PETERBOROUGH CITY COUNCIL

MINUTES OF THE AUDIT COMMITTEE MEETING
HELD AT 6PM, ON
20 JUNE 2022
BOURGES/VIERSEN, TOWN HALL, PETERBOROUGH

Committee Members Present: Councillors Imtiaz Ali (Vice-Chair), Jackie Allen, Haseeb, Shaz Nawaz, Perkins, Rangzeb and Sandford

Co-Opted Members: Chris Brooks (Chair), Mike Langhorn

Officers Present:	Cecilie Booth, Corporate Director Resources – S151 Officer Emma Riding, Budget Planning Manager Kirsty Nutton, Deputy S151 Officer Steve Crabtree, Chief Internal Auditor Dan Kalley, Senior Democratic Services Officer
Also Present:	Neil Harris, Associate Partner, Ernst&Young (EY)

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Dr Stuart Green – Independent Co-opted member.

2. DECLARATIONS OF INTEREST

No declarations of interest were received.

3. MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 21 MARCH 2022

The minutes of the meeting held on 21 March 2022 were agreed as a true and accurate record.

Members noted the actions following that meeting including:

- Officers to investigate the issues around separation of risk management from the internal audit team. Members were informed that discussions were ongoing across the Council over where this work would sit.
- One of the key topics for the committee was around the budget setting process and scrutiny and this was to be added to the work programme.
- Procurement and contract management were also to be added to the work programme.

4. UPDATE ERNST&YOUNG – AUDIT RESULTS REPORT

The Audit Committee received a verbal update in relation to the final statement of accounts from the external auditors EY.

The purpose of the report was to inform the Audit Committee of the progress in signing off the 2020/21 Statement of Accounts.

The report was introduced by the Associate Partner, EY. The final audit results report was not being presented to committee at this stage as there was a national issue relating to the accounting for infrastructure assets. Concerns around this had been raised in regulatory reviews as to whether local authorities had sufficient records and information to understand the level of expenditure annually on highways or other infrastructure assets. This was also in relation as to whether local authorities had sufficient information to know when replacing assets how these were recognised in the balance sheets. The Chartered Institute of Public Finance and Accountancy (CIPFA) were consulting with practitioners and proposing a temporary solution to this. It was hoped this would be resolved by the beginning of July. It was therefore deemed not appropriate to complete the auditing of the accounts until this had been resolved.

Members were informed that there were still some remaining audit procedures that needed completing. It was important to note that the external auditors needed to conclude their audit procedures on the Council as a going concern assessment and disclosure looking forward 12 months from the date the accounts are expected to signed off.

The committee were informed that the external auditors at this stage did not know what level of uncertainty would be issued as this subject to the conclusion of their work and consultation processes. Members were advised that this opinion could range from a material uncertainty to no mention of uncertainty at all. It was also possible that the external auditors could issue an emphasis of matter so that attention was drawn to the Council's financial situation but would not go as far as issuing a material uncertainty

Members were informed that the external auditors had undertaken an extensive amount of work challenging the range of valuations for property and assets that the Council owned. These valuations in many places were different to those produced by Norse Property Services (NPS) and had been reported on to the Council by the external auditors. It was noted that the Council had taken action over the work carried out by NPS and members were informed that notice had been served on NPS.

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

- The national issue that had affected external audits across the Country were in relation to the accounting for infrastructure assets. It was difficult for local authorities to accurately value assets in terms of this particularly around highway maintenance and the subsequent expenditure it might take to replace those assets.
- The matter of the Minimum Revenue Position (MRP) was raised last year in terms of the empower arrangement. The external auditors had seen the Council to re-visit its policy around capital receipts. It was likely that a recommendation from external auditors was for the Council to formalise this. The way the capital financing regulations were going around using capital receipts in terms of setting aside borrowing for commercial purposes was changing. The Treasury and the Department for Housing and Levelling Up Communities (DHLUC) were viewing this as non-permissible actions. It was important going forward that the Councils policy needed to be as prudent as possible.
- There was always a presumption that the Council would continue to exist or in some cases merge with another local authority and therefore the authority would continue to be a going concern. If the external auditors expressed material uncertainty and concerns with the budget for the next 12 months this would be more serious than the previous issuing of material uncertainty in light of the progress and actions taken following the improvement planning process. It was noted that officers had been open and transparent with the external auditors.

- In terms of valuing assets, the external auditors became aware of more findings that are more pervasive in nature. The challenge of asset valuation assumptions was a common thread across local authorities and was highlighted to officers at the Council that the external auditors had concerns over the valuations being made.
- Members were informed that Cabinet had approved the decision to give 12 months' notice to NPS and wind down the relationship.
- In terms of the £118 million figure in the difference in valuations this was identified by the Andrew Flockhart report. It was important to note that the difference was the market value and book value. A breakdown of the valuations could be shared with the Audit Committee members.
- It was important that each asset was valued in turn. There were large differences in some of the valuations and the external auditors needed to understand why the valuations were so far apart.
- In terms of the differences in valuations the external auditors explained that the quality of information provided and used by NPS was poor and not to the levels expected.
- The loan to Empower was as complicated area, within the 2019/20 accounts this was listed as a long term debtor to the value of £23 million. There were a number of events that came to the attention of the external auditors. Before the year end the Council were looking to sell the loan to the private market, due to Covid that situation did not materialise. The Council then took the decision to re-finance the loan in the Autumn of 2020 over a 15-year period. Members were informed that the external auditors tested the recoverability of the loan and had taken the view that this was recoverable, however this was before Empower defaulted on a loan payment. This then triggered an impairment review, the Council appointed Deloitte's to undertake an enterprise review and value.
- In terms of the £7 million difference in the enterprise valuation this was in relation to if the Council undertook a fire sale of the loan. The Council and external auditors were not minded to challenge the view that it was more probable that the Council would continue with the financing arrangement or bring the loan in house. The Council used the cost of borrowing which was around 2.1% to reach the valuation of £20.4 million. The external auditors view was that the loan should have been discounted by 2.5%, which would have valued the loan just under £20 million.
- It was important that in the 2021/22 accounts that the solar panels were valued so that this was included in the group accounts.

The Audit Committee considered the report and **RESOLVED** (Unanimous) to note the verbal update of the "Audit Results Report - (ISA260)" for the year ended 31 March 2021 from Ernst & Young (EY) on behalf of the Council.

AGREED ACTIONS

Breakdown of the valuation of assets that resulted in the £118 million difference to be shared with members of the committee.

5. ANNUAL AUDIT LETTER FOR THE YEAR ENDED 31 MARCH 2022

The Audit Committee received a report into from the external auditors EY.

The purpose of the report was to inform the Audit Committee of the completion of the external audit for the year 2019/20.

The Associate Partner EY introduced the report and stated that the Annual Audit Letter was the public facing summary of audit report and where the Council had ended up with 19/20 external audit. The reason for bringing the report back to committee was that the external auditors were waiting on information from the National Audit Office (NAO) on the account's requirements, as the NAO no longer required EY to carry this out this was now the letter certifying the closure of the accounts.

Members attention was drawn to the external auditors' fees, the committee had on previous occasions been made aware of the external auditors concerns on public sector audit fees and that these did not accurately reflect the expectations imposed on external auditors. A fee of £213,271 was put forward to PSAA. Following a review of the detail and work carried out on the audit file and a final variation to the fee of £91,979, which led to a final fee of £175,549.

Members were reminded that the external review of 2019/20 had been selected for review and the findings of the review would be shared with the committee once completed.

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

- The external auditors had investigated potential areas of concern such as fraud and the Council's financial position, however the external auditors were satisfied that the Council had accounted properly around these areas.
- The Council had been issued an opinion on the financial statements by the external auditors. An assurance statement was required to be produced to the NAO. The external auditor explained that the NAO no longer needed further assurance and therefore the certificate for audit completion was able to be issued to the Council.

The Audit Committee considered the report and **RESOLVED** (Unanimous) to note the "Auditors Certificate of the Opinion Previously Issued in Advance of the Audit and Annual Audit Letter for the year ended 31 March 2020" from Ernst & Young (EY) on behalf of the Council.

6. BUDGET MONITORING REPORT FINAL OUTTURN 2021/22

The Audit Committee received a report in relation to the final budget outturn position for the year 2021/22

The purpose of the report was to inform the Audit Committee of the Budget Outturn for 2021/22

The report was introduced by the Corporate Director Resources and S151 Officer. The report highlighted the financial difficulties that the Council was under. Going forward the report would be condensed to highlight the important high-level issues. The most important headline was that the financial position had improved over the last six months

The Deputy S151 Officer confirmed that the Council ended the last financial year with a £4.5 million underspend, some of which had been used to boost the Councils reserves position. It was important to note that the financial position for the council remained challenging. During the summer of 2020, the Council was in negotiations with central government over financial assistance, this was eventually granted on the basis that the Council agreed to a review of its circumstances by CIPFA.

Following this review a number of control mechanisms were brought in to help the Council deal with its costs. It was agreed that the Council would not undertake any borrowing at that time to control costs.

There were still risks to the Council's financial position. This included risks around the Councils reserve position and rising levels of inflation. The Council was working towards becoming financially sustainable over the next three years and the budget setting process reflected this ambition. An innovation fund had also been setup, acknowledging that some services needed transforming and updating in order for them to become sustainable. In addition the report also outlined the capital programme and identified areas for savings.

Members were also advised that the Council were required to report on its prudential indicators and this was included in the report.

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

- The Outturn report provided a high level of detail across the Council. It was important going forward that the committee focused on the executive summary and the items that were of high value and had a significant impact.
- The Capital moratorium was put in place to stop spending altogether. However, it did not make sense to stop progress on schemes funded externally. The moratorium was now lifted but steps were in place to ensure due diligence was adhered too before any spending was agreed.
- With regards to the capital programme the full £17 million from borrowing had not yet all been found, but there was still time to do so.
- There was a risk around S106 money as they would usually have condition surrounding them. Developers could claim un-spend S106 money that had not been spent, within ten years. Officers would investigate whether there was still any unspent S106 agreement money and would report this back.
- The funding from government with regards to Covid had masked the Council's financial position if the funding had not come the financial position at the Council would have been worse.
- The Council's general reserve fund was £7.3 million this was 4% of the revenue budget. The overall figure was still lower than officers would like but was an improvement on previous years. If more savings were realised then the Council would look to top up the general reserves fund to a higher percentage of the revenue budget.
- Members were informed that a volatility reserve had also been setup, this was put in place in case inflation went up and beyond predicted levels.
- Money had also been set aside for transformation. Some services across the Council were struggling to fill vacancies and had been under resourced for some time, officers were looking at ways to boost these services. This included regeneration and economic development.
- Members were directed to table two on page 48 of the report. The budget for all expenditure was £160 million. A contribution of the underspend went into reserves, some of the other money was earmarked for services and was ring-fenced as to be spent.
- The Covid reserve was managed by identifying work that was required and services that were required. This included money that was needed for social care etc. Some activity was not needed due to outside influences for example Peterborough being in lockdown over Christmas when other parts of the country were not. There was still therefore some uncertainty over the impact on social care and children's services, but the Council was in a better position than before.
- Officers were working on a reserves policy and to lay out plans around the levels of reserves the Council needed. It was agreed that this policy would be worked up and brought to committee.
- Members were reminded that the Council approached the government for additional funds, on the condition that the Council would review its financial position.
- The Covid grants given to the Council were used for the purposes of supporting key services. An additional £20 million of support was given to the Council that was

not ring fenced and was used for the purposes of supporting the Council's recovery out of the pandemic.

- Some of the funding that was ring fenced had been audited by the internal auditing team to ensure that the money was used for the purposes intended by the government.
- There was still £1.7 million in grants that the Council could spend. If this was not done by the end of September this money would have to go back to central government. It was important to note that some of the overall funding from central government was ring-fenced and some was given to support key services within the Council.
- The funding for business support could not be used for anything else other than for supporting businesses.
- Local authorities were being as creative as possible with their building space to maximise its potential and generate income as well as making sure the buildings were covid safe, so that people could return to the office space.
- The reserve levels were roughly 4% of the Council's revenue budget. This was an improvement on previous levels, however it was important that these levels were increased wherever possible. A risk assessment would need to be carried out on the Council's reserve policy to ensure that the Council were building up their reserves.
- The first draft of the Medium-Term Financial Strategy had been drawn up and would be worked on in conjunction with the reserves policy. There were specific reasons for departmental reserves and this affected most of the arm's length corporations that the Council owned.
- The Council's reserve policy needed to be worked up and included at a future meeting of the Audit Committee.
- The covid grants were based on formulas used by the government. This was used across all local authorities.

The Audit Committee considered the report and **RESOLVED** (Unanimous) to note:

1. The final outturn position for 2021/22 (subject to finalisation of the statutory statement of accounts) of a £4.5m underspend on the Council's revenue budget.
2. The reserves position outlined in section 7, which includes a contribution to of £4.5m to reserves balances, resulting from the underspend highlighted in the revenue outturn report in Appendix A.

3. The outturn spending of £79.3m in the Council's capital programme in 2021/22 outlined in section 7.

4. That the financial performance for the year is a positive first step and is line with the Improvement Plan and Tactical Budget approved by Council, however, the financial challenge for the Council remains and requires continued focus and discipline to deliver per both aforementioned plans.

5. The performance against the prudential indicators outlined in Appendix C.

6. The performance on the payment of creditors, collection performance for debtors, local taxation and benefit overpayments outlined in Appendix D.

AGREED ACTIONS

1. Officers to investigate if there are any unspent S106 monies being held on account and report back
2. Officers to include an item on the work programme looking at the Council's reserve policy

7. USE OF REGULATION OF INVESTIGATORY POWERS ACT 2000 (RIPA)

The Audit Committee resolved to note that there was no RIPA update.

8. APPROVED WRITE-OFFS EXCEEDING £10,000

The Audit Committee resolved to note that there was no debt write-off exceeding £10,000.

9. WORK PROGRAMME

The Audit Committee received the report with the committee's work programme for the year 2022/23.

The purpose of the report was to allow the committee to add/remove any items from the work programme for the year ahead.

The report was introduced by the Senior Democratic Services Officer. The work programme had been updated to reflect a rolling programme of work. In addition there was now a matrix which highlighted items by way of cross referencing against the committee's terms of reference.

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

- There was a need for an item looking at whether there was sufficient governance and control in relation to procurement and contracts.
- Other items that could be included in the work programme were:
    - Material arrangements and working with other organisations and joint ventures, including entities such as Medesham Homes.
    - The Council's budget setting process, ensuring that certain elements such as Climate Change and the Carbon Impact was taken into account
    - Risk management was still an important issue that the committee needed to look at further.
    - An assets dashboard recording anything valued above £5 million. It was important that the Council explored the possibility of getting second opinions on assets with a high value.
    - The Councils Improvement Plan and Financial Plan was a key item.
- It was important the Council worked at its governance arrangements to make sure that decisions were taken in a transparent way.

The Audit Committee considered the report and **RESOLVED** (Unanimous) to note the work programme and agree to the additional items being added to future meetings.

AGREED ACTIONS

To include items on the following:

1. Activity of Procurement single supplier procurement over £10,000 and services procured / approved retrospectively.

2. Assets Dashboard of those over £5 million

3. Material arrangements and working with joint ventures/partners

4. Financial Plan and Improvement Panel report

5. Risk Management – ensuring controls were in place

6. Budget Setting and Scrutiny processes

Chair 6.00pm – 7.52pm