284m) • Passenger Transport (£16m) • Integrated Community Equipment Service (£4.25m) 	H	65
Financial Systems	All	Corporate	Pro-active fraud testing of vulnerable financial systems, for example Payroll, Payments.	H	65
Aragon	1, 6	Place & Economy	Governance arrangements for this wholly owned company.	H	62
Cyber Security	All	Customer & Digital	Protocols for dealing with a cyber security incident.	H	58
Temporary Accommodation	1, 6	Place & Economy	A review of the operation of the various teams/organisations in managing temporary accommodation.	H	58

**PETERBOROUGH CITY COUNCIL
INTERNAL AUDIT PLAN 2020 / 2021**

Prioritised Audits for Review

The following audit areas have been subject to an assessment (of size, corporate importance, stability, vulnerability and specific concerns) and ranked accordingly. The assessment, and therefore the ranking, may change during the year as circumstances alter and new risks emerge. Audit reviews will be prioritised on the basis of this ranking, along with the number of audit days available, the knowledge and experience of staff and any timing requirements. The shaded areas represent audits that will not be possible with current resources.

SERVICE OR SYSTEM	OBJECTIVE	DIRECTORATE	OUTLINE AUDIT SCOPE	Priority	
				Rating	Score
Asset Management	All	Resources	A review of some specific aspects of asset management: <ul style="list-style-type: none"> • Arrangements for keeping the asset register up to date • Process for ensuring condition surveys are completed on buildings 	H	58
ICT Joint Strategy	All	Customer & Digital	Overview of project to merge the Peterborough and Cambridgeshire ICT estate and to exit from the Serco contract.	H	56
Management Up-skilling	All	Legal & Governance	Consideration of activities for upskilling managers following the reshaping of HR and Finance functions.	H	56
Climate Change	4	Place & Economy	A review of arrangements for achievement of action plan.	H	56
Business Improvement District	1	Place & Economy	This will look at the processes for collection of the new levy as well as payment (of claims against the funds raised).	H	56
Licensing	6, 7	People & Communities	Covering both Selective Licensing and HMO licensing. New legislation requires more properties to have an HMO license.	H	56
Mosaic	3	People & Communities	A review of the finance module in the newly implemented Adult Social Care system, Mosaic, which is the first system to be shared by Cambridgeshire and Peterborough. This will cover payment and access controls.	H	55
Peterborough Integrated Energy Infrastructure	1	Place & Economy	Energy from waste scheme. A look at the processes in place that ensures all grant criteria are met to enable grant to be claimed. Also the governance around roles/decision making between partners.	H	55

**PETERBOROUGH CITY COUNCIL
INTERNAL AUDIT PLAN 2020 / 2021**

Prioritised Audits for Review

The following audit areas have been subject to an assessment (of size, corporate importance, stability, vulnerability and specific concerns) and ranked accordingly. The assessment, and therefore the ranking, may change during the year as circumstances alter and new risks emerge. Audit reviews will be prioritised on the basis of this ranking, along with the number of audit days available, the knowledge and experience of staff and any timing requirements. The shaded areas represent audits that will not be possible with current resources.

SERVICE OR SYSTEM	OBJECTIVE	DIRECTORATE	OUTLINE AUDIT SCOPE	Priority	
				Rating	Score
Parking Services	3	People & Communities	Review of all on and off street parking, enforcement activity, and use of car parks as assets.	H	55
Human Resources / Payroll system	All	Chief Exec / Customer & Digital	This will examine the newly implemented systems for self-service of absence management, expenses and leave management.	M	54
Think Communities		People & Communities	This will focus on the arrangements for partnership working, including shared decision making and data sharing.	M	45
Direct Payments	3	People & Communities	A review of the process for awarding and monitoring payments made direct to service users in respect of their care packages.	M	40
TOTAL AUDIT DAYS					311

**PETERBOROUGH CITY COUNCIL
INTERNAL AUDIT PLAN 2020 / 2021**

Prioritised Audits for Review

The following audit areas have been subject to an assessment (of size, corporate importance, stability, vulnerability and specific concerns) and ranked accordingly. The assessment, and therefore the ranking, may change during the year as circumstances alter and new risks emerge. Audit reviews will be prioritised on the basis of this ranking, along with the number of audit days available, the knowledge and experience of staff and any timing requirements. The shaded areas represent audits that will not be possible with current resources.

SERVICE OR SYSTEM	OBJECTIVE	DIRECTORATE	OUTLINE AUDIT SCOPE	Priority	
				Rating	Score
Event Management	7	Place & Economy	A review of the arrangements for public safety at events in the city.	H	63
Housing	1, 6	Resources	Arrangements for managing the stock of council owned housing and the proposals around becoming a HRA.	H	55
University PropCo	1	Place & Economy	A review of the governance of this joint venture between the Council and the Combined Authority, which will be responsible for the delivery and management of the proposed university buildings.	H	55
Fair Tax Mark	All	Resources	Compliance with initiative promoting fair tax conduct.	M	39
Syrian Refugee Programme	3, 6	People & Communities	Review of grant-funded activity including monitoring and evaluation.	M	38
Town Deal Funding	1	Place & Economy	A review of the framework for managing grant funds.	M	36
SEND	3	People & Communities	Spend on children with disabilities and cost of packages and what changes when transition into adults	M	36
Safeguarding Assets	3	People & Communities	Protocol for when the Council acts as deputy or appointee for service users.	M	32
Data Management	All	Corporate	How the council ensures that its data is accurate and available for efficient decision making.	M	32
Off contract purchasing	All	Corporate	Analysis of purchases made outside corporate contracts, including spot/block purchasing of beds.	M	38

**PETERBOROUGH CITY COUNCIL
INTERNAL AUDIT PLAN 2020 / 2021**

Prioritised Audits for Review

The following audit areas have been subject to an assessment (of size, corporate importance, stability, vulnerability and specific concerns) and ranked accordingly. The assessment, and therefore the ranking, may change during the year as circumstances alter and new risks emerge. Audit reviews will be prioritised on the basis of this ranking, along with the number of audit days available, the knowledge and experience of staff and any timing requirements. The shaded areas represent audits that will not be possible with current resources.

SERVICE OR SYSTEM	OBJECTIVE	DIRECTORATE	OUTLINE AUDIT SCOPE	Priority	
				Rating	Score
S75	3, 7	People & Communities	Arrangements to ensure that all S75 agreements are up to date and appropriate leading up to renewal.	M	34
Joint funded placements	3	People & Communities	Examination of financial arrangements where the Council funds placements along with other authorities.	M	34
Mental Health	7	Corporate	A review of the Council's Mental Health Strategy and its implementation.	L	28
DBS	3	Corporate	A review of the controls in place that ensure that staff DBS (Disclosure and Barring Service) checks are carried out appropriately.	L	25
Teacher's Pensions	2	Chief Exec	An overview of the arrangements for ensuring pension data is provided promptly by schools, and for ensuring that enhanced pensions are awarded in line with policy.	L	27
PCC Lifeline	3	People & Communities	Advice relating to the proposal to charge people after first six weeks.	L	26
Syrian Refugee Befriender Contract	3	People & Communities	A review of contract management and/or open book reviews of the operation of this contract.	L	18
Chums Contract	3	People & Communities	A review of contract management and/or open book reviews of the operation of this contract.	L	18

124

ESTIMATED DAYS REQUIRED TO COVER

170

**PETERBOROUGH CITY COUNCIL
INTERNAL AUDIT PLAN 2020 / 2021**

VISION FOR THE CITY

STRATEGIC PRIORITIES

- 1 Drive growth, regeneration and economic development.
- 2 Improve educational attainment and skills.
- 3 Safeguard vulnerable children and adults.
- 4 Implement the Environment Capital agenda.
- 5 Supporting Peterborough's culture and leisure trust Vivacity.
- 6 Keep all our communities safe, cohesive and healthy.
- 7 Achieve the best health and wellbeing for the city.

125

AUDIT ACTIVITIES	DAYS
Ring Fenced Activities (not subject to risk assessment)	315
Auditing for external organisations	266
Certification of grant claims (not subject to risk assessment)	65
Corporate Risk Reviews Available	311
TOTAL AUDIT DAYS	957

This page is intentionally left blank

AUDIT COMMITTEE	AGENDA ITEM No. 7
23 MARCH 2020	PUBLIC REPORT

Report of:	Peter Carpenter, Acting Corporate Director of Resources	
Cabinet Member(s) responsible:	Councillor Seaton Cabinet Member for Finance	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	Tel: 384557

COUNTER FRAUD POLICIES

R E C O M M E N D A T I O N S	
FROM: Steve Crabtree, Chief Internal Auditor	Deadline date: N/A
<p>It is recommended that Audit Committee:</p> <p>1. Note contents of this report and approve the updated Counter Fraud Policies</p>	

1. ORIGIN OF REPORT

- 1.1 This report is submitted to the Audit Committee as a routine planned report on the development of the role and service delivery of investigations.

2. PURPOSE AND REASON FOR REPORT

- 2.1 The Council provides a raft of services to the public from its scarce resources. Every effort is made to ensure that the resources are used for their intended purpose. However, there are occasions when this may not always be the case and the Council needs to have appropriate mechanisms to protect the public purse. This report sets out the Councils approach to tackling fraud and corruption.
- 2.2 This report is for Audit Committee to consider under its Terms of Reference No. 2.2.2.15 *“To monitor Council policies on “raising concerns at work” and the anti-fraud and anti-corruption strategy and the Councils complaints process”*.

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	NO	If yes, date for Cabinet meeting	N/A
---	-----------	----------------------------------	-----

4. BACKGROUND AND KEY ISSUES

4.1 INTRODUCTION

4.1.1 The Accounts and Audit Regulations 2015 state that the Council must have measures in place “*to enable the prevention and detection of inaccuracies and fraud*”. Fraud also refers to cases of bribery and corruption.

4.1.2 The Councils Financial Regulations Section 4.4 “*Preventing Fraud and Corruption*” set out its position. It requires the Acting Corporate Director of Resources to lead on the development of anti-fraud policies, with all Directors responsible for reporting and operating in accordance with those policies.

4.1.3 The Council’s approach to tackling fraud and corruption is underpinned by a range of policies and procedures which set out ways in which concerns can be raised, investigated and reported and appropriate action taken. This report provides members with the following refreshed policies for approval:

- € Anti-Money Laundering Policy;
- € Sanction and Prosecution Policy (Council Tax and Business Rates); and
- € Sanction and Prosecution Policy (Blue Badge and Car Park Permits)

4.2 CORPORATE POLICIES

4.2.1 General

4.2.2 It is important that the Council has policies and procedures in place which are fit for purpose and are effective in preventing, detecting and investigating fraud where it occurs. Staff, agency workers and Members need to be made aware of, be able to understand and comply with the policies and procedures which comprise the Council’s counter fraud framework. Staff agency workers, Members and citizens must have confidence in the reporting arrangements and subsequent investigation of concerns which can be reported via the various channels available.

4.2.3 The review of the policies and procedures was identified as being a key aspect of the governance requirements for audit committees as set out by CIPFA in their publication on the Role of the Head of Internal Audit. A review of the existing policies has been undertaken and being presented to Audit Committee for approval. An Anti-Fraud and Corruption Strategy and associated Policy was approved in March 2018 at the Committee and this document remains relevant and up to date. All of the policies are presented in the appendices to this report for approval and are summarised as:

4.2.4 Anti-Money Laundering Policy (Appendix A)

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR 2017) came into force in June 2017 and, for offences committed after 26 June 2017, replace the Money Laundering Regulations 2007.

The MLR 2017 and the Proceeds of Crime Act 2002 (‘POCA’) impact on certain areas of local authority business and require local authorities to establish internal procedures to prevent the use of their services for money laundering. This policy sets out the actions officers who deal with transactions where the potential for money laundering exists. Although the Council is classed as an exempt body under the Regulations, it is considered good practice to carry out appropriate measures to minimise the risk that the Council and its employees may commit an offence under the relevant provisions of the Acts.

4.2.5 Sanction and Prosecution Policy (Council Tax and Business Rates) (Appendix B)

This Policy provides the framework for the investigation, sanctions and prosecutions in relation to Council Tax and the local Council Tax Reduction Scheme; and the Single Persons Discount scheme. The policy has been reviewed with Civil Penalties to reflect current legislation which is set out in Regulations 11, 12 and 13 of the Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) 2013.

4.2.6 Sanction and Prosecution Policy (Blue Badges and Car Park Permits) (Appendix C)

This Policy provides the framework for the investigation, sanctions and prosecutions in relation to Council Tax and the local Council Tax Reduction Scheme; and the Single Persons Discount scheme. The policy has been reviewed with Civil Penalties to reflect current legislation which is set out in Regulations 11, 12 and 13 of the Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) 2013.

4.2.7 Future Actions

National Fraud Initiative:

- At Audit Committee in January 2020, Members were provided with an overview of national studies of the extent of fraud within local government, together with progress on the data matching exercise, National Fraud Initiative. The next exercise is due to commence in October 2020, and once details are known as to the datasets, requirements and implications for the Council, a summary will be provided to Audit Committee.

Fraud Strategy:

- The Council's strategic response in relation to fraud is based on the national strategy Fighting Fraud and Corruption Locally 2016 – 2019. A new strategy is due for release on 26 March 2020 and has been developed as a partnership between local authorities as well as other sectors. Once released, the Council will look to update its strategy to meet latest developments and will be provided to a future Audit Committee.

Whistleblowing:

- There is a separate Whistleblowing Policy which falls under the remit of the Director of Law and Governance.

5. CONSULTATION

- 5.1 Consultation during the drafting of the documents has been through the Director Law and Governance and Acting Corporate Director of Resources.

6. ANTICIPATED OUTCOMES OR IMPACT

- 6.1 Updated corporate policies will be conveyed to all Members and employees to raise awareness and provide best practice.

7. REASON FOR THE RECOMMENDATION

- 7.1 Peterborough is subject to providing services with finite resources. The revised policies provide a clear steer on how the authority will look to reduce the abuse of, and fraudulent access to those resources.

8. ALTERNATIVE OPTIONS CONSIDERED

- 8.1 The authority could do nothing but this would not be the best use of scarce resources. The policies provide a platform for better monitoring and detection of fraud and corruption.

9. IMPLICATIONS

Financial Implications

- 9.1 This report does not give rise to any additional capital or revenue financial implications. Actions to communicate the policies and to ensure compliance will be undertaken within the existing budgets.

Legal Implications

- 9.2 There are no legal implications.

Equalities Implications

- 9.3 Not applicable

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

- 10.1 None.

11. APPENDICES

A: Anti-Money Laundering Policy

B: Sanction and Prosecution Policy: Council Tax

C: Sanction and Prosecution Policy: Blue Badges and Parking Permits

Anti-Money Laundering Policy



Introduction

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLR 2017) came into force in June 2017 and, for offences committed after 26 June 2017, replace the Money Laundering Regulations 2007.

The MLR 2017 and the Proceeds of Crime Act 2002 ('POCA') impact on certain areas of local authority business and require local authorities to establish internal procedures to prevent the use of their services for money laundering.

Scope of the Policy

This Policy applies to all employees (including agency staff) of the Council and elected Members, and aims to maintain the high standards of conduct which currently exist within the Council by preventing criminal activity through money laundering. The Policy sets out the procedures which must be followed (for example the reporting of suspicions of money laundering activity) to enable the Council to comply with its legal obligations.

What is Money Laundering?

Money laundering offences include:

- Concealing, disguising, converting, transferring criminal property or removing it from the UK (section 327 POCA);
- Entering into or becoming concerned in an arrangement which you know or suspect facilitates the acquisition, retention, use or control of criminal property by or on behalf of another person (section 328 POCA);
- Acquiring, using or possessing criminal property (section 329 POCA);
- Investing the proceeds of crime into other financial products or the acquisition of property / assets; or
- Tipping off a person(s) who is suspected of being involved in money laundering in such a way as to reduce the likelihood of or prejudice of an investigation.

Although the term "*money laundering*" is generally used to describe activities of organised crime, for most people it will involve a suspicion that someone they know, or know of, is benefiting financially from dishonest activities.

Potentially any member of staff could be caught by the money laundering provisions if they suspect money laundering and either become involved with it in some way, do nothing about it, or tip off anyone attempting to launder funds. Failure to report money laundering is an offence.

The Guidance Note gives practical examples of money laundering, to aid understanding. This Policy and Procedure sets out how any concerns should be raised. It is important that

employees in areas of money laundering risk are familiar with their legal responsibilities as criminal sanctions may be imposed for failure to comply with legislative requirements. Failure by a member of staff to comply with the procedures set out in this Policy could also lead to disciplinary action.

Whilst the risk to the Council of contravening the legislation is low, it is extremely important that all employees are familiar with their legal responsibilities; serious criminal sanctions may be imposed for breaches of the legislation.

Legislation

The main UK legislation covering anti-money laundering and terrorist financing is:

- Proceeds of Crime Act 2002 (as amended by the Serious Organised Crime and Police Act 2005);
- Terrorism Act 2000 (as amended by the Anti-Terrorism, Crime and Security Act 2001); and
- Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017

Our Responsibilities

The main requirements of the legislation are:

- To appoint a Money Laundering Reporting Officer (MLRO);
- Maintain client identification procedures in certain circumstances;
- Implement a procedure to enable the reporting of suspicions of money laundering; and
- Maintain record keeping procedures.

Providing the Council does not undertake activities regulated under the Financial Services and Markets Act 2000, the offences of failure to disclose and tipping off do not apply. However, the Council and its employees and Members remain subject to the remainder of the offences and the full provisions of the Terrorism Act 2000.

The Terrorism Act 2000 made it an offence of money laundering to become concerned in an arrangement relating to the retention or control of property likely to be used for the purpose of terrorism, or resulting from acts of terrorism.

Potentially very heavy penalties (unlimited fines and imprisonment of up to 14 years) can be handed down to those who are convicted of one of the offences above.

The regulations require the Council to appoint a Nominated Officer as the Money Laundering Reporting Officer: The officer nominated to:

- Receive internal suspicious transactions reports (known as disclosures) from within the Council;
- Deciding whether these should be reported to the National Crime Agency; and
- If appropriate, making such reports to the National Crime Agency, is

Fiona McMillan, Director of Law and Governance
Peterborough City Council
Email: fiona.mcmillan@peterborough.gov.uk

Not all of the Council's business is "relevant" for the purposes of the legislation. The areas of council business which are relevant include:

- Dealing in, managing and administering investments;
- Accountancy services and tax advice;
- Audit services;
- Legal services involving finance and property;
- Conveyancing work - sale of property and land. The provision of services in relation to the formation, operation or management of a company or a trust; and
- Dealing in goods of any description by way of business (including dealing as an auctioneer) wherever a transaction involves accepting a total cash payment.

A cash payment of £10,000 or more should not be accepted without seeking advice or approval from the Interim Director Law and Governance / Service Director Financial Services / Chief Internal Auditor as set out in Financial Regulations.

The safest way to ensure compliance with the law is to apply them to all areas of work undertaken by the Council. The legislation applies to all staff, but awareness raising will be targeted at staff in highest risk areas.

Reporting to the Money Laundering Reporting Officer (MLRO)

Where you know or suspect that money laundering activity is taking / has taken place, or you become concerned that your involvement in a matter may amount to facilitating the acquisition, disguising, converting, possessing or retention of criminal property (a prohibited act) you must disclose this as soon as practicable to the MLRO. The disclosure should be on or before the activity. There must be good reason if it is reported afterwards.

The Disclosure Report must include as much detail as possible, for example:

- Full details of all the people involved
- Full details of your / their involvement

If you are concerned that your involvement in the transaction would amount to a prohibited act, then your report must include all relevant details, as you will need consent from the National Crime Agency (NCA), via the MLRO, to take any further part in the transaction.

You should therefore make it clear in the report whether there are any deadlines which make the matter more urgent, for example, a completion date or court deadline.

Once you have reported the matter to the MLRO you must follow any directions that may be given to you.

- Do not make any further enquiries into the matter yourself: any necessary investigation will be undertaken by National Crime Agency (NCA);
- Co-operate with MLRO and the authorities during any subsequent money laundering investigation;
- Don't voice any suspicions to the person(s) whom you suspect of money laundering, even if the NCA has given consent for the transaction to proceed. This could constitute a tipping off offence;
- Don't make any reference on a client file or record, to a report having been made to the MLRO in case of a client exercising their subject access rights. The MLRO will keep the appropriate records in a confidential manner.

Consideration of the disclosure by the Money Laundering Reporting Officer

Upon receipt of a disclosure report, the MLRO will note the date the report is received and acknowledge receipt of it. They should also advise you of the timescale within which a response can be expected.

The MLRO will consider the report and any other available internal information that might be relevant and make other enquiries as necessary to determine whether a report to NCA is required. The MLRO may also need to discuss the report with you.

Once the MLRO has evaluated the report and any other relevant information, a timely determination must be made as to whether:

- there is actual or suspected money laundering taking place; or
- there are reasonable grounds to know or suspect that is the case; and
- Whether consent needs to be sought from NCA for a particular transaction to proceed.

A report must be made as soon as practicable to the NCA by the MLRO. The report may not be immediately made to NCA if there is a genuine reason not to do so. For example, legal professional privilege may apply and be a genuine reason for not disclosing the information to the NCA immediately.

Where the MLRO suspects money laundering but has a reasonable excuse for non-disclosure, then a note must be made in the Money Laundering reporting format accordingly; consent can then immediately be given for any ongoing or imminent transactions to proceed.

In cases where legal professional privilege may apply, the MLRO must liaise with the legal adviser to decide whether there is a reasonable excuse for not reporting the matter to NCA.

Where consent is required from NCA for a transaction to proceed, then the transaction(s) in question must not be undertaken or completed until NCA has specifically given consent, or there is deemed consent through the expiration of the relevant time limits without objection from NCA.

Where the MLRO concludes that there are no reasonable grounds to suspect money laundering then the record shall be marked accordingly and consent given for any ongoing or imminent transaction(s) to proceed.

All disclosure reports referred to the MLRO and reports made by them to the NCA must be retained by the MLRO in a secure manner for a minimum of five years.

The MLRO commits a criminal offence if they fail to report a disclosure made to them, to the NCA.

Client Identification Procedure (Due Diligence)

When dealing with financial transactions, employees must take steps to identify a citizen and check that they are who they say they are. This will mean obtaining identification documents.

Where the Council is carrying out relevant business (accountancy and financial functions, audit services and financial, company and property transactions of legal services) and:

- forms an ongoing business relationship with a client; or
- carries out an occasional transaction in excess of £10,000; or
- suspects money laundering or terrorist financing; or
- Doubts the reliability or adequacy of documents, data or information previously obtained for the purposes of identification or verification.

Then the Client Identification Procedure must be followed before any business is undertaken for that client. Please note that unlike the reporting procedure, the client identification procedure is restricted to those operating 'relevant businesses'.

Satisfactory evidence of the identity of the prospective client must be obtained as soon as practicable after instructions are received. This might involve:

- checking the company website;
- confirming the nature of the business and directors with Companies House; or
- confirming the identity of the key contact within the company

If there is any doubt about a citizen's identity then do not continue to deal with them until you are sure.

In certain circumstances enhanced citizen due diligence must be carried out for example where:

- The citizen has not been physically present for identification;
- The citizen is a politically exposed person (an individual who at any time in the preceding year has held a prominent public function outside of the UK, and EU or international institution / body, their immediate family members or close associates);
- There is a beneficial owner who is not the citizen with which you are dealing. A beneficial owner is any individual who: holds more than 25% of the shares, voting rights or interest in a company, partnership or trust.

Enhanced citizen due diligence could include any additional documentation, data or information that will confirm the citizen's identity and / or the source of the funds to be used in the business relationship/ transaction. If you believe that enhanced citizen due diligence is required then you must consult the MLRO prior to carrying it out.

If satisfactory evidence of identity is not obtained at the outset of the matter then the business relationship or one off transaction(s) cannot proceed any further.

The requirement for the citizen identification procedure, or due diligence, applies immediately for new customers and should be applied on a risk sensitive basis for existing customers. Ongoing citizen due diligence must also be carried out during the life of a business relationship but should be proportionate to the risk of money laundering and terrorist funding, based on the officer's knowledge of the citizen and a regular scrutiny of the transactions involved.

Record Keeping Procedures

Each department of the Council conducting relevant business must maintain records of:

- client identification evidence obtained; and
- Details of all relevant business transactions carried out for clients for at least five years.

This is so that they may be used as evidence in any subsequent investigation by the authorities into money laundering.

The precise nature of the records is not prescribed by law, but must be capable of providing an audit trail during any subsequent investigation, for example distinguishing the client and the relevant transaction and recording in what form any funds were received or paid. In practice, the business units of the Council will be routinely making records of work carried out for clients in the course of normal business and these should suffice in this regard. All records must be kept in compliance with the Data Protection Act 1998.

Training

In support of the policy and procedure, the Council will:

- Make all staff aware of the requirements and obligations placed on the Council and on themselves as individuals by the anti-money laundering legislation;
- Give targeted training to those most likely to encounter money laundering;
- Prepare guidance notes to assist staff in the operation of this policy;
- Make the Policy, guidance and reporting form available to officers and members on the intranet; and
- Issue regular reminders to staff on the requirements of the Anti-Money Laundering Policy adopted by the council.

Help and Advice

Should you have any concerns whatsoever regarding any transaction then you should contact the MLRO. Other contacts in Internal Audit available to discuss any suspicions are:

Steve Crabtree, Chief Internal Auditor
Email: steve.crabtree@peterborough.gov.uk

Julie Taylor, Group Auditor
Email: Julie.taylor@peterborough.gov.uk

Louise Cooke, Group Auditor
Email: louise.cooke@peterborough.gov.uk

Responsible Officer: Chief Internal Auditor
Date: February 2020

Version Control 1.03
Next Review: February 2021

Annex 1

ANTI MONEY LAUNDERING GUIDANCE**Introduction**

Money laundering legislation implemented by the Proceeds of Crime Act 2002 and the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 requires the Council to establish procedures designed to prevent the use of its services for money laundering.

The law is intended to prevent money from illegal activities such as drug dealing from being 'laundered' and turned into legitimate finance. Money laundering might also be used to hide the financing of terrorism or other criminal activities.

What is Money Laundering?

Money laundering is the disguising of the source of criminal money, either in cash, paper or electronic form. This may be in order to conceal that the money has originated from crime, or it may be to conceal the source of money that is to be used in the pursuit of future crime. Money Laundering can be complex and involve several transactions.

How to make a disclosure report

Where you know or suspect that money-laundering activity is taking / has taken place it must be disclosed immediately to the Money Laundering Reporting Officer. The disclosure should be on or before the activity. There **must** be good reasons if it is reported afterwards.

If you prefer, you can first discuss your suspicions with the named officers below.

Contacts are:

- Money Laundering Reporting Officer – Fiona McMillan, Director of Law and Governance
- Pete Carpenter, Acting Corporate Director of Resources
- Steve Crabtree, Chief Internal Auditor
- Julie Taylor, Group Auditor
- Louise Cooke, Group Auditor

No discussions should take place with colleagues other than your manager as confidentiality is paramount. You will be informed if a report is to be sent to the National Crime Agency and advised on what to do next. Please see the Council's Anti-Money Laundering Policy for more information.

Any Council employee, could contravene the money laundering legislation if they become aware of, or suspect the existence of criminal 'property', and continue to be involved in the matter without reporting their concerns.

If an employee has a concern they should ask questions or seek further information to allay any suspicions they may have. Enquiries can be made of the individual to establish whether or not there is an innocent explanation before deciding whether or not to make a disclosure report. If you continue to be suspicious you should make a report to the Council's nominated officer.

The suspected money launderer must not be informed that the matter is being reported.

Once a report has been made to the Council's nominated officer or if you suspect that a report has been made, the potential offence of "Tipping Off" arises. Tipping Off is where someone may prejudice an investigation by giving information to a person suspected of money laundering.

How you might recognise money laundering and what checks you must do

Carry out appropriate checks to satisfy yourself of the company's or citizen's ID. Additional care must be taken when the person is not physically present.

Satisfy yourself as to the source of the funds and the owner of them. Ask yourself "Given my knowledge of this person, is it plausible that they can pay this amount, for this service, by this means?"

Ongoing Monitoring

Once you have verified the identity of the citizen (or company) you will still need to monitor activity throughout the relationship and obtain updated documents when necessary. Records must be kept of citizen identification and business transactions for at least 5 years after the transaction or end of the business relationship. All records must be kept in accordance with the Data Protection Act.

Examples of potential money laundering

Example 1: Any large cash transaction should alert suspicion.

- A business looks to pay its business rates with a payment in cash of £10,000 and the balance by bank transfer.
- Financial Regulations do not allow deposits of cash in excess of £10,000 to be accepted, unless approval has been given by the Service Director Financial Services. Any large cash transactions should arouse suspicion.

Example 2: An offer is made for a parcel of land, by a developer, which is far in excess of its value.

Example 3: There is an unexplained significant overpayment which the person then requests is paid back to them, or a transaction is cancelled and refund requested.

- Payments should always be paid back to the account from which they came. Look to see if there is a pattern of similar transactions.

Example 4: Liabilities are repeatedly met by payment from an unconnected 3rd party.

Other behaviour that may arouse suspicion:

- If information about the client reveals criminality or association with criminality;
- If there is more than one Solicitor / Conveyancer used in the sale or purchase of a property or land or if there is an unexplained and unusual geographic use of a solicitor in relation to a property's location;

- If the Buyer or Seller's financial profile does not fit, particularly in relation to property transactions.
- If there are over complicated or poor financial systems;
- Any odd or secretive behaviour;
- Illogical involvement of an unconnected third party;
- A large transaction split into smaller ones without apparent reason (other than perhaps to avoid identity checks)

Referral to Money Laundering Responsible Officer (MLRO1)

MONEY LAUNDERING REPORTING OFFICER DISCLOSURE FORM	
Date of Disclosure	
Officer making disclosure (including Job Title)	
Contact details	
Subject Details	
Surname	
Forename(s)	
Date of Birth	
Or if the matter refers to a Company	
Company Name	
Address	
Company Number (if known)	
Reasons for Disclosure	

Council Tax and Local Council Tax Reduction Scheme:

Sanction and Prosecution Policy



Council Tax Support Scheme

Council Tax is a tax on the occupation of a domestic property. It is a system of local taxation used to part fund the services provided by local government. The primary legislation for Council Tax is the Local Government Finance Act 1992. Operationally, the governing regulations are the Council Tax (Administration and Enforcement) Regulations 1992.

Tax payers can apply for various exemptions, discounts and reductions. They are dependent upon the circumstances of the tax payer / the people living in the household and with some being dependent upon the property. It is necessary for Local Authorities to regulate the discounts and reductions to ensure that they are only awarded under the circumstances to which they are eligible to be received.

Council Tax Support Scheme is a means tested Council Tax discount. It is intended to help people on low incomes meet their Council Tax costs. The primary legislation is the Local Government Finance Act 2012. Operationally the governing regulations are:

- For those who have reached the qualifying age for Pension Credit it is the Council Tax Reduction Schemes (Prescribed Requirements) (England) Regulations 2012.
- For working age claimants, local authorities have been given the power to design their own schemes and accompanying rules.

Local Authorities need to guard against fraudulent applications for Council Tax Support to ensure that only tax payers eligible to receive support with their Council Tax liability actually receive assistance.

Single Person Discounts

Single person discounts of 25% are available where there is only one adult living within the property. Circumstance changes should be notified in the correct way to ensure correct charges can be levied.

Prosecution

The most appropriate sanction action will be applied in each case, on their merits. This can range from a Caution, to Civil Penalties, through Financial Penalties to ultimately criminal court prosecutions.

The most appropriate sanction action will be considered by reference to:

- The severity of the offence;
- The value and duration of the overpayment;
- The circumstances of the offender; and
- The public interest test (See Annex A)

Alternatives to Prosecution

Cautions

A caution is a warning (of which a written record is made), given in certain circumstances to a person who has committed an offence.

A caution can only be considered when:

- There is sufficient evidence to justify instituting criminal proceedings;
- The person has admitted the offence during an interview under caution and agrees to the caution;
- There are no previous convictions for benefit fraud; and
- There was no other person involved in the fraud

A caution can be offered if there is no loss to public funds following the presentation of a false document. For example: a false statement on an initial claim form that was identified prior to payment being made. Although there is no loss to funds, there may be an offence of making a false statement in an attempt to obtain a reduction in Council Tax liability.

However, a caution cannot be offered in cases where there is no loss to public funds following a customer's failure to declare a change of circumstances.

If the person refuses a caution, the Council's policy is to commence criminal proceedings. The court will be informed that proceedings have been brought because the person refused the offer of a Caution.

If the person is subsequently prosecuted for another benefit offence, the caution may be cited in court.

Financial Penalties

Council Tax Support came into existence on 1st April 2013 and replaced Council Tax Benefit. Council Tax Benefit was a fully subsidised scheme administered by Local Authorities on behalf of the Department for Work & Pensions. Council Tax Support is a discount awarded against the annual Council Tax liability, by Local Authorities, created by the Local Government Finance Act 2012.

Under amendments to Local Government legislation there are occasions when there is an option to consider financial / administrative penalties as an alternative to prosecution.

Section 11 of the Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013, introduced financial / administrative penalties as alternatives to prosecution in Council Tax Support cases. The penalty amounts to 50% of the gross overpayment

- with a minimum of £100, and
- up to a maximum of £1,000

It can be offered if the following conditions are met:

- There is a recoverable overpayment or excess award of Council Tax Support as defined by the relevant legislation;
- The cause of the overpayment is attributed to an act or omission on the part of the defendant;
- There are grounds for instituting criminal proceedings for an offence relating to the overpayment upon which the penalty is based;
- The person offered such a penalty has the ability to repay it within a reasonable timeframe and the imposition of such a penalty will not overburden them if they have existing priority debts; and

- A failure on the part of the customer to accept a Financial / Administrative Penalty will result in the case proceeding to prosecution.

Civil Penalties: Incorrect Statements

Regulation 12 of the Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) 2013 allows PCC to impose a penalty of £70 where an incorrect statement or representation has been made.

The £70 penalty can only be imposed where a person has not been charged with a Local Council Tax Reduction offence or been offered a Caution or Financial Penalty under Regulation 11 of the Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013.

Civil Penalties: Failure to notify change of circumstances

Regulation 13 of the Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) 2013 allows PCC to impose a penalty of £70 where without reasonable excuse; there is a failure to report a relevant change of circumstances promptly.

The £70 penalty can only be imposed where a person has not been charged with a Local Council Tax Reduction offence or been offered a Caution or Financial Penalty under Regulation 11 of the Council Tax Reduction Schemes (Detection of Fraud and Enforcement) (England) Regulations 2013.

Civil Penalties: Single Person Discount

Schedule 3 of the Local Government Finance Act 1992 allows Councils to impose a civil penalty of £70 in cases where a resident fails, without a reasonable excuse, to supply information (or negligently supplies incorrect information) which affects their liability or entitlement to a council tax discount or exemption. This is in addition to the recovery of the associated discount.

Publicity

The Council intends to positively promote this policy as well as the outcome of any prosecutions, which will deter others from fraudulent activity.

Final: Version 1.06
February 2020

Annex 1

Definition of Fraud

Fraud is a wrongful or criminal deception intended to result in financial or personal gain:

- Makes a false statement;
- Produces a false document; and / or
- Fails to promptly notify of a relevant change in circumstances which the person knows will affect the discount / exemption / relief / support they are entitled to / or are in receipt of.

Most local taxation fraud offences are prosecuted under the Fraud Act 2006:

- Section 2 – fraud by false representation
- Section 3 – fraud by failing to disclose information.

Council Tax Support fraud offences can also be prosecuted under section 14(3) of the Local Government Finance Act 1992.

Culture

The Council has a Compliance Team which is part of Internal Audit within the Resources Department. The team consists of two investigating officers and is line managed by the Chief Internal Auditor.

Cases of suspected Council Tax fraud can be referred to the team by e-mail (fraud@peterborough.gov.uk) they can also be made on-line via the Council's website. They can also be made by letter. In a similar vein this can be used for reporting of any other suspected fraud. Employee investigations are also covered by the team and follow the Employees Code of Conduct and the Disciplinary Code. There is a dedicated fraud hotline **01733 452250** which can be used by either staff members or the general public. Outside office hours there is an answerphone service attached to this number.

Cases of suspected Housing Benefit fraud are now investigated by the Department for Work & Pensions. Local authorities no longer have any powers to either investigate allegations of Housing Benefit fraud or to prosecute instances of proven Housing Benefit fraud. Benefit fraud allegations can be reported on the Department for Work and Pensions National Benefit Fraud Hotline (**0800 854 440**) or via www.gov.uk/report-benefit-fraud.

Prevention, Detection and Investigation

The Team will investigate allegations of fraud to a criminal standard, i.e. evidence is collated and alleged offenders formally interviewed in accordance with the Police & Criminal Evidence Act 1984 / the Criminal Procedure and Investigations Act 1996. A case will only be deemed suitable for prosecution if it meets the requirements of the Code for Crown Prosecutors. There are two main requirements – The Evidential Test and The Public Interest Test.

Prosecution cases are passed to an in-house Litigation Lawyer. If the case is to be passed to the Police for them to investigate, the case is referred to the Director of Governance.

Evidential Test

The prosecuting authority must be satisfied that there is sufficient evidence to provide a 'realistic prospect of conviction' on each charge. Consideration should be given to what the defendant's defence may be and how it is likely to affect the prospects of conviction.

A realistic prospect of conviction is an objective test based solely upon the prosecuting authority's assessment of the evidence and any information that the authority has about the defence that the subject of the allegation may put forward. The authority must then decide whether, if properly directed in accordance with law, a jury (or magistrate) is more likely to convict than acquit a defendant of the charge(s) against them.

When deciding if there is sufficient evidence to prosecute the authority will consider:

- Can the evidence be used in court?
- Is it likely that the evidence will be excluded by the court? (For example, is it likely it may be excluded due to the way that it was obtained?)
- Is the evidence hearsay? If so, is the court likely to allow it to be represented under any of the exceptions which permit such evidence to be given in court?
- Does the evidence relate to the bad character of the suspect? If so, is the court likely to allow it to be presented?
- Is the evidence reliable?
- Does the suspect have a credible explanation for their actions?
- Is there evidence which might support or detract from the reliability of a confession? Is its reliability affected by factors such as the suspect's level of understanding?
- Is the identification of the suspect likely to be questioned?
- Are there concerns over the accuracy, reliability or credibility of any of the evidence of any witness?

Public Interest Test

When the prosecuting authority has deemed that the case has sufficient evidence to provide a realistic prospect of conviction it must then consider if it is in the 'public interest' for the legal action to progress. Every case is different and many will have mitigating aspects which will influence the authority's decision to either take legal action or refrain from instigating legal proceedings.

The public interest test requires prosecutors to consider wider factors tending for or against prosecution, for example the relative seriousness of the offence. Some common public interest factors tending against prosecution may be:

- The customer's mental or physical health would deter the authority from taking further action;
- The customer has repaid the discount / exemption in its entirety (balanced with the seriousness of the offence);
- It can be established that part or all of the original discount / exemption was awarded in error. It is established whether it is an official error at the start of an investigation – if it was official error then we would not undertake an interview under caution. If part of it was official error but part was customer fraud then consideration would be given to prosecuting the fraudulent element depending upon the amount;
- The investigation process contains unexplained long delays;
- The customer's family circumstances or adverse recent events may deter the authority from taking the person to court.

This page is intentionally left blank

Blue Badges, Parking Permits and Visitor Parking Permits: Sanction and Prosecution Policy



Blue Badges

Peterborough City Council provides parking concessions to people who have been issued with a Disabled Parking Badge, under the national Blue Badge scheme. Blue Badges are issued in accordance with the Department for Transport Guidance, to people with a permanent and substantial disability that impacts on their mobility.

The scheme provides a significant financial benefit when compared with paid for parking. Due to this financial benefit, Peterborough City Council does experience an element of fraud within the scheme which we will investigate. The investigation of Blue Badge misuse and fraud is a serious matter and as such, may result in the sanctioning of those persons, who have abused the Blue Badge scheme to gain a financial advantage.

By adopting and enforcing this Policy, Peterborough City Council makes the statement that it will not accept any abuse of the Blue Badge scheme. This will act as a deterrent against Blue Badge misuse and fraud. In making decisions as to whether criminal proceedings should be brought against individuals, Peterborough City Council will always consider whether there is sufficient evidence for there to be a reasonable prospect of conviction, if the matter was taken to Court and will also consider if it is in the public interest.

The Disabled Persons' Parking Badge Scheme ("the Scheme") was introduced in 1972, under Section 21 of the Chronically Sick and Disabled Persons Act 1970. The Scheme provides a national arrangement of on-street parking concessions and car parks for severely disabled people. The disabled persons Blue Badge is recognised throughout the European Union.

It is the responsibility of Peterborough City Council to ensure that only people satisfying the required criteria are issued with a Blue Badge. Individuals sign a declaration on the application form stating that the information provided is correct. In addition, individuals can automatically qualify for a Blue Badge if they have higher rate mobility for Disability Living Allowance or Personal Independence Payments and they will be required to provide a copy of the award letter as proof.

Fraud and Misuse of a Blue Badge

There are several ways that a Blue Badge can be used fraudulently or misused:

- Using a Blue Badge that has expired or is no longer valid;
- Misuse of a valid Blue Badge by a non-badge holder;
- Using a Blue Badge that has been reported as lost or stolen;
- Using a forged, copied / scanned or amended Blue Badge;
- Using a Blue Badge that is obtained through submission of false or misleading information on application; or
- Using a Blue Badge when the holder is no longer eligible as the medical condition or mobility has improved.

Where an investigation reveals that the misuse of a Blue Badge appears to have occurred due to a mistake then the badge holder will be provided with details of the correct use and other sanctions will be considered if appropriate.

Blue Badge holders have a duty to return a badge if:

- The badge expires;
- The badge holder is no longer eligible;
- It is a replacement badge for one that is lost or stolen and the original is found / recovered (in this case the original badge should be returned so that it can be officially destroyed);
- The badge is so damaged / faded that the details are not clear;
- Where the badge holder dies, it is the responsibility of the next of kin to return the badge.

Resident and Visitor Parking Permits

A resident parking permit allows residents to park their vehicles in a resident's bay in the street or zone near to where they live. However, a permit does not guarantee that a parking space will always be available. To ensure the scheme is as fair as possible permits are issued at the discretion of the Council. There may be restrictions in certain areas / streets / zones.

Visitor parking permits provide access to residential parking bays, subject to their availability. It is necessary for anybody using a visitor parking permit, to park a vehicle, to be visiting a person who resides within the restricted parking area.

Legislation

The Council may pursue criminal proceedings under the following legislation:

- Road Traffic Regulation Act 1984 section 117
- Fraud Act 2006 – Sections 1, 2, 3, 6 or 7

Prosecution

When considering the suitability of a case for prosecution, PCC will apply two tests, the evidential test and the public interest test (see above)

Circumstances where it may be deemed to be in the public interest to prosecute

The following is not an exhaustive list and each case will be judged on its own merits:

- The fraud or misuse was calculated and proven to be deliberate;
- The person has previously committed other similar fraud offences;
- There has been a breach of trust;
- The case involved collusion or conspiracy;
- The person was the ringleader or has organised or initiated the Blue Badge fraud;
- A warning letter has previously been issued to the person for previous misuse of a Blue Badge; or
- Where the person fails to attend an interview under caution we may proceed to prosecution.

Circumstances where it may be deemed not to be in the public interest to prosecute

The following is not an exhaustive list and each case will be judged on its own merits:

- The age or physical or mental health of a person is such that the additional stress incurred by a prosecution would incur an unacceptable risk;
- Where the person suffers chronic ill health, this will normally be supported by independent medical evidence, where appropriate;
- For the purposes of this policy a person's age will be considered along with the other relevant information when deciding whether to apply a sanction; or
- There has been an inexcusable time delay, which may prejudice the case.

Interviews under Caution

A person will be invited to attend an interview under caution in all cases where the evidence has been collected that suggests an offence has been committed and sanction action should be considered in line with this policy. This will allow the person to provide explanations for their actions and provide Peterborough City Council with information relevant to both the evidential and public interest tests referred to above.

If a person chooses not to attend an interview under caution or declines to answer questions regarding the alleged offence, then Peterborough City Council will decide on the evidence available the most appropriate course of action which includes referral for prosecution.

In all cases which involve employees of the Council, investigations will also follow the Councils Code of Conduct which could lead to appropriate disciplinary action.

Warning Letters

In circumstances where there is sufficient evidence, but it is not in the public interest to prosecute, Peterborough City Council will issue a warning letter. Such circumstances may include:

- Where the offence was committed by mistake; or
- Where the person committing the offence would be eligible for a blue badge in their own right if they applied

This is not an exhaustive list and each case will be judged on its own merits.

Publicity

The Council intends to positively promote this policy as well as the outcome of any prosecutions, which will deter others from fraudulent activity.

Draft: Version 1.05

February 2020

Annex 1

Definition of Fraud

Fraud is a wrongful or criminal deception intended to result in financial or person gain:

- Makes a false statement;
- Produces a false document; and / or
- Fails to promptly notify of a relevant change in circumstances which the person knows will affect the discount / exemption / relief / support they are entitled to / or are in receipt of.

Culture

The Council has a Compliance Team which is part of Internal Audit within the Resources Department. The team consists of two investigating officers and is line managed by the Chief Internal Auditor.

Cases of suspected fraud can be referred to the team by e-mail (fraud@peterborough.gov.uk) they can also be made on-line via the Council's website. They can also be made by letter. In a similar vein this can be used for reporting of any other suspected fraud. Employee investigations are also covered by the team and follow the Employees Code of Conduct and the Disciplinary Policy. There is a dedicated fraud hotline **01733 452250** which can be used by either staff members or the general public. Outside office hours there is an answerphone service attached to this number.

Prevention, Detection and Investigation

The Team will investigate allegations of fraud to a criminal standard, i.e. evidence is collated and alleged offenders formally interviewed in accordance with the Police & Criminal Evidence Act 1984 / the Criminal Procedure and Investigations Act 1996. A case will only be deemed suitable for prosecution if it meets the requirements of the Code for Crown Prosecutors. There are two main requirements – The Evidential Test and The Public Interest Test.

Prosecution cases are passed to an in-house Litigation Lawyer. If it case is to be passed to the Police for them to investigate, the case is referred to the Director of Governance.

Evidential Test

The prosecuting authority must be satisfied that there is sufficient evidence to provide a 'realistic prospect of conviction' on each charge. Consideration should be given to what the defendant's defence may be and how it is likely to affect the prospects of conviction.

A realistic prospect of conviction is an objective test based solely upon the prosecuting authority's assessment of the evidence and any information that the authority has about the defence that the subject of the allegation may put forward. The authority must then decide whether, if properly directed in accordance with law, a jury (or magistrate) is more likely to convict than acquit a defendant of the charge(s) against them. When deciding if there is sufficient evidence to prosecute the authority will consider:

- Can the evidence be used in court?
- Is it likely that the evidence will be excluded by the court? (For example, is it likely it may be excluded due to the way that it was obtained?)

- Is the evidence hearsay? If so, is the court likely to allow it to be represented under any of the exceptions which permit such evidence to be given in court?
- Does the evidence relate to the bad character of the suspect? If so, is the court likely to allow it to be presented?
- Is the evidence reliable?
- Does the suspect have a credible explanation for their actions?
- Is there evidence which might support or detract from the reliability of a confession? Is its reliability affected by factors such as the suspect's level of understanding?
- Is the identification of the suspect likely to be questioned?
- Are there concerns over the accuracy, reliability or credibility of any of the evidence of any witness?

Public Interest Test

When the prosecuting authority has deemed that the case has sufficient evidence to provide a realistic prospect of conviction it must then consider if it is in the 'public interest' for the legal action to progress. Every case is different and many will have mitigating aspects which will influence the authority's decision to either take legal action or refrain from instigating legal proceedings.

The public interest test requires prosecutors to consider wider factors tending for or against prosecution, for example the relative seriousness of the offence. Each case will be considered on its own merits by common public interest factors tending against prosecution may be:

- The customer's mental or physical health would deter the authority from taking further action.
- The investigation process contains unexplained long delays.
- The customer's family circumstances or adverse recent events may deter the authority from taking the person to court.

This page is intentionally left blank

AUDIT COMMITTEE	AGENDA ITEM No. 9
23 MARCH 2020	PUBLIC REPORT

Report of:	Peter Carpenter – Acting Director of Corporate Resources	
Cabinet Member(s) responsible:	Cllr Seaton – Cabinet Member for Finance	
Contact Officer(s):	Peter Carpenter – Acting Director of Corporate Resources	Tel: 384564

UNCOLLECTABLE DEBTS IN EXCESS OF £10,000

R E C O M M E N D A T I O N S	
FROM: Peter Carpenter – Acting Director of Corporate Resources	Deadline date: 23 March 2020
<p>It is recommended that Audit Committee:</p> <ol style="list-style-type: none"> Note the Uncollectable Debts in excess of £10,000 report. 	

1. ORIGIN OF REPORT

1.1 This report is submitted to the Audit Committee for information from Cllr Seaton (Cabinet Member for Finance) following the publication of a Cabinet Member Decision Notice (CMDN).

2. PURPOSE AND REASON FOR REPORT

2.1 This report is for information following the Cabinet Member for Finance exercising delegated authority under paragraph 3.4.3 of Part 3 of the constitution in accordance with the terms of their portfolio at paragraph (n).

2.2 This report is for the Audit Committee to consider under its Terms of Reference No. 2.2.2.13 To review any issue referred to it by the Chief Executive or a Director, or any Council body.

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	NO	If yes, date for Cabinet meeting	
---	-----------	----------------------------------	--

4. BACKGROUND AND KEY ISSUES

4.1 The attached CMDN report details the Cabinet Member's approval to write-off uncollectable debts that exceed £10,000 in relation to non-domestic rates, council tax, housing benefit overpayments and accounts receivable (sundry debt), as detailed in the appendices to this report. The aggregate total value of these debts is £2,157,163.

4.2 All cases requested for write-off follow a lengthy process to recover the outstanding money, sometimes dating back many years. Only once all avenues have been exhausted will the council consider writing off debt.

- 4.3 It is acknowledged that given the high volume and value of invoices and bills issued there will always be a requirement to write off an element of debt as uncollectable, however, a number of the debts included within the report are historic and should have been considered for write off a number of years ago.
- 4.4 The largest type of debt raised each year is business rates (currently just in excess of £100 million per annum), followed by council tax at just over £90 million per year. When the sum recommended for write off for all debt is expressed as a percentage of the total debt raised over the period, it represents only 0.10%. If debts less than £10,000 are also included, the total percentage written off is only 0.16% of the total debt raised.
- 4.5 The majority of debt to be written off has been provided for in the council's debt provisions. As a result, the impact on the Council's revenue position as a result of this write off exercise is £75,116. All debt recovery actions available to the council must be exhausted before outstanding debt can be recommended for write-off.

5. CONSULTATION

- 5.1 Information concerning the consultation undertaken is detailed within the attached CMDN report.

6. ANTICIPATED OUTCOMES OR IMPACT

- 6.1 It is anticipated that the Committee will note the attached 'Uncollectable Debts in Excess of £10,000' Cabinet Member Decision Notice.

7. REASON FOR THE RECOMMENDATION

- 7.1 Reasons for recommendation are detailed within the attached CMDN report.

8. ALTERNATIVE OPTIONS CONSIDERED

- 8.1 Alternative options are detailed within the attached CMDN report.

9. IMPLICATIONS

Financial Implications

- 9.1 Financial implications are detailed within the attached CMDN report.

Legal Implications

- 9.2 Financial implications are detailed within the attached CMDN report.

Equalities Implications

- 9.3 There are no significant equalities implications.

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

- 10.1 Cabinet Member Decision Notice: To approve the write-off of any uncollectable debts in excess of £10,000.

11. APPENDICES

- 11.1 Cabinet Member Decision Notice: To approve the write-off of any uncollectable debts in excess of £10,000.

UNCOLLECTABLE DEBTS IN EXCESS OF £10,000
COUNCILLOR DAVID SEATON, CABINET MEMBER FOR FINANCE
March 2020
Deadline date: 11 March 2020

Cabinet portfolio holder: Responsible Director:	Councillor David Seaton, Cabinet Member for Finance. Peter Carpenter, Acting Director of Corporate Resources
Is this a Key Decision?	YES If yes has it been included on the Forward Plan: Yes Unique Key decision Reference from Forward Plan: KEY/16SEPT19/01
Is this decision eligible for call-in?	YES
Does this Public report have any annex that contains exempt information?	NO
Is this a project and if so has it been registered on Verto?	NO

R E C O M M E N D A T I O N S

The Cabinet Member is recommended to authorise the write off of the debt shown as outstanding in respect of non-domestic rates, council tax, housing benefit overpayments and accounts receivable (sundry debt) accounts included in the Appendices. This details the financial year and the category for the write off request.

1. SUMMARY OF MAIN ISSUES

- 1.1 This report seeks the Cabinet Member's approval to write-off uncollectable debts that exceed £10,000 in relation to non-domestic rates, council tax, housing benefit overpayments and accounts receivable (sundry debt), as detailed in the appendices to this report. The aggregate total value of these debts is £2,157,163.
- 1.2 All cases requested for write-off follow a lengthy process to recover the outstanding money, sometimes dating back many years. Only once all avenues have been exhausted will the council consider writing off debt.
- 1.3 It is acknowledged that given the high volume and value of invoices and bills issued there will always be a requirement to write off an element of debt as uncollectable.

- 1.4 The largest type of debt raised each year is business rates (currently just in excess of £100 million per annum), followed by council tax at just over £90 million per year. When the sum recommended for write off for all debt is expressed as a percentage of the total debt raised over the period, it represents only 0.10%. If debts less than £10,000 are also included, the total percentage written off is only 0.16% of the total debt raised.

2. PURPOSE OF THIS REPORT

- 2.1 This report is for the Cabinet Member for Finance to consider exercising delegated authority under paragraph 3.4.3 of Part 3 of the constitution in accordance with the terms of their portfolio at paragraph (i).

3. TIMESCALE

Is this a Major Policy Item/Statutory Plan?	NO
---	-----------

4. DETAILS OF DECISION REQUIRED

- 4.1 The Cabinet Member for Resources is requested to approve the write off of uncollectable debt in excess of £10,000. These debts relate to non-domestic rates, council tax, housing benefit overpayments and accounts receivable (sundry debt) accounts.

Financial Context

- 4.2 The Council is committed to taking all appropriate action necessary before considering a debt for write off. This includes multiple written reminder letters early in the recovery process, telephone call follow up, senior management dialogue with counterparts, and where necessary, court and enforcement agent action. It can take several years before all actions have been undertaken.
- 4.3 Per annum, the Council currently expects to receive approximately £100m in non-domestic rates and in excess of £50m of sundry invoice income. In addition, the Council receives significant income from operational activity with other public sector organisations, including approximately £14m per annum from the Clinical Commissioning Group (CCG). As a result of activity on this scale, the Council recovers millions of pounds every year in unpaid debt, sometimes dating back years, due to being persistent in recovery activity.
- 4.4 Despite our best endeavours, it is inevitable that a small percentage of debt will not be collected and will ultimately have to be written off. There are a number of reasons why this occurs with the most common being where a company has gone into liquidation, an individual has been made bankrupt, a debtor has died with no funds available, or where it has not been possible to trace a debtor. It is very common for large organisations in both the public and private sectors to incur debt, and the Council is no different in that respect. Writing off debt is standard practice and recommended as part of good budget management.
- 4.5 In addition to the balances to be written off as part of this report, debts with a value less than £10,000 also require write-off consideration. While not forming part of this governance process (due to delegation limits as part of the Council's financial regulations), the values are shown in Appendix 2 for completeness and overall context.

5. CONSULTATION

- 5.1 Consultation between relevant Council Officers, the Head of Finance, the Local Taxation section and key Heads of Service within the Peterborough-Serco Strategic Partnership was undertaken to provide the relevant information for this report.

6. ANTICIPATED OUTCOMES

- 6.1 It is anticipated that the Cabinet Member for Finance will approve the write-off of the debt amounts summarised in Appendix 1.

7. REASONS FOR RECOMMENDATIONS & ANY RELEVANT BACKGROUND INFORMATION

- 7.1 In all cases included in this Cabinet Member Decision Notice the authorisation for write-off is requested due to one of the following scenarios:

- a company being placed into administration of liquidation;
- the ratepayer is an individual being made bankrupt;
- the ratepayer is deceased with no further income due from the estate;
- following extensive enquiries being made it has not been possible to trace the debtor and therefore collect payment; or
- all recovery options/ activity have been exhausted.
- the entity/ organisation is now defunct due to restructuring
- the debt is Statute Barred due to time limitation

- 7.2 Where debt being written off is in relation to companies that have gone into administration/ individuals being made bankrupt, proof of debt has been lodged with the Administrators or Liquidators in all appropriate cases and either it has been confirmed that no dividend is payable or a final dividend payment has been received. Recovery action has therefore been exhausted and there is no further action that can be taken to obtain any further payments in relation to the debt. Table 2 in Appendix 1 summarises the rationale for the different reasons for write off decisions by year and by value.

- 7.3 The majority of the aged debt outlined in Appendix 1 has been fully provided for in the council's debt provisions in accordance with the council's debt provision policies, local accounting procedures and statutory accounting regulations. As a result, the impact on the Council's revenue position as a result of this write off exercise is £75,116. All debt recovery actions available to the council must be exhausted before outstanding debt can be recommended for write-off.

- 7.4 To further strengthen its debt collection procedures, the Council has now implemented a robust end-to-end accounts receivable process, including ensuring that all future debt write off exercises take place on a quarterly basis. This report represents the final quarterly exercise for 2019-20.

8. ALTERNATIVE OPTIONS CONSIDERED

- 8.1 The alternative option is to not write off this debt but this would result in an uncollectable debt continuing to be shown as outstanding with a bad debt provision for this debt. Once a debt is no longer collectable it should be written off in the Council's accounts and the debt provision adjusted accordingly.

- 8.2 All other alternative options available to the Council to collect the debt have already been undertaken before making a decision to recommend a debt for write off.

9. IMPLICATIONS

- 9.1 Financial and legal implications have been included within this report.

- 9.2 Section 151 of the Local Government Act 1972 requires a local authority to make arrangements for the proper administration of their financial affairs and the write-off of debts falls within such duties.

9.3 There are no equalities implications arising from the recommendation.

Carbon Impact Assessment

9.4 A Carbon Impact Assessment of this decision has been carried out and it is considered that there is no/ negligible impact of implementing this decision.

10. DECLARATIONS / CONFLICTS OF INTEREST & DISPENSATIONS GRANTED

None

11. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985) and The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012

There are no documents.

12. APPENDICES

Appendix 1 - Debt Write-Offs With A Value Over £10,000 by type

Appendix 2 - Debt Write-Offs With A Value Over £10,000 by write-off rationale

Appendix 3 - Debt Write-Offs With A Value Under £10,000 (for information only)

Appendix 1 - Debt Write-Offs With A Value Over £10,000

Table 1: By financial year and % of debt type raised

Financial Year	Non Domestic Rates (inc costs of collection)			Council Tax (inc costs of collection)			Housing Benefit Overpayment			Sundry Debt		
	Write-off (£)	Debt raised in year (£)	Write-off (%)	Write-off (£)	Debt raised in year (£)	Write-off (%)	Write-off (£)	Debt raised in year (£)	Write-off (%)	Write-off (£)	Debt raised in year (£)	Write-off (%)
Up To 2008/09	-	-	-	27,746	-	-	-	-	-	72,444	-	-
2009/10	-	86,843,886	0.00%	25,323	60,755,510	0.04%	-	1,807,500	0.00%	24,757	51,430,000	0.05%
2010/11	46,008	84,526,730	0.05%	8,155	62,681,765	0.01%	1,080	2,179,137	0.05%	18,388	51,450,000	0.04%
2011/12	49,084	89,444,197	0.05%	12,114	63,452,470	0.02%	-	2,226,296	0.00%	49,611	47,270,000	0.10%
2012/13	78,457	92,745,954	0.08%	6,602	65,889,575	0.01%	-	2,722,511	0.00%	457,989	48,540,000	0.94%
2013/14	82,819	94,532,290	0.09%	10,701	71,080,446	0.02%	15,958	3,252,342	0.49%	50,143	46,140,000	0.11%
2014/15	58,214	96,008,318	0.06%	12,308	73,109,247	0.02%	-	4,691,218	0.00%	35,727	45,140,000	0.08%
2015/16	86,606	100,664,032	0.09%	3,795	74,846,674	0.01%	29,771	3,990,404	0.75%	6,932	54,270,000	0.01%
2016/17	72,626	101,768,770	0.07%	2,776	79,093,000	0.00%	14,199	3,936,724	0.36%	3,761	59,620,000	0.01%
2017/18	57,215	100,459,326	0.06%	1,938	84,378,529	0.00%	-	4,599,730	0.00%	12,277	58,210,000	0.02%
2018/19	71,130	101,527,035	0.07%	145	91,117,767	0.00%	13,657	2,779,819	0.49%	13,605	47,900,000	0.03%
2019/20	615,317	-	-	-	-	-	-	-	-	7,785	-	-
Total	1,217,476	948,520,538	0.11%	111,603	726,404,983	0.02%	74,665	32,185,681	0.23%	753,419	509,970,000	0.15%

Table 2: By financial year and write-off rationale

Financial Year	Company/ ratepayer placed into Administration/ Liquidation/ Bankruptcy/ Entered into a CVA	Old Entity (NHS restructuring) - organisation is now defunct	Other - legacy/ disputed debts/ incomplete records	Recovery action exhausted	Statute Barred	The ratepayer is deceased with no further income due from the estate	Unable to trace the debtor and collect payment	Total
Up to 2008/09	24,423	45,836	7,607			19,000	3,322	100,188
2009/10	23,193	7,181			9,700	7,876	2,129	50,079
2010/11	53,960	5,797	11,950		641		1,283	73,631
2011/12	64,592	458			38,970	4,544	2,246	110,810
2012/13	96,802	416,922	9,648		10,810	6,485	2,381	543,048
2013/14	88,280	8,681	20,760		15,242	8,322	18,337	159,622
2014/15	68,238		21,317			15,458	1,236	106,249
2015/16	88,406		1,093			7,835	29,771	127,105
2016/17	72,626			14,199		6,537		93,362
2017/18	57,215	3,164	4,467			6,583		71,429
2018/19	71,130		6,521	13,657		7,230		98,538
2019/20	615,317		2,792			4,993		623,102
Total	1,324,182	488,039	86,155	27,856	75,363	94,863	60,705	2,157,163

Appendix 2 - Debt Write-Offs With A Value Under £10,000

Financial Year	Council Tax (inc costs of collection)			Housing Benefit Overpayment			Sundry Debt		
	Write-off (£)	Debt raised in year (£)	Write-off (%)	Write-off (£)	Debt raised in year (£)	Write-off (%)	Write-off (£)	Debt raised in year (£)	Write-off (%)
Up To 2008/09	154,435	-	-	57,079	-	-	12,797	-	-
2009/10	18,922	60,755,510	0.03%	39,980	1,807,500	2.21%	13,506	51,430,000	0.03%
2010/11	18,235	62,681,765	0.03%	47,894	2,179,137	2.20%	23,016	51,450,000	0.04%
2011/12	18,083	63,452,470	0.03%	45,396	2,226,296	2.04%	28,728	47,270,000	0.06%
2012/13	20,152	65,889,575	0.03%	86,709	2,722,511	3.18%	23,356	48,540,000	0.05%
2013/14	24,355	71,080,446	0.03%	106,058	3,252,342	3.26%	39,155	46,140,000	0.08%
2014/15	29,741	73,109,247	0.04%	141,166	4,691,218	3.01%	15,413	45,140,000	0.03%
2015/16	43,463	74,846,674	0.06%	43,004	3,990,404	1.08%	14,555	54,270,000	0.03%
2016/17	52,616	79,093,000	0.07%	29,142	3,936,724	0.74%	6,230	59,620,000	0.01%
2017/18	62,579	84,378,529	0.07%	35,036	4,599,730	0.76%	15,093	58,210,000	0.03%
2018/19	43,818	91,117,767	0.05%	15,356	2,779,819	0.55%	3,511	47,900,000	0.01%
2019/20		-	-	2,085	-	-	2,053	-	-
Total	486,399	726,404,983	0.07%	648,905	32,185,681	2.02%	197,413	509,970,000	0.04%

This page is intentionally left blank