



**MINUTES OF THE AUDIT COMMITTEE MEETING
HELD AT 4:30PM, ON
MONDAY, 21 JUNE 2021
SAND MARTIN HOUSE, PETERBOROUGH**

Present: Councillors Over (Chairman), Sainsbury, S Farooq, I Ali, Haseeb, Joseph, Shaheed and Warren.

Officers in

Attendance: Peter Carpenter, Corporate Director of Resources
Dan Kalley, Senior Democratic Services Officer

Also in

Attendance: Councillor Coles, Cabinet Member for Finance
Neil Harris, Associate Partner, Ernst and Young (EY)

1. APOLOGIES FOR ABSENCE

There were no apologies for absence received.

2. DECLARATIONS OF INTEREST

There were no declarations of interest received.

3. AUDIT OF STATEMENT OF ACCOUNTS TO THOSE CHARGED WITH GOVERNANCE (ISA260)

The Audit Committee received a report in relation to the Audit of Statement of Accounts to those charged with Governance (ISA260).

The Associate Partner EY stated the additional information that was published drew to a close the audit of Peterborough City Councils Statement of Accounts for the year 2019/20. The report also contained the external auditor's conclusion on the Council's value for money arrangements.

The Associate Partner EY thanked officers of the Council for their co-operation in helping the external auditors prepare their final report. The reason behind not issuing a final outcome on the financial position of the Council's finances was due to the consideration of the financial arrangements with Empower Community Management LLP and whether this gave rise to any adjusting post balance sheet events.

Members of the Committee were informed that the external auditors were now in a position to give their audit opinion which was unqualified opinion on the Council's financial statements. This was due to the financial statements representing a fair and true view of the Council's financial position as at 31 March 2020. External auditors stated that the Council did report that there were material uncertainties associated with the continuity of providing services looking forward 12 months from the date of these accounts. The Council recognised the serious financial challenges that it faced. The Council recognised the additional capitalisation directives as determined by the

Ministry for Housing, Communities and Local Government (MHCLG), however this still gave rise to material uncertainty on continuity of service provision.

In terms of the final statutory report the external auditors were recommending a qualified audit opinion on the Council's arrangements for value for money in its use of resources. It was recognised that while the Council responded appropriately to its deteriorating financial position and made representation to MHCLG on this basis, the external auditors still had significant concerns over the Council's future sustainability.

With regards to the loan to Empower this was regarded as a short term debt by the Council. The external auditors challenged the Council over the classification of the loan as it was their opinion that a short term debt was less than 12 months. During the course of the external auditor it became clearer that the Council was taking decisions to refinance the arrangement with Empower to an extent that it led to a long term financing arrangements. The external auditors at the end of March 2021 were not minded to challenge at that point that the loan would be recoverable over a longer term financial arrangement.

Following a default payment by Empower for a loan payment, officers and external auditors revisited the arrangements for recovering the loan before a memorandum was signed off between the Council and Empower. There had been a lot of work carried out by Deloitte acting as advisors to the Council and a credit assessment had been carried out to assess the saleability of the loan and the impairment that could result from this arrangement. This work also looked at whether the arrangements could be bought back in house or continue to be outsourced with Empower. External auditors were of the view that the discount cash flow model was appropriate in this circumstance, recognising an accounting adjustment in the financial statements.

Recommendations had been made by the external auditors with regards to the management of the Empower loan going forward and lessons learned from the process to date. If the loan was brought in house an up to date valuation of the loan needed to take place.

The external auditors had highlighted that there were some weaknesses in the governance and decision making notices around the Empower loan arrangements. It was the external auditor's opinion that entering into an aggressive strategy with the loan arrangements did place the Council at risk.

On the Council's financial sustainability, the external auditors had undertaken further work to stress test the Council's financial position. The base level financial position was broadly in line with the work carried out by specialists and should give members confidence that the figures set out were correct and accurate. It was highlighted that there could be a large gap in the budget under a further or heavier recession as a result of the pandemic. The assumptions made by the external auditors was to be reviewed for the financial year 2021/22.

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

- External auditors were of the view that there was not much difference between interest of 2.1% or 2.5% in terms of accounting. It was the view that this disclosure had been dealt with appropriately.
- Looking at the balance sheet data as at 31 March 2020, the external auditors had taken the view that the loan to Empower was classed as a long term debtor. However when looking at the data for the 31 March 2021 year-end, there was a further questions on whether the terms and conditions had changed. One of the

recommendations from the external auditors was that if the loan was to be brought in house it would need to have a valuation of the asset.

- It was believed that the base case for the medium term financial strategy was accurate and had been clear of the risks to the Council to both the external auditors and MHCLG.
- In terms of the different financial resilience scenarios the external auditors had taken information from publicly available data sources to produce likely outcomes for the Council.
- There were some significant impacts on the Council's ability to make the necessary savings. These were still needed to be delivered, however it was not known yet when the Council would be in a position to action the identified savings.
- The £2.6 million impairment as outlined was a capital sum and had been placed against the Minimum Revenue Provision over the life of the loan. There was a £175,000 cost over the next 15 years to even out the impairment.
- In terms of other Council's Peterborough took seriously their financial responsibilities and reporting financial management processes. It was important to note that the external auditors were expressing concern over the Council's financial standing. Peterborough City Council was a serious concern for the external auditors, however it was important to note that the Council had been open and honest about its financial situation.

The Audit Committee considered and **RESOLVED** (unanimously) to:

1. Receive and approve the "Audit Results Report - (ISA260) for the year ended 31 March 2020" from Ernst & Young (EY), the Council's external auditors.
2. note the amendment made for the inclusion of the 'Post Balance Sheet Event'
3. Receive and approve the 2019/20 Management Representation Letter.
4. Receive and approve the audited Statement of Accounts 2019/20.
5. delegate to the Chairman to approve further changes if needed.

Chairman
4:30 – 5.10pm