

AUDIT COMMITTEE	AGENDA ITEM No. 4
15 JULY 2019	PUBLIC REPORT

Cabinet Member(s) responsible:	Cllr Seaton - Cabinet Member for Finance	
Contact Officer(s):	Peter Carpenter - Acting Director of Corporate Resources	Tel. 384564

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

R E C O M M E N D A T I O N S	
FROM: Peter Carpenter - Acting Director of Corporate Resources	Deadline date: 15 July 2019
<p>It is recommended that Audit Committee:</p> <ol style="list-style-type: none"> 1. Receive and approve the "Audit Results Report - (ISA260) for the year ended 31 March 2019" from Ernst & Young (EY), the Council's external auditors. 2. Receive and approve the 2018/19 Management Representation Letter. 3. Receive and approve the audited Statement of Accounts 2018/19. 4. To delegate to the Chairman to approve further changes if needed before the deadline of 31 July 2019. 	

1. ORIGIN OF REPORT

1.1 This report is submitted to Audit Committee following a referral from the S151 Finance Officer.

2. PURPOSE AND REASON FOR REPORT

2.1 The purpose of this report is for Audit Committee to:

- Receive and note "Audit Results Report - (ISA260) for the year ended 31 March 2019" from Ernst & Young (EY) on behalf of the Council.
- To receive and approve the 2018/19 Management Representation Letter
- To receive and approve the audited Statement of Accounts 2018/19.
- To delegate to the Chairman to approve further changes if needed before the deadline of 31 July 2019.

2.2 This report is for the Audit Committee to consider under its Terms of Reference No.

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.

3. **TIMESCALES**

Is this a Major Policy Item/Statutory Plan?	NO	If yes, date for Cabinet meeting	n/a
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4. **BACKGROUND AND KEY ISSUES**

Statement of Accounts 2018/19

- 4.1 The production of a timely Statement of Accounts, which is free from material error, is a key test of the robustness of financial processes and underpins the financial standing of an organisation. The Council has 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.
- 4.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) set out the accounting practices in the 2018/19 Code of Practice (the Code) and are followed in the preparation of the 2018/19 Statement of Accounts.
- 4.3 Legislation requires the Council to consider and approve its Accounts at a meeting of either full Council or a Committee of the Council. The Council's Constitution delegates this matter to the Audit Committee.
- 4.4 This is in accordance with the Committees Terms of Reference – 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.
- 4.5 The Accounts must be signed and certified by 31 May 2019 by the Council's Section 151 officer / Chief Finance Officer (Acting Director of Corporate Resources), in accordance with the Accounts and Audit Regulations 2015. The Council's Section 151 officer has responsibility for certifying that the Accounts present fairly, the financial position of the Council at 31 March 2019.
- 4.6 Once the audit has concluded, the Council's Section 151 officer must recertify the accounts and the Audit Committee is required to approve the Accounts no later than 31 July 2019 following, and in the knowledge of, the audit findings (Appendix 2).
- 4.7 The draft Statement of Accounts was shared with the chair of the Audit Committee and Cabinet member for Finance prior to publication on the councils website on 31 May 2019, and it has been discussed with the Audit Committee members in the training that took place on 20 June 2019. This published draft has subsequently been the subject of external audit by EY.
- 4.8 Following the external audit completed to date, some minor amendments have been made to the draft Statement of Accounts. At the time of drafting the papers for Audit Committee two other areas of the accounts are still to be finalised with auditors. The recent McCloud ruling could result in changes to the accounts and this should be known following the receipt of a revised report from the actuaries. Amendments with regards to the Property, Plant and Equipment (PPE) note are still being finalised with audit. Therefore a supplementary paper will be issued in due course which will include these adjustments. It is hoped that this will be prior to Audit Committee on the 15 July 2019.
- 4.9 An updated which includes minor presentational amendments from the draft Statement of Accounts for 2018/19 is attached in Appendix 1 for review by the Audit Committee.
- 4.10 At the time of reports publication to Committee, EY reserve the right to finalise the audit of Statement of Accounts by the deadline of 31 July 2019 (see page 6 of Appendix 2 for list of audit work still outstanding). There are no concerns regarding completing the outstanding items which are under the control of the Council and EY. If there are further updates required to the version of the Statement of Accounts distributed with this agenda, then the revised document and a

schedule of updates will be tabled at the meeting. If there are subsequent further minor amendments Audit Committee members will be notified and the delegation to the Chairman to approve further changes if needed before the deadline of 31 July 2019 will be exercised (if delegation is approved at this meeting).

4.11 There are a number of sections within the Statement of Accounts as follows:

- a) **Narrative Report** – provides a fair, balanced and understandable guide
- b) **Statement of Responsibilities** - sets out the responsibilities of the Council and the chief financial officer in respect of the Statement of Accounts
- c) **Comprehensive Income and Expenditure Statement** - shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation
- d) **Movement in Reserves Statement** - this statement shows the movement in the year on the different reserves held by the Council
- e) **Balance Sheet** - shows the value of the assets and liabilities recognised by the Council as at 31 March 2019
- f) **Cash Flow Statement** - summarises the inflows and outflows of cash, and cash equivalents, arising from transactions with third parties for both revenue and capital purposes in 2018/19
- g) **Notes to the Financial Statements** - the various statements are supported by technical notes
- h) **The Collection Fund & Notes** - shows the transactions of the Council in relation to Council Tax and Non-Domestic Rates
- i) **Statement of Accounting Policies** - outlines the accounting policies adopted by the Council
- j) **Annual Governance Statement** - identifies the systems that the Council has in place to ensure that its business is conducted in accordance with the law and proper standards and that public money is safeguarded. This statement is an item on this meeting agenda and therefore subject to change, consequently it will be included in the audited accounts, published by 31 July 2019, following its approval.

2018/19 Report to Those Charged with Governance

4.12 The External auditors have a statutory requirement to report to members under the Audit Commission's Code of Audit Practice and International Standard of Auditing (UK and Ireland) (ISA(UK&I) 260 – "Communication of audit matters with those charged with governance". The report is known as the ISA260 or 'Audit Results Report'.

4.13 The 'Audit Results Report' for 2018/19 from Ernst & Young (EY), the Council's external auditors is attached as Appendix 2.

4.14 There are a number of sections within the report as follows:

- 1) **Executive summary** – provides a summary of the Audit and includes an overview of two new risk areas that have been identified since the 11 February 2019 Audit Plan.
- 2) **Understanding Financial Statements** - provides some commentary on the key components of net expenditure.
- 3) **Areas of Audit Focus** - Notes the risks identified in the Audit Plan, the audit procedures performed in relation to them and the results of the audit work performed. There are a mix of types of risks identified, from the general risks such as fraud and management override of controls which any organisation would face and are not specific to the Council, and as such are audited for all councils, and those more specific to the Council, such as PFI and MRP accounting. During the course of the audit, two new risks relating to MRP and Value for Money of the 2014 IT Strategy have been added to the plan and is anticipated that this will lead to additional audit fees.
- 4) **Audit Report** – this is a draft copy of the Independent Auditors' Report to the Members of

Peterborough City Council which is included in the Statement of Accounts and will be signed following the completion of the audit.

- 5) **Audit differences** – this section notes that EY found one material misstatements during the audit. This related to understatement of Property Plant and Equipment disposals and is discussed in section 4.15 of this report.
- 6) **Value for money** - EY give an unqualified conclusion on the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources. However they highlight risks around the Council's long term financial resilience due to national policy decisions outside of the control of the Council. The Council is continuing to work to review its financial strategy and notes that the size of the budget gap presents a significant challenge. Work is ongoing to ensure that future year pressures have been fully identified, as well as identifying actions for Members to consider to close what is a considerable gap, particularly in the next financial year.
- 7) **Other Reporting Issues** - includes information on the work performed on the Annual Governance Statement and Whole of Government Accounts (WGA). Due to delays in the issuing of national guidance to auditors, work on the WGA has not yet been completed. Any matters that arise will be reported to the Audit Committee.
- 8) **Assessment of Control Environment** - EY report that they only test internal controls to the extent necessary for them to complete their audit and that they have identified three areas where improvements could be made. These are discussed in section 4.15 of this report.
- 9) **Data Analytics** - explains the use of data analytics tools to improve the audit.
- 10) **Independence** - confirmation that there are no changes in EYs assessment of their independence. Includes information on Audit fees.
- 11) **Appendices**
 - Appendix A – Audit approach update
 - Appendix B – Summary of communications during 2018/19
 - Appendix C – Required communications with the Audit Committee
 - Appendix D - Management representation letter

Management Response to audit findings

4.15 The following table provides further detail on the Accounting Issues raised in the EY report under Sections 5 and 8, and associated management comments from the council:

EY Report - summary of points raised	Management Comment
Understatement of property, plant and equipment disposals	The council’s asset register is moving to the Cloud and which means that the processes involved with such transactions are going to be more automated. Discussions with NPS will be held as to how the disposal process will work, as soon as possible after the transfer to the Cloud is completed. All working papers will be reviewed fully before the accounts are completed.
Controls should be implemented that reconcile the schools payroll balances to the Authority’s general ledger system	With effect from 1 September the council will make it a requirement for all maintained schools to submit their monthly payroll reports to the Schools and Settings Finance Team as part of the standard reporting requirements. Schools will be required to provide backdated payroll reports for the period 1 April - 31

	August 2019 in order for the whole financial year to be captured. The reports will be reconciled monthly to entries made in the schools accounts. The information from the monthly payroll reports will be consolidated at year end and reconciled back to the final schools payroll entries recorded in the local authorities accounts.
The Authority's housing benefits risk based verification policy should be formally approved annually as per the housing benefit and council tax benefit circular S11/2011 paragraph 15	On an annual basis, formal written confirmation (rather than only the verbal confirmation as at present) will be sought to provide an audit trail to show that the council's risk based verification policy has been approved.
There were some omissions on the Authority's contracts register. Therefore we would recommend regular review to ensure this is up-to-date.	The Council are going through a major overhaul of the contracts register to capture any omissions and to ensure accuracy. As part of the Council's preparation for GDPR a significant exercise was undertaken by the FOI and Legal Teams to locate as many contracts as possible. The council's Procurement Manager's task is to compare the records with that list and compare the resultant list with the spend data and exemptions log. Once the delta of missing contracts is known these will be circulated to the Corporate Directors so that they can instruct their teams to produce contracts that exist. Procurement will liaise with Legal colleagues to determine the Governance needed until procurements can take place. The process of comparing the contracts register to the spend data and exemption log will be performed on a monthly basis and reports made to the council from Serco as part of the 'Category Insights' reports as part of the planned category management implementation.

- 4.16 The Acting Director of Corporate Resources, as Chief Finance Officer (S151), is required to make representations on behalf of the Council in a number of areas in relation to the preparation of the Statement of Accounts. EY require this letter to be signed by the Chair of the Audit Committee. The draft letter is attached in Appendix 3 for review by Audit Committee.

5. CONSULTATION

- 5.1 Between 31 May 2019 and 11 July 2019, the Council's accounts have been subject to a statutory period for the exercise of public rights, where any person may inspect and take copies of the accounts and certain related documents. During this period Peterborough City Council electors have been able to ask the external auditor questions on the accounts, and are able to object to the accounts. To date two people have contacted the Council to exercise these rights and officers are currently responding to these requests.
- 5.2 Weekly update meetings have been held with council finance officers and EY, where the key findings of the audit to date have been discussed in detail. A final clearance meeting is expected to occur with EY and the Council's S151 Officer. The draft ISA260 report was discussed with the council's finance team.
- 5.3 A training event was held on 20 June 2019 for Audit Committee which included training on the Statement of Accounts and the opportunity to ask questions.

6. ANTICIPATED OUTCOMES OR IMPACT

- 6.1 To receive and approve the audited 2018/19 Statement of Accounts.
- 6.2 To receive and note the “Peterborough City Council - Audit Results Report” (ISA260) from EY on behalf of the Council.
- 6.3 To receive and approve the 2018/19 Management Representation Letter.

7. REASON FOR THE RECOMMENDATION

- 7.1 Paragraph 2.2.16 of the Constitution requires the Audit Committee 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.”
- 7.2 It is a statutory requirement under the Accounts and Audit Regulations 2015.

8. ALTERNATIVE OPTIONS CONSIDERED

- 8.1 The Statement of Accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom in compliance with the Accounts and Audit Regulations 2015. The only alternative option would be non-compliance with statute which is rejected.

9. IMPLICATIONS

Financial Implications

- 9.1 See main report.

Legal Implications

- 9.2 None.

Equalities Implications

- 9.3 None.

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

- 10.1 The Accounts & Audit Regulations 2015
Council Constitution

11. APPENDICES

- 11.1
 - Appendix 1 – Statement of Accounts 2018/19
 - Appendix 2 – Draft Peterborough City Council - Audit Results Report (ISA260)
 - Appendix 3 – Management representation letter