

# SHAREHOLDER CABINET COMMITTEE

## INTERNAL AUDIT COVERAGE

### **ANNUAL REPORT**

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## 1... **INTRODUCTION**

- 1.1 Internal Audit review the systems and processes of the Council throughout the year in line with its agreed risk based Audit Plans. These plans are approved annually by the Audit Committee. Throughout the year, audits are undertaken and an annual Audit Opinion is produced for that committee in the July cycle.
- 1.2 A number of functions, whether Council companies, partnerships or charities (dependent on the risks identified each year as part of the Plans above), may form part of the works undertaken by the Team. These will produce a series of audit reports with associated recommendations and agreed actions. It also places a level of assurance on the systems / processes reviewed.
- 1.3 Following an audit review of the operations of the Shareholder Cabinet Committee, it was considered best practice to provide the Committee with details of all audit works which have a bearing on its terms of reference. The attached Appendix sets out all the activities which have been undertaken in recent years. This provides Members with details of all the audit activity, the main findings and areas of concern together with the conclusions and number of recommendations agreed. Going forward, this will form part of a standing item on the Committee agenda.

## 2... **ARRIVING AT AN OPINION**

- 2.1 There are two key elements to each internal audit review.
  - Firstly, the control and risk environment is reviewed by identifying the objectives of the system and then assessing the controls in place mitigating the risk of those objectives not being achieved. Completion of this work enables internal audit to establish an opinion on how well the control framework has been designed to mitigate identified risk, and whether there are any gaps in control.
  - However, controls are not always complied with which in itself will increase risk, so the second part of an audit is to ascertain the extent to which the controls are operating in practice. This element of the review enables internal audit to form a view on the extent of compliance with the control framework.
- 2.2 Where appropriate, each report we issue during the year is given an overall opinion, as shown in the table below.
- 2.3 Certain pieces of work do not result in a formal audit report with an opinion – such as consultancy work, grant reviews and involvement in working groups. However the certification of grant work should indicate that at the point of approval, information being submitted to external organisation meets required criteria.

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.
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RECOMMENDATION GRADE	DESCRIPTION
CRITICAL	Fundamental control weakness that jeopardises the complete operation of the service. <b>TO BE IMPLEMENTED IMMEDIATELY.</b>
HIGH	Major control weakness which significantly increases the risk / scope for error, fraud, or loss of efficiency. <b>To be implemented as a matter of priority.</b>
MEDIUM	Moderate control weakness which reduces the effectiveness of procedures designed to protect assets and revenue of the Authority. <b>To be implemented at the first opportunity.</b>
LOW	Minor control weakness, which, if corrected, will enhance control procedures that are already relatively robust. <b>To be implemented as soon as reasonably practical.</b>

2.4 In line with our reporting arrangements, all audit reports are issued to the appropriate Service Manager and Corporate Director to deliver agreed actions and for information to the Corporate Director of Resources, Chief Executive, Leader of the Council, the Cabinet Member for Finance and the Chair of Audit Committee. Should there be any reports identified that are seen as Limited or No Assurance, then the Executive Summary is included for information.

### 3. SHAREHOLDER CABINET COMMITTEE: TERMS OF REFERENCE (Extract from Constitution, Part 3 – Executive Functions)

#### 3.1 Purpose

3.1.1 The Committee will have functions relating to the Council's companies, partnerships and charities set out below including, but not limited to:

- Peterborough Limited
- Blue Sky Peterborough
- Empower Peterborough
- Opportunity Peterborough
- Peterborough Investment Partnership LLP
- Medesham Home LLP
- NPS Peterborough Ltd
- Peterborough Museum and Art Gallery
- The Mayor's Charity; and
- Vivacity Culture and Leisure.

3.1.2 The Shareholder Cabinet Committee will act as a decision making body in relation to the functions delegated to it as well as an advisory body to Cabinet. Support and advice will be provided to the

Shareholder Cabinet Committee by the Monitoring Officer, the Section 151 Officer and other client officers as appropriate.

### **3.2 Membership and Operation of the Shareholder Cabinet Committee**

3.2.1 The Shareholder Cabinet Committee will comprise a maximum of five Cabinet Members to be determined by the Leader annually. The Chairman and Vice-Chairman of the Committee will also be appointed by the Leader on an annual basis.

3.2.2 The quorum of the Shareholder Cabinet Committee shall be 3 and meetings shall take place quarterly or as determined by the Chairman.

### **3.3 Functions of the Shareholder Cabinet Committee**

- To monitor performance and financial delivery of the companies, partnerships and charities set out above in line with Cabinet approved business plans by means of monthly performance monitoring and scrutiny;
- To ensure that those companies, partnerships and charities comply with relevant Council policies, strategies and objectives;
- To exercise decisions, where delegated by Cabinet, in relation to a company, partnership or charity's reserved matters;
- To make recommendations to Cabinet in relation to investments, loans and assets;
- To oversee the relationships between the Council and the Council's companies, partnerships and charities, and any such relationships between the Council's companies, partnerships and charities in accordance with the Council's objectives;
- To review any reports in relation to the Council's companies, partnerships or charities prior to their submission to the Audit Committee to ensure compliance with Council policies, strategies and objectives;
- To determine for each individual company, partnership or charity whether the Shareholder Cabinet Committee recommends to Cabinet the delegation of any functions to the officers of the Council.

#### 4. AUDIT OUTPUTS

4.1 Included for information are details of all audit work undertaken where there is a link to the functions within this Committee.

AUDIT ACTIVITY	Assurance Opinion	RECOMMENDATIONS MADE				
		Critical	High	Medium	Low	Total
<b>2017 / 2018</b>						
<b>Strategic Partnerships: Skanska</b>	<b>Reasonable</b>	-	1	2	1	4
<b>Scope:</b> A review of the partnership management arrangements in place for service delivery						

AUDIT ACTIVITY	Assurance Opinion	RECOMMENDATIONS MADE				
		Critical	High	Medium	Low	Total
<b>2018 / 2019</b>						
<b>Norfolk Property Services Peterborough</b>	<b>Limited</b>	-	2	4	-	6
<b>Scope:</b> A review of the governance arrangements in place to manage the Councils interests in the joint venture						
<p>NPSP is a joint venture company between Peterborough City Council and NPS Group. It began trading in July 2016, at the start of a 10 year contract, and delivers estates and asset management services. The purpose of the audit was to review joint venture arrangements to ensure that-</p> <ul style="list-style-type: none"> <li>• It operates effectively and adequate governance arrangements are in place to include performance and risk management</li> <li>• There is a written JV agreement / Contract and an effective JV structure</li> <li>• There is an effective budget planning and monitoring process</li> <li>• Communication and relations promote effective monitoring of business needs affordability and value for money The scope covered the arrangements that the Council has put in place to manage the joint venture with Norfolk Property Services Peterborough (NPSP).</li> </ul> <p><b>Main Findings</b></p> <ul style="list-style-type: none"> <li>• The NPSP joint venture operates with the involvement of two key council officers. During the audit, the Corporate Director Growth and Regeneration acted as a director on the JV board and in this capacity had a duty to act in the best interests of the JV. There is also a Head of Property Services who manages the contract with NPSP to ensure the terms of the contract are met for the benefit of the Council. The Corporate Director Growth and Regeneration had direct line management responsibility for the Head of Property Services and, in the absence of any overarching scrutiny framework, this appears to be a conflict of interest. This arrangement is currently no longer in place, but is important that such conflicts are not repeated in any new management arrangements.</li> <li>• The Service Specification is in need of review. Elements are unclear and open to interpretation, particularly in relation to facilities management, which has been explained as an omission to the specification. This omission has not been resolved in the two years since the contract began and has been compounded by a lack of clarity within the Council due to the split of responsibilities between the NPSP and Amey contracts. It is understood that this area is under review with the imminent proposals to bring the Amey contract deliverables into the new local authority trading company, Peterborough Ltd.</li> </ul>						

**Conclusion and Opinion**

- Internal Audit's primary focus was how the Council manages the relationship with NPSP, both in terms of its role as a joint partner in the company, and also how it manages the delivery of the contract. Whilst there is good practice in place, Internal Audit has made observations in relation to potential conflicts of interest for those officers involved, the unclear elements of the Service Agreement and aspects of the contract management process.
- Internal Audit has also raised earlier concerns within the Peterborough Investment Partnership report, regarding the lack of formal governance structure for all commercial / external entities within Peterborough City Council in order to effectively monitor arrangements, activity and achievements as per Business Plans. The Director of Legal & Governance Services and the Acting Corporate Director Resources are currently reviewing and implementing a new structure and scrutiny arrangements to ensure it can be demonstrated that they operate in the best interests of the Council.

AUDIT ACTIVITY	Assurance Opinion	RECOMMENDATIONS MADE				
		Critical	High	Medium	Low	Total
<b>2018 / 2019</b>						
<b>Commercial Activities: Peterborough Investment Partnership</b>	<b>Reasonable</b>	-	2	1	-	3
<b>Scope:</b> A review of the arrangements in place to manage the Council's interests in this joint venture arrangement						

AUDIT ACTIVITY	Assurance Opinion	RECOMMENDATIONS MADE				
		Critical	High	Medium	Low	Total
<b>2018 / 2019</b>						
<b>Mayors Charity 2016/2017 Mayors Charity 2017/2018</b>	<b>Limited</b>	-	4	12	3	19
<b>Scope:</b> Review of financial control and governance framework for the Mayors Charity accounts						

Every May a new Mayor is elected by full Council from within their membership. One of the Mayor's roles is to nominate charities that they support, and to raise funds on behalf of those charities during their term of office, with the assistance of a new management committee of volunteers. The Mayor of Peterborough's Charity Fund (MPCF) is a registered charity in its own right, and is independent from the Council. The MPCF is required by the Charity Commission to upload accounts and a trustee's report every year to the Commission's website. Once accounts are finalised, all net proceeds are shared out between the nominated charities. This takes place early in the following mayoral year. The Charity Commission also require that where a charity's annual gross income exceeds certain thresholds, the accounts are subject to external scrutiny (i.e. either an independent examination or a full audit).

The Council provides support to the MPCF in a number of ways. For example, administrative support from council employees, provision of Council venues and equipment for fund-raising events, and printing of posters and tickets. Since September 2017 the role of MPCF Treasurer was brought 'in-house', and is performed by the Mayoral Services Manager. In the event that there were significant issues with the finances of the MPCF, the Council could have its own reputation damaged due to its closeness to the fund. It is therefore important that the council satisfies itself that the MPCF is being appropriately managed. An audit of the MPCF's accounts for mayoral year 2017/18 was requested as part of the 2018/19

audit plan.

The objectives of the review were to:

- Carry out an independent examination of the fund for 2017-18, verifying the income and expenditure statement to source documentation and bank statements, in compliance with Charity Commission requirements.
- Evaluate controls for managing the fund and provide any advice needed (for example relating to segregation of duties, approvals, evidence and record keeping)

Following initial evaluation, our objectives were expanded to include:

- Perform a bank reconciliation for 2017-18, including any necessary adjustments to the workbook
- Compile a set of receipts and payments accounts for 2016-17 and 2017-18 as required by the Charity Commission
- Advise on the form and content of the Trustees' Annual Report, as required by the Charity Commission
- Advise on an appropriate format for the workbook, such that it assists with the performance of bank reconciliations and the production of accounts

### **Main Findings**

- Registration as a charity confers the obligation to upload to the Charity Commission's website by a specific deadline: a set of accounts; a statement that the accounts have been audited; and an annual trustees report. This deadline was missed for the 2016/17 year and the Charity Commission wrote to the trustees in July 2018 stating that the MPCF was in default of its legal obligations. A time extension was arranged with the Charity Commission, and the required documents were subsequently uploaded to the website by the revised deadline. Awareness of the Charity Commission requirements has increased during the course of this review, although some documented guidance would assist current and future members of the MPCF in fulfilling their roles
- The MPCF has two governing documents. The constitution, dated December 2015, was adopted prior to registration as a charity. There is also a separate Memorandum of Understanding (MoU) between the key parties for each mayoral year. The constitution and MoUs differ over who the charity's trustees are. Additionally, the formal processes for handing over from one set of trustees from one mayoral year to the next set, as implied by the constitution, are not reflected in the MoU, and are not followed in practice. Work is already in progress to update and align both documents.
- A reconciliation of the bank balances to the calculated net proceeds was performed at year end, but this did not balance. A number of accounting errors were subsequently identified and corrected, enabling the correct net proceeds total to be established, and for this total to be reconciled against the bank account funds. Regular bank reconciliations throughout the year would enable earlier identification and correction of errors and anomalies; a smoother year end accounts and audit process; and speedier payments to the nominated charities.
- Approximately 70% of the income transactions examined for 2017-18 during testing were not supported by a written receipt. It is important that receipts are issued for all income so that it can be demonstrated that the income has been reflected in the accounts.
- The previous Treasurer's internet banking credentials had not been terminated. However there was no evidence of any suspicious transactions from the MPCF's bank account.
- There is a lack of required segregation of duties in the MPCF's financial processes, which presents a greater risks of fraud, error, and failing to maximise fund-raising. Examples include lack of managerial oversight of accounting records and cash held, ability of event organisers to reclaim their own expenses from cash held without submitting a claim, and freedom of organisers to spend what they like on the events they hold.

### **Conclusion and Opinion**

Registration as a charity in late 2015 has resulted in the MPCF having a number of responsibilities, of which it had not previously been aware. During the course of this review, the MPCF's understanding of the Charity Commission's requirements has increased. Internal Audit are satisfied with the accounts for 2017-18, and there are no material issues to be reported. The Trustees' Annual Report for that year has been written, so the March 2019 deadline for uploading these documents to the Charity Commission's website should be met.

The review identified a number of financial and governance controls that need to be improved, and these have been discussed with the Civic Office throughout the review. These issues, along with further details in relation to the main findings mentioned above, are explained in the main body of this report, with recommendations on how they might be

addressed. Internal Audit are continuing to provide advice and support. Work has been undertaken to deliver an enhanced accounting workbook that will semi-automate bank reconciliations and production of final accounts. This should assist the Treasurer in keeping the accounts balanced throughout the year, speeding up closure at year end, and reducing work in the long run. The Charity Commission also provide general guidance on internal financial controls, and this can be found at <https://www.gov.uk/government/publications/internal-financial-controls-for-charities-cc8>.

The audit opinion, based on the internal controls identified, is Limited Assurance. The Chief Internal Auditor's opinion in relation to the MPCF's accounts for 2017- 18 as the charity's Independent Examiner is that:

"In connection with my examination, no matter has come to my attention:

- Which gives me reasonable cause to believe that in, any material respect, the requirements to keep accounting records in accordance with the 2011 Act; and prepare accounts which accord with the accounting records and comply with the accounting requirements of the 2011 Act, have not been met; or
- To which, in my opinion, attention should be drawn in order to enable a proper understanding of the accounts to be reached.

While not impacting on the materiality of the accounts, some improvements have been identified to enhance the monitoring, record keeping, preparation and completion of accounts following a change of officers managing the accounts."

AUDIT ACTIVITY	Assurance Opinion	RECOMMENDATIONS MADE				
		Critical	High	Medium	Low	Total
<b>2018 / 2019</b>						
Mayors Charity	Not applicable – consultancy work	n/a	n/a	n/a	n/a	n/a
<b>Scope:</b> Cash book redesign to facilitate reconciliations and easier production of annual accounts. Guidance on charity commission requirements, including the form and content of the Trustees Annual Report						

AUDIT ACTIVITY	Assurance Opinion	
<b>2019 / 2020</b>		
Peterborough Investment Partnership – Follow Up	Reasonable	A follow up review of the 2018 / 2019 Audit to verify arrangements in place to manage the Council's interests in this joint venture arrangement.  All 3 recommendations have been implemented.

AUDIT ACTIVITY	Assurance Opinion	
<b>2019 / 2020</b>		
Norfolk Property Services – Follow Up	Reasonable	<p>A follow up review of the 2018 / 2019 Audit of the joint venture arrangement previously auditing last year which had ‘Limited Assurance’</p> <p>Of the 6 recommendations agreed:</p> <ul style="list-style-type: none"> <li>• 3 have been fully implemented</li> <li>• 2 actions are in progress</li> <li>• 1 no significant process. This will now form part of additional works</li> </ul>

AUDIT ACTIVITY	Assurance Opinion	
<b>2019 / 2020</b>		
Mayors Charity – Follow Up	Reasonable	<p>A follow up review of the 19 recommendations made have shown that:</p> <ul style="list-style-type: none"> <li>• 3 have been fully implemented</li> <li>• 1 alternative action has been introduced</li> <li>• 10 actions are in progress</li> <li>• 5 actions have seen no significant progress on</li> </ul> <p>Internal Audit intend to conduct a further check on progress of recommendations when the review of the 2019/20 accounts take place</p>

AUDIT ACTIVITY	Assurance Opinion	RECOMMENDATIONS MADE				
		Critical	High	Medium	Low	Total
<b>2019 / 2020</b>						
Oversight of Shareholder Cabinet Committee	Reasonable	0	0	6	0	6
<b>Scope:</b> Governance arrangements relating to the new Shareholder Cabinet Committee responsible for overseeing Council companies, partnerships or charities						

AUDIT ACTIVITY	Assurance Opinion	RECOMMENDATIONS MADE				
		Critical	High	Medium	Low	Total
<b>2019 / 2020</b>						
Transfer of Amey contract to Council LatCo	Limited	-	4	-	-	4
<b>Scope:</b> Governance and project management arrangements for the transfer of services back to the Council						
<p>In July 2018 Cabinet made the decision to transfer services provided under the Amey contract to a Local Authority Trading Company (LATCo), as Amey were making a substantial loss and Peterborough City Council (PCC) had concerns over quality and performance. A loan facility of up to £1.75 million to the Company was also authorised, to provide working capital and cover start - up costs. The programme for transition of services commenced following Cabinet approval in July 2018, and a phased transition approach was taken between February and May 2019.</p> <p>The purpose of this audit was to review programme management arrangements to ensure that:-</p> <ul style="list-style-type: none"> <li>• Corporate processes are followed</li> <li>• Adequate governance arrangements are in place</li> <li>• There is stakeholder engagement</li> <li>• Appropriate skills and resources are utilised</li> <li>• There is effective communication</li> <li>• Finance and risks are adequately considered and addressed</li> </ul> <p>The scope of the audit covered:</p> <ul style="list-style-type: none"> <li>• A review of the process of Programme Management during planning and delivery only, in relation to the transfer of services provided by Amey to a PCC wholly owned Local Authority Trading Company (LATCo). Information has been gathered from 4OC, Project Programme &amp; Assurance Office, client side Peterborough City Council Officers and Serco.</li> <li>• The programme of work that enabled the transition to take place was reviewed. The project outcomes, benefits realisation and subsequent operation of the company did not form part of this review.</li> </ul> <p><b>Main Findings</b></p> <ul style="list-style-type: none"> <li>• There have been many changes of personnel throughout this project, particularly in the programme management role, resulting in unclear lines of delegation and responsibility, a lack of clear ownership within PCC, and limited evidence of a structured approach.</li> <li>• The corporate project management system, Verto, was not used and it is unclear why this decision was made. A structured programme management approach was instigated in January 2019 by the PCC Project Programme &amp; Assurance Office, but was used inconsistently by the variety of staff involved in the project from PCC, Serco and external consultants.</li> <li>• The documentation we would expect for a project of this size was not found. Most of the information we viewed was brought together during the structured approach mentioned above, although it was not complete. There was very little information available before or after this period, and none of that was in a structured format.</li> <li>• It was discovered that Internal Audit do not have access rights to audit the governance arrangements of Peterborough Limited (PL). This compounded the issue in relation to information availability post April 2019, but was not the reason for our inability to locate sufficient information prior to this time. 215 Annual Audit Opinion 2019 / 2020</li> </ul> <p><b>Conclusion and Opinion</b></p> <ul style="list-style-type: none"> <li>• This was a complex programme with a number of staffing changes making it challenging to manage. Despite this, the transfer from Amey to PL occurred with a phased mobilisation in February, April and May 2019. Internal Audit did not review the operational success of the programme, however a recent report to the Shareholder Cabinet</li> </ul>						

Committee, September 2019, provides a positive overview of the mobilisation phase and current service delivery.

- Whilst the project to transfer services from Amey to Peterborough Limited (PL) has completed, limited evidence was available to demonstrate that the process was effective, efficient and economic. This is of concern for a project of this size and the lessons learned should be used to inform future projects. In particular, it is important that all staff involved in a project are aware of their responsibilities and accountabilities and understand the project approach to be followed.
- This report details recommendations that cannot be addressed in relation to the processes for this particular project. However, they are relevant to all future programmes and projects to ensure smooth delivery, successful outcomes and a review / lessons learned process. In light of the disbandment of the Project, Programme and Assurance Office, Corporate Management Team should consider processes for structured and documented management arrangements for the future.

AUDIT ACTIVITY	Assurance Opinion	RECOMMENDATIONS MADE				
		Critical	High	Medium	Low	Total
<b>2020 / 2021</b>						
Mayors Charity	Certified	0	1	2	1	4
<b>Scope:</b> Funds for this charity fell below the Charities Commission threshold in 2019 / 20 and therefore an audit under the regulations was not required. However, management requested a review of the accounts to provide assurance that they were accurate and complete prior to the release of funds to the nominated charities.						

AUDIT ACTIVITY	Assurance Opinion	
<b>2020 / 2021</b>		
Shareholders Cabinet Committee – Follow Up	Reasonable	(This overarching Committee report and the associated appendix provides closure of the audit recommendations)

AUDIT ACTIVITY	Assurance Opinion	
<b>2020 / 2021</b>		
Norfolk Property Services – Additional Follow Up	Reasonable	This further follow up was carried out as 3 of the original 6 recommendations were in progress. 2 of those made remain under review as circumstances change. It has been stated that actions are being taken forward and progressed to address these issues, and as such they should be resolved to a satisfactory conclusion.

AUDIT ACTIVITY	Assurance Opinion	
<b>2020 / 2021</b>		
<b>Aragon Transition Project – Follow Up</b>	<b>Reasonable</b>	<p>A follow up review has recently been conducted as a result of the Aragon Internal Audit report issued January 2020. The findings are detailed below.</p> <p>The outstanding observations and recommendations made in the original report related to project management. Internal Audit have discussed the overall actions being taken on Programme and Project Management with the officers now responsible for this in the Business Improvement &amp; Development Team. At this point in time, good progress is being made in addressing the key areas of establishing consistent and robust project management principles, processes and methodology, in order to assist the Council achieve its financial savings.</p>

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## 5... **FUTURE COVERAGE**

- 5.1 A risk-based approach is used to develop the Internal Audit Annual Plan, allowing us to direct resources at areas key to the organisation's success and to provide an opinion on the control environment. In an ever-changing risk and control environment, it is important that audit plans can adapt quickly to the needs of the Council, and this has been particularly important this year. The whole "audit universe" is reassessed to determine those of greatest risk. Our approach gives precedence to areas assessed as high risk, although we aim to provide coverage over a wide range of activities to ensure our opinion is comprehensive.
- 5.2 The current Audit Plan was agreed at Audit Committee in March 2021. Based on the assessment at that time the following audit areas were identified for potential review:
- Mayors Charities
  - Aragon
  - Aragon - Vivacity
  - City College – Vivacity
  - Peterborough Investment Partnership
  - Follow Ups
- 5.3 **However**, these are subject to change as the audit plan is regularly refreshed as well as having the suitable audit time and resources available to be devoted to the more significant areas.

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