

**(DRAFT) ANNUAL REPORT FROM
THE CHAIRMAN OF AUDIT COMMITTEE
2018 / 2019**

Assurance

Governance

Accountability

Risk Management

Independence

AUDIT COMMITTEE: ANNUAL REPORT 2018 / 2019

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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 2018 / 2019. 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.

This has been the first year that responsibility for the Member's Code of Conduct has passed to the remit of the Council's Constitution and Ethics Committee. I am sure we have all witnessed the improvements made to the Council's Constitution and welcome the Committee's work going forward.

Going forward, 2019 / 2020 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 11th 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.

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 2018 / 2019 and specifically highlights those areas where its scrutiny and review process has made a difference to performance. The Audit Committee has overseen good progress in all areas under its supervision.

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

MEMBERSHIP AND MEETINGS

During 2018 / 2019, the Audit Committee met on the following dates:

- 16 July 2018
- 24 September 2018
- 19 November 2018
- 11 February 2019
- 25 March 2019

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 2018 / 2019 as at 25 March 2019:

Conservative	Liberal Democrats	Labour
Over (Chair) Aitken (Vice Chair) Elsey Warren	Shaheed	S Nawaz Ellis

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 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

2.2.2	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.
2.2.2.16	To consider the council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

16 July 2018

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

19 November 2018

- *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.
- *Combined Authority Governance.* The Committee received a report outlining the progress made in governance arrangements at the Combined Authority. The Committee were informed that a number of committees were being setup and Peterborough Councillors would be invited to sit on these committees.

11 February 2019

- *Internal Audit Plan 2019/20 Planning Approach and emerging themes.* The Audit Committee noted the proposed work for internal audit in 2019/20

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
2.2.2.12	To review any issue referred to it by the Chief Executive or a Director, or any Council body.
2.2.2.16	To consider the council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

16 July 2018

- *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 16 July 2018. The Committee agreed to the final report and this was signed off within the legal timeframes.

24 September 2018

- *Treasury Management Mid-Year update.* The Committee received an update on the Treasury Management. In addition the Committee also noted the approval of use of loans within the officer's delegation scheme.
- *Approved Write-Offs exceeding £10,000.* The Committee received a report outlining the level of debt that had been written off by the Council.

19 November 2018

- *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 2018.

11 February 2019

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

- *Uncollectable Debts in excess of £10,000.* The Audit Committee noted the uncollectable debts and welcomed more frequent reports in the future.
- *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 February 2019.

Annual Accounts

2.2.2	Terms of Reference
	Accounts
2.2.2.17	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.
2.2.2.18	To consider the external auditors report to those charged with governance on issues arising from the audit of the accounts.

16 July 2018

- *Budget Monitoring Report Final Outturn 2017/18.* The report provides the Audit Committee with the outturn position for both the revenue budget and capital programme for 2017/18. 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.

25 September 2017

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

20 November 2017

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

Risk Management

2.2.1	Terms of Reference
	Regulatory Framework
2.2.1.12	To monitor the effective development and operation of risk management and corporate governance in the council.

24 September 2018

- *Insurance Service and Insurance Fund Annual Report 2017/18.* 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.
- *Risk Management Report.* Audit Committee received a report of the strategic risks impact on the Council and the mitigating actions to address these.

11 February 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.

16 July 2018

- *Audit Fees 2016/17.* The Audit Committee considered the proposed Audit Fees for 2018/19. The Audit Committee noted and commented on the proposed fees in keeping with previous years fees.
- *Ernst & Young Verbal Quarter 2 Update.* The Audit Committee received a short update on the work of the external auditors and national issues affecting external audits across local authorities.

24 September 2018

- *Ernst & Young Annual Audit Letter for year end 31 March 2018.* The Committee received a report on the annual findings letter of the external auditors.
- *Response to Public Sector Audit Appointments Proposal to Ernst & Young as external auditors for 5 years from 2018/19.* The Committee were asked to confirm the appointment of Ernst & Young as

external auditors for a period of five years from 2018/19.

19 November 2018

- *Ernst & Young Audit Plan for Year ended 31 March 2019 Draft.* The Audit Committee received a draft report on the audit plan from external auditors for the year ending 31 March 2019. The Committee were made aware of new accounting standards that had to be adhered to from the next financial year.

11 February 2019

- *External Audit Plan for end March 2019.* The Audit Committee received a final report outlining the Audit Plan for Ernst and Young for end of March 2019. Members noted the report and agreed to the work carried out.
- *Certification of claims and returns annual report.* Audit Committee scrutinised and endorsed the Annual Audit and Inspection Letter in respect of 2017 / 2018 and Annual Grant Claims Certification. The Committee were informed that from next year KPMG would be taking over this function on behalf of Peterborough City Council.
- *External Assessment of Internal Audit.* The Committee received a report outlining external assessment of the Councils Internal Audit functions. The Committee noted that the internal audit service was fit for purpose.

Counter Fraud & Irregularities

2.2.2	Terms of Reference
	Regulatory Framework
2.2.2.13	To monitor the effective development and operation of risk management and corporate governance in the council.

16 July 2018

- *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.
- *Use of Regulation of Investigatory Powers Act 2000 (RIPA).* At its meeting held on 16 July 2018, Audit Committee received and considered an updated policy, with a view to the Council being reviewed by the Policy inspectorate.

11 February 2019

- *Use of Regulation of Investigatory Powers Act 2000 (RIPA).* The Committee noted that the Council had recently been inspected by the Investigatory Powers Commissioners Office. The inspection had shown Peterborough City Council to be compliant but highlighted some areas for further progress.

Training

Throughout the year, the provision of ongoing training to Members has been the cornerstone of developing Members (new and existing). During the year, officers provided presentations on:

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

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

FUTURE DEVELOPMENTS AND PLANS FOR 2019 / 2020

Overall, the Audit Committee want to continue to develop and build on our current achievements. For 2019 / 2020 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.

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.
- 2.2.2.11 Authority to approve any changes regarding the Council's Whistle-Blowing policy and arrangements.

Regulatory Framework

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

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

Accounts

2.2.1.17 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.

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