

AUDIT COMMITTEE	AGENDA ITEM No. 8
16 JULY 2018	PUBLIC REPORT

Report of:	Peter Carpenter - Acting Director of Corporate Resources	
Cabinet Member(s) responsible:	Cllr Seaton - Resources	
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:
<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 2018" from Ernst & Young (EY), the Council's external auditors. 2. Receive and approve the 2017/18 Management Representation Letter. 3. Receive and approve the audited Statement of Accounts 2017/18. 	

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 2018" from Ernst & Young (EY) on behalf of the Council.
- To receive and approve the 2017/18 Management Representation Letter
- To receive and approve the audited Statement of Accounts 2017/18.

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 2017/178

- 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. 2017/18 is the first year where the production and audit of the accounts must comply with tighter statutory deadlines introduced by the Accounts and Audit Regulations 2015.
- 4.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) set out the accounting practices in the 2016/17 Code of Practice (the Code) and are followed in the preparation of the 2016/17 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 2018 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 2018.
- 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 2018 following, and in the knowledge of, the audit findings (**Appendix 2**).
- 4.7 The draft Statement of Accounts was shared with Audit Committee before publication on 29 May 2018 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.
- 4.9 The final Statement of Accounts for 2017/18 is attached in **Appendix 1** 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.
- 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

- c) **Movement in Reserves Statement** - this statement shows the movement in the year on the different reserves held by the Council
- c) **Balance Sheet** - shows the value of the assets and liabilities recognised by the Council as at 31 March 2018
- c) **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 2017/18
- c) **Notes to the Financial Statements** - the various statements are supported by technical notes
- c) **The Collection Fund & Notes** - shows the transactions of the Council in relation to Council Tax and Non-Domestic Rates
- c) **Statement of Accounting Policies** - outlines the accounting policies adopted by the Council
- c) **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 2018, following its approval

2017/18 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.
- 4.13 The ISA260 report for 2017/18 from Ernst & Young (EY), the Council's external auditors is attached as **Appendix 2**.
- 4.14 There are a number of sections within the ISA260 report as follows:
 - a) **Executive summary** – provides a summary of the Audit.
 - b) **Understanding Financial Statements** - provides some commentary on the key components of income and expenditure.
 - c) **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.
 - d) **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.
 - e) **Audit differences** – this section notes that EY found no material misstatements during the audit.
 - f) **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 and local pressures. 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.

- g) 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 is still be completed. Any matters that arise will be reported to Audit Committee.
- h) 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.
- i) Data Analytics** - explains the use of data analytics tools to improve the audit.
- j) Independence** - confirmation that there are no changes in EYs assessment of their independence. Includes information on Audit fees.
- k) Appendix 2 (Appendix A – Audit approach update)** – Summarises the approach to the audit of the material items in the balance sheet and any changes to this approach from the prior year audit.
- l) Appendix 2 (Appendix B – Summary of communications during 2017/18)** – Outlines the key communications between EY and the council during 2017/18.
- m) Appendix 2 (Appendix C – Required communications with the Audit Committee)** – Outlines the communications that the auditors must provide to Audit Committee and method of communication.
- n) Appendix 2 (Appendix B - 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 3** to this report).

- 4.15 Page 5 of the report lists the audit work still outstanding. There are no concerns regarding completing the outstanding items which are under the control of the Council and EY. There are two items which are due to external factors, and one of these relate to delays in guidance being issued by Government. Audit work on Housing Benefit transactions was also completed later than planned due to delayed receipt of government instructions. This is disappointing given the hard work from the Council and its auditors to comply with the new timescales.

Management Letter of Representation

- 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 also 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 30 May 2018 and 10 July 2018, 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, none of these rights were exercised.
- 5.2 A clearance meeting was held on 21 June 2018 where EY outlined the key findings of the audit to the Acting Director of Corporate Resources, as part of his role as the Council’s S151 Officer. The draft ISA260 report was discussed with the Council’s finance team during the period 21 June to 4 July 2018.
- 5.3 A training event was held on 13 June 2018 for Audit Committee. Training was provided on the Statement of Accounts and there was an opportunity to ask questions on the accounts.

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 2017/18 Management Representation Letter.

6.3 To receive and approve the audited 2017/18 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 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 2017/18
 - Appendix 2 – Peterborough City Council - Audit Results Report (ISA260)
 - Appendix 3 – Management representation letter

