

AUDIT COMMITTEE

MONDAY 25 JANUARY 2021
5.00 PM

VENUE: [Peterborough City Council Youtube Page](#)

THE CHAIRMAN WILL ASSUME THAT MEMBERS HAVE READ THEIR PAPERS PRIOR TO THE MEETING TO AVOID UNNECESSARY INTRODUCTIONS TO REPORTS. IF ANY QUESTIONS ARE APPARENT FROM THE REPORTS THEY SHOULD BE PASSED TO THE REPORT AUTHOR PRIOR TO THE MEETING

SUPPLEMENTARY AGENDA

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Committee Members:

Councillors: D Over (Chairman), A Shaheed, Warren, Joseph, Coles, Jones and D Fower

Substitutes: Councillors: Lillis, Burbage, Iqbal and Nawaz

Further information about this meeting can be obtained from Daniel Kalley on telephone 01733 296334 or by email – daniel.kalley@peterborough.gov.uk

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AUDIT COMMITTEE	AGENDA ITEM No. 4
25 JANUARY 2021	PUBLIC REPORT

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

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

1. BACKGROUND

1.1 This paper fulfils the action contained in the AC report 'Audit of Statement of Accounts to those Charged with Governance (ISA260) at point 4.7 to provide the following: *"Additional information will be provided to the Audit Committee as to the resolution of this issue."*

2. APPENDICES

2.1 App A - Audit Results Report – Position Statement 31 March 2020

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Peterborough City Council
Audit results report –
Position statement

Year ended 31 March 2020

25th January 2021

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EY

Building a better
working world

25 January 2021

Dear Audit Committee Members



At the Council's Audit Committee on 16th November 2020, we presented our detailed Audit Results Report. The Audit Committee agreed to delegated arrangements for the Chief Financial Officer (Director of Corporate Resources) and Chair of the Audit Committee to approve and publish the audited financial statements following the conclusion of our audit. The purpose of this executive summary is to bring the Audit Committee up-to-date on the current status of the external audit of the Council's financial statements for the financial year ended 31st March 2020. We do not repeat the details already presented to the Council's Audit Committee.

The Director of Corporate Resources covering report to this Audit Committee meeting accurately and fairly sets out the current status of the audit. To safeguard audit quality, there were ongoing review procedures and professional practice consultations which meant that we were unable to conclude our audit by the end of November 2020. The Council published a notice explaining the delay to the audited financial statements, complying with the requirements of Accounts and Audit Regulations 2015 as amended in 2020 to reflect the impact of the Covid-19 pandemic.

Outcome of professional practice consultations at the end of the 2020 calendar year

Following our professional practice consultations towards the end of November 2020, Appendix A sets out our proposed auditor's report. Subject to concluding the outstanding matters listed on page 3 and 4, we confirm that we expect to issue an unqualified audit opinion on the financial statements. There is one substantive item in progress which we refer to on page 3.

We intend to express a material uncertainty on the ability of the Authority to continue to provide the current levels of service provision for the next 12 months and beyond (referencing the Council's detailed going concern disclosure notes). We also intend to express an emphasis of matter associated with the valuation uncertainty for other land and buildings following the Covid-19 pandemic.

We have also concluded our procedures on your arrangements to secure economy, efficiency and effectiveness in your use of resources. We do intend to issue a qualification on our value for money conclusion to recognise that the structural financial resilience pressures and concerns facing the Authority before and after the Covid-19 pandemic have a significant and pervasive impact on the Authority's ability to secure adequate arrangements for Value for Money in its use of resources.

When we have concluded our audit, our Annual Audit Letter will provide members of the Audit Committee, interested stakeholders and taxpayers with a narrative commentary which sets out our final position from the work we performed assessing the Council's arrangements for delivering its savings and transformation plans pre Covid-19, which we conclude were adequate. We will also set out the stress testing we performed for both our value for money and going concern audit procedures on the Council's budget and medium term financial strategy. We tested three scenarios (the Council's base case forecast, and two severe downside scenarios using economic and socio-demographic trends). The Council officers and Lead Members have openly disclosed and acted appropriately on significant concerns with the Council's underlying financial viability. We were not minded to challenge the Council's base case forecasts. We have provided our detailed findings from this work with the Council's finance team, and has been shared with the Council's Corporate Management Team.

25 January 2021

Substantive item to conclude on our audit of the Council's financial statements for the financial year ended 31 March 2020



Following my quality review processes, we sought to understand the current status of the Council's debtor associated with a loan to Empower Community Management LLP of £23.4million and the work we had performed to determine whether this loan was still recoverable in full. The Director of Corporate Resources covering report sets out the background to the loan relating to the construction of solar panels for residential properties, which was first recognised in the 2014-2015 financial statements. The Council's 2019-2020 financial statements currently recognise the £23.4million loan as a short term debtor and has done so and not recognised any impairment of it since inception.

At the time we raised this following my review processes, we did and still do remain sceptical that with the passage of time, there has been no impairment adjustment associated with the loan up to the 31st March 2020 and we do question how the loan can be classified as short-term as at 31st March 2020 given it has been in place now for nearly six years. However in our subsequent enquiries, we became aware that in October 2020, the Council, with the support of legal and specialist corporate finance advisors, have renegotiated the terms of the loan. We have been provided with the Heads of Terms for the loan facility, decision making papers and supporting financial model. We have also received an assertion from the Director of Corporate Services that the loan under these terms, and at this point, is recoverable but will be tested regularly in accordance with the new agreement.

I have engaged specialists in our corporate finance team who to date supported me to review the heads of terms, decision making papers and the financial model made available to us at the time. We provided the Council's finance team with our comments on these papers just before the end of the 2020 calendar year. We have recently received and are reviewing a detailed financial model which the Council has obtained from its professional advisors. Recently, we received a response from the Council, via its treasury management advisors, on the reasons for not recognising an impairment adjustment. There are two items to resolve:

- Whether the renegotiation of the loan facility meets the recognition criteria for an adjusting post balance sheet event; and
- Whether, in accordance with International Financial Reporting Standards, we believe there should be an expected credit loss adjustment to reflect any impairment risks associated with the recoverability of the loan.

We will include the outcome of our remaining audit procedures in the Annual Audit Letter, and will notify the Audit Committee of the final position prior to issuing our audit opinion on the 2019-2020 financial statements. This report is intended solely for the use of the Audit Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent. We would like to thank your staff for their help during the engagement. We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 25 January 2021.

Yours faithfully

A handwritten signature in dark ink, appearing to read 'Neil Harris', written over a light-colored background.

Neil Harris
Associate Partner
For and on behalf of Ernst & Young LLP
Encl

Executive Summary

Status of the audit

We have now substantially completed our audit of the Peterborough City Council financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit Plan and in our Audit Results Report presented to the Audit Committee on 17 November 2020.

We note that to-date we have not identified any fundamental issues with the preparation of the 2019/20 statement of accounts. The outstanding work at the date of this report is:

- Consideration of the recoverability long-term debtor in relation to the £23.4 million loan with Empower;
- Internal consultation to update the Council's going concern disclosures which reflecting changes in viability and liquidity assumptions since November 2020 (the disclosure needs to cover the period at least 12 months from the proposed date of the auditor's report);
- Whole of Government Accounts (WGA) procedures;
- Review of the final version of the financial statements;
- Completion of subsequent events review;
- There are areas of audit review to be finalised thereafter by the Audit Manager, Engagement Partner and Audit Quality Review Partner. and
- Receipt of the signed management representation letter; and

We expect to issue the audit certificate after we issue the audit opinion, once the WGA submission has been completed. We are satisfied that the WGA work does not have a material effect on the financial statements or on our value for money conclusion.



Appendix A – Proposed audit report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PETERBOROUGH CITY COUNCIL

Opinion

We have audited the financial statements of Peterborough City Council for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement,
- and the related Authority notes 1 to 45 and Group notes 1 to 5,
- Collection Fund and the related notes 1 to 4.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020.

In our opinion the financial statements:

- give a true and fair view of the financial position of Peterborough City Council and Group as at 31 March 2020 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Peterborough City Council and Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter on Other Land & Buildings valuations

We draw attention to Note 22 – Assumptions made about the future and other major sources of estimation uncertainty and relating to property valuations as a result of the coronavirus pandemic, which describes the valuation uncertainty the council is facing as a result of COVID-19 in relation to the valuation of its land and buildings. Our opinion is not modified in respect of this matter.

Material uncertainty related to going concern

We draw attention to Note 44 in the financial statements, which describes the Authority's ability to continue as a going concern. As stated in Note 44, this indicates that a material uncertainty exists that may cast significant doubt on the Authority's ability to continue providing the current level of services without an increase in planned funding. Our opinion is not modified in respect of this matter.



Audit Report

Our opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts 2019/2020 set out on pages 1 to 133, other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

Basis for Qualified Conclusion

- Sustainable resource deployment

The Authority has disclosed in its narrative report and note 44 of the 2019-2020 financial statements material uncertainties on its financial position up to and including the 2023/2024 financial year. The Authority discloses that without additional government funding, there is a risk that the Authority may not be able to set a balanced budget for the 2021/2022 financial year. This position casts a significant doubt on the ability of the Authority to continue operating the level of services currently provided for the next 12 months and beyond.

These circumstances have arisen because the Authority's financial condition has deteriorated during the 2019-2020 financial year and has been ruthlessly exposed by the operational and financial consequences of the Covid-19 outbreak. In particular:

- The Authority was able to deliver a balanced budget in the 2019-2020 financial year but required a capitalisation direction from Ministry of Housing, Communities and Local Government (MHCLG) of £5.6million. The capitalisation direction enabled the Authority to maintain a minimum level of available to use reserves and to put in place the savings and transformation plans required to maintain a sustainable financial position.
- The Authority, at the beginning of October 2020, wrote to MHCLG setting out the pervasive impact that the Covid-19 outbreak had on its financial position. The Authority is seeking alternative funding options to mitigate the risk that it could issue a notice under Section 114(3) of the Local Government Finance Act 1988 that it is unable to balance its 2021/2022 budget.

Whilst we have found that the Authority has responded appropriately to its deteriorating financial position, we have serious concerns about the Authority's current and future financial resilience and ability to remain viable following the Covid-19 outbreak. Without a comprehensive package of additional government funding support or a significant unplanned reduction in services, the Authority's weak financial resilience has a pervasive and fundamental impact on the Council's ability to put in place the appropriate arrangements to secure Value for Money in its use of resources.



Audit Report

Our opinion on the financial statements

Qualified conclusion

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General in April 2020, we are not satisfied that, in all significant respects, Peterborough City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Chief Finance Officer

As explained more fully in the Statement of Responsibilities set out on pages [...], the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/2020, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.



Audit Report

Our opinion on the financial statements

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether Peterborough City Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Peterborough City Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Peterborough City Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Certificate

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Use of our report

This report is made solely to the members of Peterborough City Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Neil Harris (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Luton
XX 2021

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