

**(DRAFT) ANNUAL REPORT FROM
THE CHAIRMAN OF AUDIT COMMITTEE
2016 / 2017**

Assurance

Governance

Accountability

Risk Management

Independence

AUDIT COMMITTEE: ANNUAL REPORT 2016 / 2017

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FOREWORD FROM THE CHAIRMAN OF AUDIT COMMITTEE

I am pleased to provide the Audit Committee's Annual Report for the municipal year 2016 / 2017. The Council is requested to note the work carried out by the Audit Committee in improving the governance arrangements across the Council.

The report shows how the Audit Committee has continued to make a positive contribution to the Council's governance and control environments. These cover all aspects, such as internal control; risk management; internal audit; anti-fraud; external audit; and financial reporting. In addition, it also covers the remit of Member standards.

I would like to take this opportunity to give thanks to Committee Members and Officers for their contribution in supporting the Audit Committee's work during the year and my role as Chairman. Audit Committee Members have supported and challenged officers to ensure our risk, control and governance processes are effective and transparent. Officers have presented well-prepared reports and taken on suggestions to make sure the benefits of this Committee are passed onto our citizens.

Going forward, 2017 / 2018 will be a testing time for all Councils with the resources available becoming more important. How we risk manage our priorities, resources and partnerships will be vital, notwithstanding the risk of fraud. The Audit Committee holds a unique position to challenge and scrutinise the activities of the Council, with the support of Officers and my fellow Councillors, long may this continue.

INTRODUCTION

This is the 9th 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 Audit Committee was established by the City Council at its meeting in May 2006. Following its first year of operation, the membership was reduced from 10 to 7 members. The Membership had increased to 8 in 2015/16, but has since reduced in 2016/17 to 7.

The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risks and weakens the control environment, and to oversee the financial reporting process.

The key benefits of an Audit Committee can be seen as:

- Raising greater awareness of the need for internal control and the implementation of both internal and external audit recommendations;
- Increasing public confidence in the objectivity and fairness of financial and other reporting;
- Reinforcing the importance and independence of internal and external audit and similar review 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.

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

This report sets out the work undertaken by the Audit Committee for 2016 / 2017 and specifically highlights those areas where its scrutiny and review process has made a difference to performance. The Audit Committee has overseen good progress in all areas under its supervision.

Audit Committee members have received training on key issues throughout the year, and further details of this can be found later in this report.

MEMBERSHIP AND MEETINGS

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

- 29 June 2016
- 22 September 2016
- 21 November 2016
- 13 February 2017
- 27 March 2017

There is a cross representation of all parties in accordance with the make-up of the Council. The members for 2016 / 2017 were (excluding substitutes):

Table 1: Audit Committee Membership 2016 / 2017:

| Conservative | Peterborough Independent Forum | Liberal Democrats | Labour |
|---|--------------------------------|-------------------|--------|
| Fuller (Chair) Aitken (Vice Chair) Over Sims | Sharp | Shaheed | Murphy |

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

KEY ACTIVITIES AND TRAINING DURING THE MUNICIPAL YEAR

Background

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

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

Internal Audit

2.2.1 Terms of Reference

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

29 June 2016

- *Effectiveness of Internal Audit.* Each year, as part of the production of the Annual Governance Statement which accompanies the Accounts, the Audit Committee also reviewed the effectiveness of the system of internal audit noting planned actions to address any areas of partial compliance. In addition, comparisons were made with the new Public Sector Internal Audit Standards.
- *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.

21 November 2016

- *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. Similarly, this has been used for officers to explain the non-implementation of recommendations.

27 March 2017

- Annual Audit Plan. Audit Committee received the 2016/17 Internal Audit Plans.

Internal Control and Corporate Governance

2.2.1 Terms of Reference

- 2.2.1.1** To consider the annual report and opinion of the Corporate Director Resources and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the council's corporate governance arrangements.

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

29 June 2016

- *Draft Annual Governance Statement.* A key role of the Audit Committee is to oversee the Authority's control environment and its associated system of internal controls and assurance processes. The Audit Committee must satisfy itself that the Authority's assurance statements, in particular the Annual Governance Statement, properly reflect the risk environment and any actions needed to improve it. This is done through receiving and scrutinising reports on the relevant areas and calling officers to account where necessary.
- Audit Committee reviewed the draft Annual Governance Statement on 29 June 2016, noting areas for improvement following a review of internal controls, risk management arrangements and significant governance issues. The Committee agreed to final changes to the Statement prior to its inclusion in the Statement of Accounts.

21 November 2016

- 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 2016. Following the update members agreed to raise items of interest in relation to the hourly payment rate of consultants with the Service Director Financial who would provide further feedback.

Annual Accounts

2.2.1 Terms of Reference

Accounts

- 2.2.1.16** To review the annual statement of accounts, specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
- 2.2.1.17** To consider the external auditors report to those charged with governance on issues arising from the audit of the accounts.

29 June 2016

- *Budget Monitoring: Final Outturn 2015 / 2016 and Statement of Accounts.* Audit Committee reviewed and scrutinised the outturn and Statement of Account on 29 June 2016 prior to its submission to the external auditors for audit. The Committee reviewed and commented on the

Statement of Accounts prior to the Chief Finance Officer's (Sec 151 Officer) certification by the 30 June 2016.

22 September 2016

- Following scrutiny by External Audit, the *Audit of Statement of Accounts and Report to those charged with Governance* was submitted to the Audit Committee. The Committee received and approved the "Report to those charged with governance (ISA260) 2015/16 Audit" from Ernst & Young LLP, the Council's external auditors; and received and approved the audited Statement of Accounts 2015/16

21 November 2016

- *Treasury Management Update*. A separate report was submitted which outlined the council's approach to Treasury Management, in line with agreed practices identified in the Medium Term Financial Strategy. Further details are also set out in the outturn reports submitted in June each year.
- At its meeting on 16 March 2015 the Committee agreed to include a standing item on the future agendas of Audit Committee to receive information on the number of write-offs over the value of £10,000 (in line with the threshold in financial regulations), which would also include the procedure and approval process followed. To date there have been no write-offs made over the value of £10,000, reported to the Committee in the Municipal Year 2016/17.

Risk Management

2.2.1 Terms of Reference

Regulatory Framework

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

22 September 2016

- Risk Management Strategic Risk. Audit Committee received a report of the strategic risks impact on the Council and the mitigating actions to address these. At its meeting, the Committee noted the report and requested that the Head of Resilience would keep members apprised on those risks with a red rating.

27 March 2017

- *Risk Management: Strategic Risk*. The Committee received a report which outlined the Strategic Risks for the Council including the latest review of the Risk Register by Corporate Management Team.

External Audit

2.2.1 Terms of Reference

- 2.2.1.5** To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.

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

29 June 2016

- Annual Audit Plan at its meeting the Committee considered the External Audit Plan for 2015/16 and points raised by Ernst and Young LLP in the document including:
 - Proposed scope, comfortable with the audit risks, and approach;
 - Considered and responded to matters relating to fraud;
 - Considered and responded to the Ernst and Young view on the value of misstatements; and
 - Noted the audit fees for the year
 - Provided comment on any amendments necessary.

22 September 2016

- Following scrutiny by External Audit, the *Audit of Statement of Accounts and Report to those charged with Governance* was submitted to Audit Committee. Following review the Committee approved and agreed the:
 - Received and approved the "Report to those charged with governance (ISA260) 2016/17 Audit" from Ernst & Young LLP (EY), the Council's external auditors; and
 - Received and approved the audited Statement of Accounts 2015/16

21 November 2016

- At its meeting the Committee were requested to consider the appointment of external auditors following the closure of the Audit Commission in March 2015. The Council's current auditor appointment was managed by PSAA under transitional arrangements. The Committee agreed to recommend to Council, the adoption of Public Sector Audit Appointments Ltd (PSAA) as the appointing person for the Council, subject to receiving a satisfactory invitation to opt into the PSAA's appointing person arrangements; and to delegate acceptance of the invitation to the Corporate Director: Resources, as the Council's Section 151 Officer. The decision for the appointment was made by Council on 14 December 2016.

13 February 2017

- Audit Committee scrutinised and endorsed the Annual Audit and Inspection Letter in respect of 2015 / 2016 and Annual Grant Claims Certification.

27 March 2017

- Annual Audit Plan.

Counter Fraud & Irregularities

2.2.1 Terms of Reference

Regulatory Framework

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

29 June 2016

- 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.

29 June 2016 / 22 September 2016 / 21 November 2016 / 13 February 2017 / 27 March 2017

- *Use of Regulation of Investigatory Powers Act 2000 (RIPA)*. At its meeting held on 24 March 2014, Audit Committee considered and agreed an alternative reporting mechanism which introduced a standing information item on each Audit Committee agenda in respect of the Use of Regulation of Investigatory Powers Act 2000 (RIPA). This meant that only when the RIPA power was utilised by PCC would there be a report presented to Audit Committee. To date there has been no RIPA use to report to Audit Committee. Ultimately, this change in reporting mechanism has permitted the Committee to work more efficiently and has avoided the presentation of repetitive reports.

2.2.1 Terms of Reference

Regulatory Framework

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

27 March 2017

- The Audit Committee was asked to consider the proposed arrangements to require the Council's representatives to the Combined Authority and Overview and Scrutiny Committee to provide a briefing report to each meeting of Full Council, setting out the activities and any decisions of the Combined Authority, and to allow Councillors the opportunity to submit questions on notice to the Combined Authority Council representatives.

Member Code of Conduct

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

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

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

2.2.1.21 Monitoring the operation of the Code of Conduct;

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

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

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

- 1) When matters are referred by the Monitoring Officer granting dispensations to Councillors

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

Following the work of the Code of Conduct review group the Audit Committee selected the Department for Communities and Local Government (DCLG) model as the preferred code of Conduct option. The Audit Committee recommended the preferred code to Council, which was agreed at its meeting on 13 July 2016.

Code of Conduct Complaints

During the Civic year 2016/17 there were seven Council and one Parish council complaints received under the code of conduct.

Six of these complaints were concluded informally and one complaint has been referred for investigation. Following investigation one complaint was resolved informally by the Monitoring Officer. The remaining complaint remains with the Monitoring Officer and Independent Person for decision on whether to refer to the Hearings Panel.

21 November 2016

The Committee was asked to consider and grant general dispensation for a four year period as part of the Council's Monitoring Officer's statutory duties, in order to adhere to regulations under the Localism Act 2011. The dispensation was granted and a further report was requested to outline the legal requirements of granting a dispensation in respect of an allowance, payment or indemnity given to Members. A report was received on 13 February 2017 outlining the legal requirements which was considered and noted by the Committee.

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.

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

FUTURE DEVELOPMENTS AND PLANS FOR 2017 / 2018

Overall, the Audit Committee want to continue to develop and build on our current achievements. For 2017 / 2018 and this will involve:

- Continuing to drive up standards of corporate governance;

- Continuing to equip existing and any new Members to fulfil the Audit Committee's responsibilities by providing or facilitating training on all aspects of the Audit Committee's remit;
- Assisting and supporting officers to promote the work of the Audit Committee and the roles of internal audit, external audit and risk management;
- Supporting the continued production of high quality and compliant statutory accounts;
- Helping to further increase awareness within the Council of its governance arrangements, with particular emphasis on information and tackling fraud and corruption; and
- Providing effective challenge to officers, raising awareness for sound internal control arrangements and giving assurance to the Authority that its control arrangements are sound
- There is a proposed Code of Corporate Governance which the Committee will have to review
- It would be useful to undertake a review of the Terms of Reference following the introduction of the alternative governance procedures.

2.2 AUDIT COMMITTEE: TERMS OF REFERENCE²

2.2.1 Terms of Reference

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

Regulatory Framework

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

Accounts

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

- 2.2.1.16** To review the annual statement of accounts, specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
- 2.2.1.17** To consider the external auditors report to those charged with governance on issues arising from the audit of the accounts.

Member Code of Conduct

- 2.2.1.18** Promoting and maintaining high standards of conduct by Councillors and co-opted members;
- 2.2.1.19** Assisting the Councillors and co-opted members to observe the Code of Conduct;
- 2.2.1.20** Advising the Council on the adoption or revision of the Code of Conduct;
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- 3)** Hearing complaints that have been referred to them by the Monitoring Officer pursuant to the Complaints procedure;
- 4)** The agreement of relevant procedures for the undertaking of its functions, when appropriate to be included within the Constitution

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