

<b>AUDIT COMMITTEE</b>	<b>AGENDA ITEM No. 4</b>
<b>13 SEPTEMBER 2021</b>	<b>PUBLIC REPORT</b>

Report of:	Peter Carpenter - Corporate Director: Resources	
Cabinet Member(s) responsible:	Cllr Coles - Finance	
Contact Officer(s):	Peter Carpenter - Corporate Director: Resources Kirsty Nutton - Head of Corporate Finance	Tel. 384564 Tel. 384590

## **ERNST & YOUNG LLP AUDIT PLAN FOR THE YEAR ENDED 31 MARCH 2021**

<b>RECOMMENDATIONS</b>	
<b>FROM:</b> Peter Carpenter - Corporate Director Resources	<b>Deadline date:</b> 13 September 2021
<p>It is recommended that Audit Committee:</p> <ol style="list-style-type: none"> <li>Note the key risks set out by Ernst Young LLP in their report and associated audit approach - Appendix A</li> <li>Note the responses to the Audit Report from Peterborough City Council.</li> <li>Note the delay in the Audit start date which is after the 31 July 2021, the date recommended in legislation.</li> <li>Notes the increase of audit fees above the Public Sector Audit Appointments scale fee which may increase if additional work is required as set out on page 49 of the report.</li> <li>Comment on the scope and depth of external audit work and to ensure it gives value for money and identify to Ernst Young LLP any other matters the Audit Committee considers relevant to the audit.</li> </ol>	

### **1. ORIGIN OF REPORT**

1.1 This report is submitted to Audit Committee in line with its Work Programme.

### **2. PURPOSE AND REASON FOR REPORT**

2.1 The purpose of this report is to involve the Audit Committee in determining the audit approach and to identify any additional issues it considers relevant to the audit.

2.2 This report is for Audit Committee to consider under its Terms of Reference -

- 2.2.2.5 *To consider the external auditors annual letter, relevant reports and the report to those charged with governance.*
- 2.2.2.7 *To comment on the scope and depth of external audit work and to ensure it gives value for money*

### **3. TIMESCALES**

Is this a Major Policy Item/Statutory Plan?	<b>NO</b>	If yes, date for Cabinet meeting	<b>N/A</b>
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### **4. BACKGROUND AND KEY ISSUES**

4.1 The Audit Plan has been prepared to inform the Council about the responsibilities of its external auditors and how those responsibilities will be discharged. It has been discussed and agreed

jointly by Council representatives and External Audit (EY).

- 4.2 The plan (Appendix A) has been developed to consider the impact of the recent key developments, understanding of the Council and the local government sector, and risks based upon discussion with management.
- 4.3 The Audit Plan sets out the materiality levels applied by EY, including the level of uncorrected misstatements that will be reported (page 10 with further details on page 33). EY set the materiality level in accordance with national auditing guidelines and standards.
- 4.4 Under the 2020 Code EY are still required to consider whether the Council has in place 'proper arrangements' to secure economy, efficiency, and effectiveness on its use of resources. However, there is no longer an overall evaluation criterion that EY needs to conclude on. Instead, the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period. The Value for Money (VFM) section (from page 26) highlights a significant risk due to the scale of the financial challenge that the Council faces.
- 4.5 The following table provides a summary of those risks marked as Red in the Audit Plan, with an associated PCC management comment, (page references shown refer to the Appendix Audit Plan).

<b>EY Report – summary of points raised as Red Risks</b>	<b>PCC Management comment</b>
1. Valuations of Other Land and Buildings and Investment Properties (p.6, p.17)	<p>Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet, and PCC uses the expertise of NPS Peterborough Ltd to complete this valuation.</p> <p>Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.</p> <p>The outbreak of the Covid-19 continues to affect economies and real estate markets globally. Nevertheless, as at the valuation date property markets are starting to function again, with transaction volumes and other relevant evidence at levels where an adequate quantum of market evidence exists upon which to base opinions of value. However, for the retail and office sector, there is still an absence of relevant/sufficient market evidence on which to base judgements in the valuers opinion.</p>
2. Accounting for Covid-19 related Government Grants (p.6, p.19)	<p>The Council has received funding for distribution or used to support the Covid-19 response and recovery. The terms and conditions of such grants have required judgment as to whether the Council was acting as agent or principal. Most grants have been considered principal as the use of the grant was for Council services or general funding, and these have been reported within the CIES. In 2020/21 the Council received £58.4m of grant funding where the Council acted as an agent for the government and administered grant funding to businesses, individuals, or care providers, and these are excluded from the CIES.</p> <p>The Council has developed a comprehensive working paper to support the accounting treatment adopted in the Statement of</p>

	Accounts for each grant received. As part of this work, the Council has been in early liaison with EY where there has been a greater level of subjectivity with regards to treatment to ensure consideration and review prior to final close of accounts.
3. Accounting for Empower Loan (p.7, p.20)	The 2019/20 Statement of Accounts was delayed due to the additional audit scrutiny required for the Empower loan and the impact of Covid-19 related economic conditions which led to the Council making a post balance sheet adjustment. Throughout the period, and as the situation progresses, the Council has ensured that EY are apprised of the latest developments and actions the Council is undertaking.
4. Going Concern (p.7, p.21)	The Council has adopted a similar approach to the 2019/20 Statement of Accounts for this note. At the time of publication MHCLG were undertaking their review of the Council as per the conditions outlined in the Exceptional Financial Support granted to the Council for the 2021/22 MTFS.
5. Group Accounting and the scope of the group audit (p.8, p.23)	<p>The Council have prepared Group Accounts again this year due to the level of activity in Peterborough Ltd (trading as Aragon Direct Services) and can be viewed on p.103 of the 2020/21 Draft Statement of Accounts.</p> <p>The additional work that this entails has been factored in to the closure timetable with key team members of the corporate finance team having undertaken relevant training and analysis of the expenditure was undertaken in advance of final year end processes.</p> <p>Peterborough Ltd have engaged Azets as the new auditors in 2020/21 who have already been in contact with EY regarding the year end accounts.</p>
6. Business Rates Appeal Provision (p.9, p.24)	<p>The Council has included this as part of Note 41 - Contingent Liabilities, following early liaison with EY on the Council's proposed accounting treatment and associated justification.</p> <p><i>The Council has experienced a high volume of National Non Domestic Rates (NDR) Material Change in Circumstance (MCC) appeals during 2020/21. This is a result of businesses appealing to the Valuation Office Agency (VOA) for a reduction in their Rateable Value, due to the impact C-19 has had on the operational capabilities to their business. This increase in MCC appeals has impacted local authorities nationally, and in March 2021 the Government announced it would legislate 'to rule out Covid-19 related MCC appeals'. Instead it is to provide a £1.5bn discretionary scheme, to support businesses. At the time of publication, the legislation has not passed, the discretionary scheme has not been confirmed, and the appeals remain on the VOA system. Until such a time when the legislation is passed the Council is exposed to a potential financial liability arising from these appeals.</i></p>
7. Bad Debt Provision (p.9, p.24)	The calculation for the Council's bad debt provision has been thoroughly reviewed considering the possible impact of Covid-19 on the recoverability of income owed. Additional allowance has been provided. Debt recovery continues to be a budget risk that is monitored on a regular basis by CMT throughout the year, with management action identified and implemented.

## 5. CONSULTATION

5.1 The Plan has been circulated to relevant officers for comment, including the Corporate Director: Resources, and Head of Corporate Finance.

## **6. ANTICIPATED OUTCOMES OR IMPACT**

6.1 Approval of the External Audit Plan 2020/21 and comment on any issues the Committee considers relevant.

## **7. REASON FOR THE RECOMMENDATION**

7.1 The Plan provides a summary of the Auditor's proposed work. Members can ask questions and make comments to the External Auditor on its contents and coverage.

7.2 To enable Audit Committee to understand the new accounting standards and the current and any potential future impact on the Council from their adoption into the Code.

## **8. ALTERNATIVE OPTIONS CONSIDERED**

8.1 It is a requirement of the Audit Code to agree the plan but the Committee may influence the content of the plan.

## **9. IMPLICATIONS**

### **Financial Implications**

9.1 There are significant direct implications arising from this Plan. Fees identified are no longer commensurate with the Public Sector Audit Appointments (PSAA) agreed Scale Fee of £83,570. The 2019/20 fee saw an increase on fees of 155% over and above that set by the PSAA and that included in Medium Term Financial Strategy. An additional budget of £100k was included in the MTF5 as an estimate for a revised external audit fee with the following description -

*The audit procedures now required, and the risk and complexities involved in an organisation such as the Council, have led to our external auditors indicating a final fee estimate of around £185,000, some £100,000 higher than the current scale fee. This compares to a commercial benchmark of £250,000.*

The Audit Plan currently estimates a final fee of £220,000, a forecast overspend position of £35,000 and for which additional savings are still required to be identified.

### **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 and Audit Regulations 2015  
The Local Audit and Accountability Act 2014  
The National Audit Office's 2015 Code of Audit Practice  
The Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd

## **11. APPENDICES**

11.1 Appendix A - Peterborough City Council Audit Plan Year ended 31 March 21