

<b>AUDIT COMMITTEE</b>	<b>AGENDA ITEM No. 4</b>
<b>25 SEPTEMBER 2017</b>	<b>PUBLIC REPORT</b>

Report of:	Marion Kelly - Interim Corporate Director of Resources	
Cabinet Member(s) responsible:	Cllr Seaton - Resources	
Contact Officer(s):	Peter Carpenter - Service Director - Financial Services	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	
<b>FROM:</b> Marion Kelly - Interim Corporate Director of Resources	<b>Deadline date:</b> 25 September 2017
<p>It is recommended that Audit Committee:</p> <ol style="list-style-type: none"> <li>1. Receive and approve the "Audit Results Report - (ISA260) for the year ended 31 March 2017" from Ernst &amp; Young (EY), the Council's external auditors.</li> <li>2. Receive and approve the audited Statement of Accounts 2016/17.</li> </ol>	

**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 2017" from Ernst & Young (EY) on behalf of the Council.
- To receive and approve the audited Statement of Accounts.

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?	<b>NO</b>	If yes, date for Cabinet meeting	n/a
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### 4. BACKGROUND AND KEY ISSUES

#### 2016/17 Report to Those Charged with Governance

- 4.1 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.
- 4.2 The ISA260 report for 2016/17 from Ernst & Young (EY), the Council's external auditors is attached as **Appendix 1**.
- 4.3 There are a number of sections within the ISA260 report as follows:
- a) Executive summary** – provides a summary of the Audit.
  - b) 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 the property valuation assumptions and methodologies used by the Council's external valuers, and the Council's assessment of the boundary with regards to Group Accounts. No material issues were found during the course of the audit.
  - c) 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.
  - d) Audit differences** – this section notes that EY found no material misstatements during the audit.
  - e) Value for money** - the VFM conclusion notes the size of the budget gap for the MTFS period. 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.
  - f) Other Reporting Issues** - includes information on the work performed on the Annual Governance Statement and Whole of Government Accounts.
  - g) 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 not identified any significant deficiencies in them.
  - h) Appendix A – Required communications with the Audit Committee** – Outlines the communications that the auditors must provide to Audit Committee and method of communication.
  - i) Appendix B – Independence** – confirmation that there are no changes in EYs assessment of their independence. Includes information on Audit fees.
  - k) Appendix C - Accounting and regulatory update** - provides a summary of some upcoming changes to accounting standards which have the potential to impact on the Council.
  - l) Appendix D – Request for a Management representation letter** - a draft copy of the letter of representation for the Council's S151 officer and Chair of Audit Committee to sign (**Appendix 2** to this report).

## **Management Letter of Representation**

- 4.5 The Corporate Director: 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 also require this letter to be signed by the Chair of the Audit Committee. The draft letter is attached in **Appendix 2** for review by Audit Committee.

## **Statement of Accounts 2016/17**

- 4.6 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 presentation of the Statement of Accounts in both June and September to Audit Committee, and also through the completion of a successful external audit process.
- 4.7 The draft Statement of Accounts was considered by Audit Committee on 26 June 2017 and has subsequently been the subject of external audit by EY.
- 4.8 Following the external audit, some minor amendments have been made to the draft Statement of Accounts (presented to Committee in June).
- 4.9 The updated Statement of Accounts for 2016/17 is attached in **Appendix 3** for formal approval by the Audit Committee.
- 4.10 At the time of reports publication to Committee, EY are finalising the audit of Statement of Accounts with some review areas to be completed. If there are further updates required to the version distributed with this agenda, then the revised Statement of Accounts and a schedule of updates will be tabled at the meeting.

## **5. CONSULTATION**

- 5.1 Between 1 July 2017 and 11 August 2017, 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. None of these rights were exercised.
- 5.2 A clearance meeting was held on 25 July 2017 where EY outlined the key findings of the audit to the Interim Corporate Director: Resources, as part of her role as the Council's S151 Officer. The draft ISA260 report was discussed with the Council's finance team during the period 21 July to 8 September 2017.

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

- 6.1 To receive and note the "Peterborough City Council - Audit Results Report" (ISA260) from EY on behalf of the Council.
- 6.2 To receive and approve the audited 2016/17 Statement of Accounts.

## **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 None.

### **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 Council Constitution

## **11. APPENDICES**

- 11.1
- Appendix 1 – Peterborough City Council - Audit Results Report (ISA260)
  - Appendix 2 – Management representation letter
  - Appendix 3 – Statement of Accounts 2016/17