



**MINUTES OF THE AUDIT COMMITTEE MEETING
HELD AT 5:00PM, ON
MONDAY, 13 JULY 2020
VIA ZOOM CONFERENCE**

Present: Councillors Over (Chairman), Joseph, Shaheed, A Coles, Fower, Jones 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
Fiona McMillan, Director of Law & Governance and Monitoring Officer

Also in

Attendance: Councillor David Seaton, Cabinet Member for Finance
Neil Harris, Associate Partner Ernst & Young
Dan Cooke, Audit Manager Ernst & Young

1. APOLOGIES FOR ABSENCE

There were no apologies for absence received.

2. DECLARATIONS OF INTEREST

There were no declarations of interest were received.

**3. MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 27
JANUARY 2020**

The minutes of the meeting held on 27 January 2020 were agreed as a true and accurate record.

4. DRAFT STATEMENT OF ACCOUNTS FOR THE YEAR ENDED 2019/20

The Audit Committee received a report in relation to the Draft Statement of Accounts for the year ended 2019/20.

The purpose of the report was to provide Members with the opportunity to consider and approve the Draft Statement of Accounts in accordance with the legislation.

The Head of Corporate Finance introduced the report and explained that due to changes in legislation in response to the Corona virus pandemic, the draft accounts could now be considered at this meeting. Changes meant that the fully audited document would now be signed by the end of November rather than the end of July.

The external audit which commenced on 22 June had, to date, generated queries, of which 158 had been cleared. Of the 50 that remained these were either being actively worked on or were not yet due for response. For the financial year 2019/20 there was a final underspend of £96k which had been put back into the budget.

The accounts had been compiled to the 31 March 2020, approximately two weeks into the pandemic and the impact of the pandemic was difficult to assess. Main impacts anticipated were the valuation of buildings, the assessment of assets and liabilities in the pension fund, the debtors balance and the collection of business rates and council tax.

Neil Harris, Associate Partner Ernst & Young (EY) gave a review of the Audit Plan and explained how the approach would be amended to account for the Corona virus pandemic. The Audit Plan set out the work required to address the risks associated with the council's arrangements to secure financial resilience. There were no significant concerns on the council's operating control environment. The planned levels of materiality would continue to be reviewed but would not be revised at this stage. Valuations would need to be reviewed in light of the effects of the Corona virus pandemic.

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

- All Audit Teams within EY had been given a briefing from their Real Estate Team to identify risks associated with valuations as at 31 March 2020. EY felt the councils most exposed would be those who had invested in property, retail, hospitality and construction. Those authorities would be exposed to more volatility and uncertainty.
- Peterborough City Council (PCC) did not have a significant level of commercial investment properties, which would be more exposed to the markets in comparison to other local authorities and had a wide diversity of assets.
- As the PCC valuers had expressed a material uncertainty across all categories of assets, EY would challenge that judgement before reaching an audit conclusion.
- Councils needed to consider their position and acknowledge the link between the valuation at the year end and medium to long term strategy on the capital programme and the benefits and realisation from investment in housing. Valuations at the year-end would be based on the current assessment of the housing market at that point in time.
- The accounts had to be signed off by the S151 Officer by 30 September; the date had been 31 July for previous years. The importance of the date was that information submitted by the Council was included in national returns for comparisons between local authorities and there had been 40 to 50 councils who failed to submit their accounts on time

last year. Peterborough had always been an early adopter of the audit standards. During this time the Council would follow the public consultation process. This year the public consultation would start in August to ensure openness and transparency to the public.

- The government wanted all local authorities to have their accounts open for public consultation and challenge at the same time and had moved the date back to allow more time for some local authorities (LAs) to prepare. Revised timetables had been issued by (*Ministry of Housing, Communities and Local Government*) MHCLG for this year to provide greater flexibility in response to the Covid-19 pandemic.
- The target date this year for the audited accounts was the end of November, in previous years it had been the end of July.
- The Council's strategy was to move some debt from longer term to shorter term in order to mitigate the anticipated forecast overspend and make savings as the shorter the term rates were lower than rates for longer terms.
- There had been a change on how the government valued liabilities. The way actuaries had assessed the long-term liabilities of pensioners had meant the liability had decreased, a situation reflected across other local authorities. It was suggested that the actuaries could present their findings and held to account on this matter as the effect on the whole accounts was £100m.
- Councillors wanted to know how many homes had been provided with the £12m spend from Medesham Homes. The Acting Corporate Director of Resources agreed to source and circulate that information.
- The borrowing ratio was relatively high however 40/50% was as a result of Peterborough being a high growth area for the last 20 years and the resulting impact on school building expenditure. Although the schools were run by third parties, the council retained the debt.
- The council anticipated being £100m under the capital financing level indicator. Members were referred to the Outturn Report, which was to be discussed later on the agenda.
- A government consultation was currently underway regarding LA borrowing. This could result in changes to the way LAs borrowed money in the future.
- A significant number of staff were now comfortable working from home which would free up office space. However it was important to assess staff in terms of mental health, morale and team working if the general direction was to work at home more.
- Property enquiries continued to be received from civil service departments trying to relocate from London, opening opportunities to rent empty office space.
- Whilst acknowledging that the Council had been open concerning the budget challenges and had taken steps to address them, auditors remained concerned with the overall situation.
- The Council were not exposed to significant investments in commercial trading subsidiaries. Councils who had invested in those areas were more significantly impacted by Covid-19 and it seemed unlikely that the government were going to support any resulting budgetary impact.
- The level of risk councils undertaken by Councils may need to be re-assessed in the future.

- Councils could recoup up to 75% of lost income on fees and charges from the government but could not recover loss of investment or commercial income.
- Some income was generated through working with other councils.

The Audit Committee considered and **RESOLVED** (unanimously) to note the Draft Statement of Accounts 2019/2020 prior to the Chief Finance Officer's certification by the 30 September 2020.

ACTION

The Acting Corporate Director of Resources agreed to source and circulate information on how many homes had been provided with the £12m spend by Medesham Homes.

The Acting Corporate Director of Resources agreed to correct the public record of the agenda Page 12 Item 4.13 on pension liability.

5. ANNUAL GOVERNANCE STATEMENT 2019/20

The Audit Committee received a report in relation to the Annual Governance Statement 2019/20.

The purpose of the report was to provide Members with details of the Annual Governance Statement which formed part of the closure of the previous year's accounting process.

The Acting Corporate Director Resources introduced the report and explained that the report set out the corporate view of the processes and procedures adopted by the council, giving the council's view on governance arrangements and their appropriateness and followed the seven principles Society of Local Authority Chief Executives (SOLACE) Framework for delivering good governance in local government. There were five items in 2019/20 that required monitoring, namely:

- Setting a balanced budget;
- Implications of Covid-19;
- Council structures;
- Levels of debt; and
- Key staff

The Council attained an unqualified view of accounts for the year 2018/19, but highlighted significant risks in the budget gap.

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

- Council had received £11m to date in two tranches due to Covid-19. In addition, the CCG had provided £2.7m and a further £2.5m had been

received for (*Personal Protection Equipment*) PPE for care homes, however the council had a deficit of approximately £14m, a similar situation to most other local authorities.

- Schools balances totalled £3.2m at 31 March 2020, compared with £3.4m at 31 March 2019. This reduction came as a result of the reserve balance associated with a specific school transferring to the new management when a school acquired academy status.
- Cyber security remained an issue and additional measures had been put in place.
- Fraud updates were received daily covering areas where fraud was being identified within the sector.
- Staff were reminded regularly to be aware of IT security.

The Audit Committee considered the report on the Annual Governance Statement 2019/2020 and **RESOLVED** (unanimously) to:

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

6. COUNTER FRAUD POLICIES

The Audit Committee received a report in relation to Counter Fraud Policies.

The purpose of the report was to provide the Committee with the Councils approach to tackling fraud and corruption.

The Chief Internal Auditor introduced the report and advised that fraud was generally on the increase in all aspects and some people were looking to exploit the council at every opportunity. Measures had been in place for several years and were brought to the committee to provide an update on any changes. Fraud Policies circulated included those against money laundering, council tax and business rates, blue badges and car parking permits.

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

- Fraud was increasing across all areas of the public sector.
 - Some errors could be attributed to human error rather than deliberate dishonesty and fraud.
 - Fraud was becoming more sophisticated and the council were regularly reviewing its control measures in place to mitigate any attempts to defraud the Council.

The Audit Committee considered the report on Counter Fraud Policies and **RESOLVED** (unanimous) to note the content of the report.

7. ANNUAL INTERNAL AUDIT OPINION 2019/2020

The Audit Committee received a report into the Annual Internal Audit Opinion 2019/2020.

The purpose of the report was to provide an overall opinion on the soundness of the control environment in place to minimise risks to the Council. It was based on the findings of completed audits and activities undertaken by the Internal Audit Team during 2019/2020.

The Chief Internal Auditor explained the content of the report to the committee. External works carried out with other associated organisations, such as Vivacity and the Combined Authority, were not included within the report as they would be reported through their own audit committees.

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

- New processes would be introduced shortly for Purchase Cards increasing authorisations and to facilitate improved monitoring.
- The council was reviewing its energy management arrangements which would be the subject of a Cabinet Member Decision Notice (CMDN). The Council now had access to its supplier gas and electricity bills and had gone out to tender for new energy contracts.
- Every Council system used was risk assessed and reviewed according to the risk rating on a regular basis, those with a higher risk factor were reviewed sooner and more frequently. The plans are regularly rescored as risks change.
- Audits in relation to Vivacity was covered in the next agenda item. The learning points established from an audit into the transfer of the contract with Amey to Aragon could be used to evaluate Vivacity procedures going forward.

The Audit Committee considered the Annual Internal Audit Opinion 2019/2020 and **RESOLVED** (unanimous) to endorse the attached Chief Internal Auditor's annual report for the year ended 31 March 2020.

8. INTERNAL AUDIT PLAN 2020/21

The Audit Committee received a report in relation to the Internal Audit Plan 2020/2021.

The purpose of the report was to review and agree the audit activity for the next audit year.

The Chief Internal Auditor presented the report which was originally due to be presented to the meeting in March which had been cancelled. It had been refocused to consider issues surrounding Covid-19. He outlined the content of the report and explained the plan identified areas of higher risk although regular reassessments of the plan would take place throughout the year. Some audits cover joint services with Cambridgeshire County Council. As an example, he

drew attention to the Infection Control Fund and explained that although this was a shared fund, Peterborough City Council would conduct the audit.

The Audit Committee considered the Internal Audit Plan 2020/2021 and **RESOLVED** (unanimous) to have:

1. Considered and agreed to the Internal Audit Charter for 2020/2021 (Appendix A);
2. Considered and agreed to the Internal Audit Code of Ethics 2020/2021 (Appendix B); and
3. Considered and approved the Internal Audit Strategy and Plans for 2020/2021 (Appendix C, D).

9. REVIEW OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE

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

The purpose of the report was for the Committee to review its effectiveness.

The Chief Internal Auditor introduced the report and explained that the committee was following best practice and was meeting industry guidelines, with regular meetings, set agendas, minutes and open discussions.

Pre briefs had been introduced and were working well. Member training requirements would need to be considered, however the method of delivery would have to be modified although as the committee was relatively unchanged, training requirements may differ from previous years.

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

- The Constitution could be amended to reflect changes to allow private meetings if required. The majority of local authorities did not hold private meetings.
- The Audit Handbook had been provided to Members setting out the work of the Audit Committee and this was due for review this year.
- The agenda for the Audit Committee was set throughout the year and in line with key decisions required, for example, specific dates for discussion of final accounts.
- Members expressed interest in a skills audit of committee members and the Chief Internal Auditor agreed to circulate details of a similar audit conducted at another LA.
- Some Members found the training and pre-briefs very useful and would like them to continue.

The Audit Committee considered the report on the Review of the Effectiveness of the Audit Committee and **RESOLVED** (unanimous) to have:

1. Considered the draft response to the CIPFA Toolkit checklist for Audit Committees, which records that the Committee meets all the good practice statements;

2. Considered the draft responses to the CIPFA Knowledge and Skills Framework for local authority audit committees; and
3. Agreed any actions which the Committee considers appropriate to amend or enhance the Committee's arrangements in light of the completed Knowledge and Skills Framework assessment and the CIPFA Audit Committee Toolkit checklist.

ACTIONS

The Chief Internal Auditor agreed to circulate the schedule of reports to Members and Democratic Services.

The Chief Internal Auditor agreed to circulate details of a similar audit conducted at another LA on a skills audit of committee members.

10. BUDGET MONITORING REPORT FINAL OUTTURN 2019/20

The Audit Committee received a report in relation to the Budget Monitoring Report Final Outturn 2019/20.

The purpose of the report was to provide the Committee with the outturn position for both the revenue budget and capital programme for 2019/20.

The Head of Corporate Finance introduced the report as presented to Cabinet on 22 June and advised there had been an underspend of £96,000 which was transferred to the capacity Building Reserve. She advised that new controls had been implemented for capital and revenue spend at a detailed level with rebasing of all budgets in September as outlined the contents of the report.

The Audit Committee considered the report on the Budget Monitoring Report Outturn 2019/2020 and **RESOLVED** (unanimous) to have:

1. Noted the final outturn position for 2019/20 (subject to finalisation of the statutory Statement of Accounts) of a £0.096m underspend on the Council's revenue budget;
2. Noted the reserves position outlined in section 6 and Appendix B, which includes a contribution to the capacity building reserve of £0.096m, as a result of underspend in the revenue outturn report details contained in Appendix A;
3. Noted the implications of the COVID-19 pandemic on the Council's financial position, as outlined within section 5 and Appendix E;
4. Noted the outturn spending of £64.3m in the Council's capital programme in 2019/20 outlined in section 7;
5. Noted the performance against the prudential indicators outlined in Appendix C;
6. Noted the performance on the payment of creditors, collection performance for debtors, local taxation and benefit overpayments outlined in Appendix D.
7. Approved the amendment to the Treasury Management Strategy to reflect the Business Improvement District loan outlined in section 7.

11. RISK REGISTER

The Audit Committee received a report in relation to the risk register.

The purpose of the report was for the committee to consider the risks identified on the risk report and to monitor the effective development and operation of risk management and corporate governance and was presented to the committee twice each year.

The Acting Corporate Director Resources introduced the report and explained that an additional section had been included specifically on Covid-19. Risks needed to be identified in a timely manner and mitigation plans put in place as soon as possible.

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

- Re-instatement of lockdown could be included on the risk register. It was confirmed that contingencies had been made for a potential spike in early Autumn.
- Focus was beginning to shift back to Brexit issues and processes would need to be changed once legislation had been approved. This would generate additional risks, such as tariffs applied to purchase from overseas and Europe.

The Audit Committee considered the report on the Risk Register and **RESOLVED** (unanimous) to note the report.

12. FINANCIAL CONTROLS

The Audit Committee received a report in relation to Financial Controls.

The purpose of the report was to update the Audit Committee on progress to date in implementing the range of recommendations made by Grant Thornton following their review of financial controls and procedures. Grant Thornton compiled their report following a survey of practices and put forward a range of proposals grouped into 20 key areas designed to ensure that PCC were following financial best practice. PCC set up a Financial Controls Board to oversee the implementation of the review. This report was intended to show the progress that had been made and to reassure the Audit Committee that PCC manages its finances through high quality internal controls and was actively working to improve them.

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

- The Grant Thornton recommendations implemented so far had put the council in good stead for managing Covid-19 expenditure.
- The Scheme of Delegation and the Changes to Financial regulations proposed would need to be considered at the Constitution and Ethics Committee meeting.

- It was hoped most changes not already introduced could be implemented over the next few months.

The Audit Committee considered and **RESOLVED** (unanimous) to note the progress that has been made towards implementing the Financial Improvement Programme (FIP) recommendations made by Grant Thornton following their review of financial controls and procedures during 2019.

13. **WORK PROGRAMME**

The Audit Committee received a report in relation to the work programme for 2020/2021.

The report was introduced by the Senior Democratic Services Officer who advised that the format followed a similar process to previous years and further items could be added to the programme at the Members discretion.

The Acting Corporate Director of Resources advised that a timetable change was required to all the Final Audit Opinion to be presented at the November meeting.

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

Chairman
Virtual meeting
5:00pm – 6.40pm