

AUDIT COMMITTEE	AGENDA ITEM No. 4
23 MARCH 2020	PUBLIC REPORT

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

ERNST & YOUNG LLP AUDIT PLAN FOR THE YEAR ENDED 31 MARCH 2020

R E C O M M E N D A T I O N S	
FROM: Peter Carpenter - Acting Corporate Director Resources	Deadline date: 23 March 2020
<p>It is recommended that Audit Committee:</p> <ol style="list-style-type: none"> 1. Note the key risks set out by Ernst Young LLP in their report and associated audit approach - Appendix A 2. Note the responses to the Draft Audit Report from Peterborough City Council. 3. Note the delay in the Audit start date which is after the 31 July 2020, the date recommended in legislation. 4. Note the correspondence from Ernst Young LLP regarding the challenges with the delivery of this year's External Audit and the position on the audit fees – Appendix B. 5. Notes that the Public Sector Audit Appointments scale fee will apply unless additional work is required as set out on page 41 of the report. 6. Identifies to Ernst Young LLP any other matters the Audit Committee considers will influence the audit. 	

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?	NO	If yes, date for Cabinet meeting	n/a
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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 and risks based upon discussion with management and understanding of the Council and the local government sector.
- 4.3 The Draft Audit Plan sets out the proposed materiality levels applied by EY, including the level of uncorrected misstatements that will be reported (page 9 with further details on page 26) which is lower than previous years. EY set the materiality level in accordance with national auditing guidelines and standards. The Council have challenged the reduction in materiality level which is contained in paragraph 4.5.
- 4.4 EY are required to consider whether the Council has in place ‘proper arrangements’ to secure economy, efficiency, and effectiveness on its use of resources. The Value for Money (VFM) section (from page 23) highlights a significant risk due to the scale of the financial challenge that the Council faces, in common with most local authorities. EY’s approach will focus on 2019/20 savings and the link to longer term transformational change and reviewing the financial plan for 2020/21 and the longer term.
- 4.5 The following table provides a summary of those risks marked as Red in the Draft Audit Plan, with an associated PCC management comment. (Page reference shown refer to the Appendix Draft Audit Plan).

EY Report – summary of points raised	PCC Management comment
1. Misstatement due to fraud or error - the incorrect application of MRP accounting and inappropriate use of capital receipts – risk has changed since last year. (p.6, p.14)	<p>The council’s Minimum Revenue Provision (MRP) policy was agreed by Council on 4 March and has not changed from that adopted in recent years.</p> <p>As noted in recent press articles, MHCLG conducted further enquiries into the council’s accounting treatment and found that the council had acted legally in its application of capital receipts.</p> <p>Since the inception of the MRP policy, and throughout the MHCLG investigations, the council have ensured that EY are fully apprised of the accounting treatment with no adverse opinions received.</p>
2. Misstatements due to fraud or error – inappropriate use of capital receipts. (p.6, p15)	<p>The council has been in recent communication with EY with regards to the technical accounting treatment as to when the receipt of an asset sale is recorded in the financial statements. The council has clarified the recognition criteria with EY’s technical accounting expert and does not foresee this to be an additional risk.</p>
3. Recoverability of NHS Accounts Receivable Balances. (p.8, p.19)	<p>As noted on the 2018/19 Statement of Accounts (SoA) the Cambridgeshire and Peterborough Clinical Commissioning Group is a third party which owes the council a material amount. The aged debt profile ie amounts that remain unpaid beyond a year is increasing which in turn affects the success of recovery of these sums. The</p>

	<p>officers of the council recognise this risk with concerted efforts on ensuring recovery escalated accordingly alongside proactive and ongoing discussion with the CCG.</p>
<p>4. Group Accounting and the scope of the group audit (p.8, p.19)</p>	<p>The council have considered the need for group for a number of years which is disclosed by way of a Note in past SoAs. This year due to the value of activity in Peterborough Ltd (trading as Aragon) Group Accounts will be prepared.</p> <p>The additional work that this entails has been factored in the closure timetable. Key team members have undertaken relevant training, and analysis of the expenditure is being undertaken now in advance of final year end processes.</p> <p>EY also audit the Peterborough Ltd accounts as both the council and the company expect synergies on external audit to be gained from this arrangement.</p>
<p>5. Implementation of new auditing and accounting standards (p.8, p.20)</p>	<p>Although the implementation of IFRS16 is not due to be included in the SoA until 2020/21 the council has been proactive in its accounting approach with work nearly complete on its impact for the future year and disclosure requirements for 2019/20.</p> <p>The impact of this implementation was also included in the Medium Term Financial Strategy (MTFS) as approved by Council 4 March 2020.</p>
<p>6. Materiality for the Council's financial statements has been set at £5.240 million, which represents 1.0% of the prior years gross expenditure on net cost of services plus financing and investment expenditure. In the prior year we applied a threshold of 1.8%. (p.9)</p>	<p>The Council has been open and transparent with EY about the Council's financial situation as reported in the MTFS as approved by Council 4 March 2020.</p> <p>The Robustness Statement contained in the MTFS has been discussed in detail with preparatory work being initiated by the council with EY in advance of the audit commencement in June.</p> <p>The risk for the council is achieving a sustainable financial position over the medium to longer term, rather than specifically in the 2019/20 year.</p>
<p>7. Increased Audit Fee – At this stage, our estimate is that these changes in audit scope for our 2019/20 external audit which are not assumed in the scale fee will lead to a £77,000 increase in the fee. Therefore, the estimate of the proposed fee is an increase from £83,570 to £160,570. (p.41)</p>	<p>This is an additional pressure that the council will need to factor into the final 2019/20 position and has not previously been forecast in budgetary control reports.</p> <p>The council are keen to work with EY to understand the costings and ensure that working papers are designed to mitigate this increase in fee as much as possible.</p> <p>This increase in fee comes at a time when EY are advising its clients of the delay in completing their audits compared to previous years and in accordance with the expectations brought about with the reduced timescales contained in legislation, see following section of</p>

- In January 2020 the Council received e-mail correspondence from EY summarising the result of a consultation undertaken with various EY clients regarding major changes to the audit timetable. The key points are as follows: EY will report the Audit Results in late September / October rather than by the end of July as the council has experienced since the earlier timescales were introduced.
- There are no plans to perform early substantive audit testing as in previous years. The council has been able to manage workloads of key staff through and ensure that the earlier auditing timescales were met.
- The interim audits, will just cover the walk-throughs of the key financial systems and individual engagement teams will discuss with Finance the appropriate timing of this. In the past the council has used the 'interim audit' to enable work to be completed pre-audit and for the council to agree accounting approaches, which involve a degree of subjectiveness, in advance of the final audit ie the need for group accounts.

The revised EY proposal is to implement a phased approach across all its local government clients. For PCC this means the Council's Audit, which was due to start mid-May 2020 with completion by 31 July 2020, will now not start until June 2020 and will not be completed until later in the year, September or October 2020. This change in approach is resulting in the council's finance team needing to reorganise its workloads, and associated workforce planning, to accommodate this extended audit period at a time when the council is focused on delivering a financially sustainable budget position for 2021/22.

- 4.6 Appendix B is a copy of the correspondence from Janet Dawson of EY, referred to above, sent to Chief Financial Officers in February 2020. It addresses the concerns regarding the timetable for financial reporting and auditing plus the position on the audit fees determined by the Public Sector Audit Appointments Limited (PSAA).

5. CONSULTATION

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

6. ANTICIPATED OUTCOMES OR IMPACT

- 6.1 Approval of the External Audit Plan 2019/20 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 previous years with a proposed 92% fee increase over and above that set by the Public Sector Audit Appointments body and that included in Medium Term Financial

Strategy.

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 Outline Audit Plan Year ended 31 March 20

Appendix B - Correspondence from Janet Dawson of EY

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