

AUDIT COMMITTEE	AGENDA ITEM No. 4
16 NOVEMBER 2020	PUBLIC REPORT

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

AUDIT RESULTS REPORT YEAR ENDED 31 MARCH 2020

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: 30 Nov 2020
<p>It is recommended that Audit Committee:</p> <ol style="list-style-type: none"> 1. Receive and approve the "Audit Results Report for the year ended 31 March 2020" from Ernst & Young (EY), the Council's external auditors. 2. Receive and approve the draft 2019/20 Management Representation Letter. 3. Receive and approve the audited Statement of Accounts 2019/20. 4. To delegate to the Chairman to approve further changes if needed before the deadline of 30 November 2020. 5. To note the recommendations and conclusions of the Independent Review of Local Authority Financial Reporting and External Audit by Sir Tony Redmond. 	

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 2020" from Ernst & Young (EY) on behalf of the Council.
- To receive and approve the 2019/20 Management Representation Letter
- To receive and approve the audited Statement of Accounts 2019/20.
- To delegate to the Chairman to approve further changes to the Statement of Accounts and the Going Concern judgement if needed before the deadline of 30 November 2020.
- To note the recommendations and conclusions of the Independent Review of Local Authority Financial Reporting and External Audit by Sir Tony Redmond.

2.2 This report is for the Audit Committee to consider under its Terms of Reference No.

2.2.1.18 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.

2.2.1.19 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 2019/20

- 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.
- 4.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) set out the accounting practices in the 2019/20 Code of Practice (the Code) and are followed in the preparation of the 2019/20 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 – 2.2.1.18 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 July 2020 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 2020.
- 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 30 November 2020 following, and in the knowledge of, the audit findings (Appendix 2).
- 4.7 The draft Statement of Accounts was shared with the chair of the Audit Committee and Cabinet member for Finance prior to publication on the Councils Website on 31 July 2020. This published draft has subsequently been the subject of external audit by EY.
- 4.8 Following the external audit, completed to date, some minor amendments have been made to the draft Statement of Accounts. Amendments with regards to the Property, Plant and Equipment (PPE) note and are included in the final version of the Statement of Account as agreed by EY. A clarification point has been added to the accounting policy for PPE valuations to enhance the explanation of the policy with regards to impaired assets.
- If further amendments are required to the Statement of Accounts a supplementary paper will be issued to highlight these adjustments. It is hoped that this will be prior to Audit Committee on the 16 November 2020 if it is required.
- 4.9 The updated Statement of Accounts following the audit is attached in Appendix 1 for review by the Audit Committee.
- 4.10 At the time of reports publication to Committee, EY reserve the right to finalise the audit of Statement of Accounts by the deadline of 30 November 2020 (see Section 1 - Executive Summary, page 5). There are no concerns regarding completing the outstanding items which are under the control of the Council and EY. If there are further updates required to the version

of the Statement of Accounts distributed with this agenda, then the revised document together with a schedule of updates will be tabled at the meeting. If there are subsequent further minor amendments Audit Committee members will be notified and the delegation to the Chairman to approve further changes if needed before the deadline of 30 November 2020 will be exercised (if delegation is approved at this 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
- d) Movement in Reserves Statement** - this statement shows the movement in the year on the different reserves held by the Council
- e) Balance Sheet** - shows the value of the assets and liabilities recognised by the Council as at 31 March 2020
- f) 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 2019/20.
- g) Notes to the Financial Statements** - the various statements are supported by technical notes
- h) The Collection Fund & Notes** - shows the transactions of the Council in relation to Council Tax and Non-Domestic Rates
- i) Statement of Accounting Policies** - outlines the accounting policies adopted by the Council
- j) Group Accounts** – shows the impact of eliminating the transactions relating to the Council's subsidiary Peterborough Ltd from the Council's accounts
- k) 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 was approved by Audit Committee previously on 13 July 2020.

Audit Results Report

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 or 'Audit Results Report'.

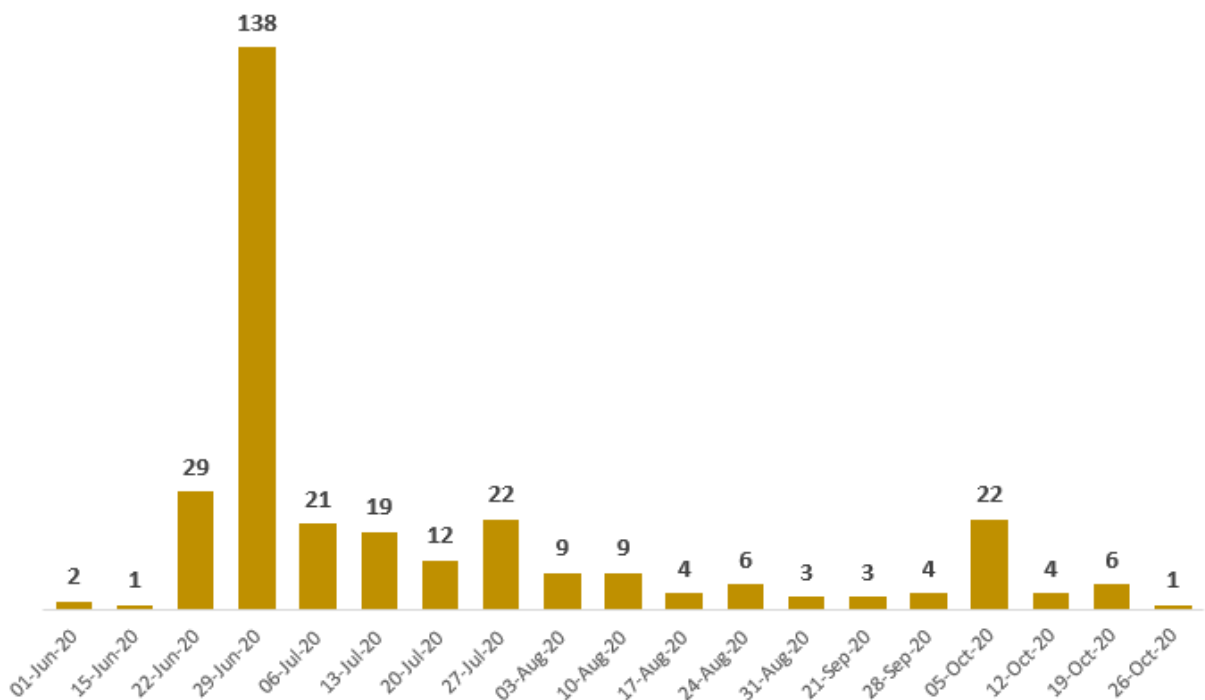
4.13 The 'Audit Results Report' for 2019/20 from Ernst & Young (EY), the Council's external auditors is attached as Appendix 2.

4.14 There are a number of sections within the report as follows:

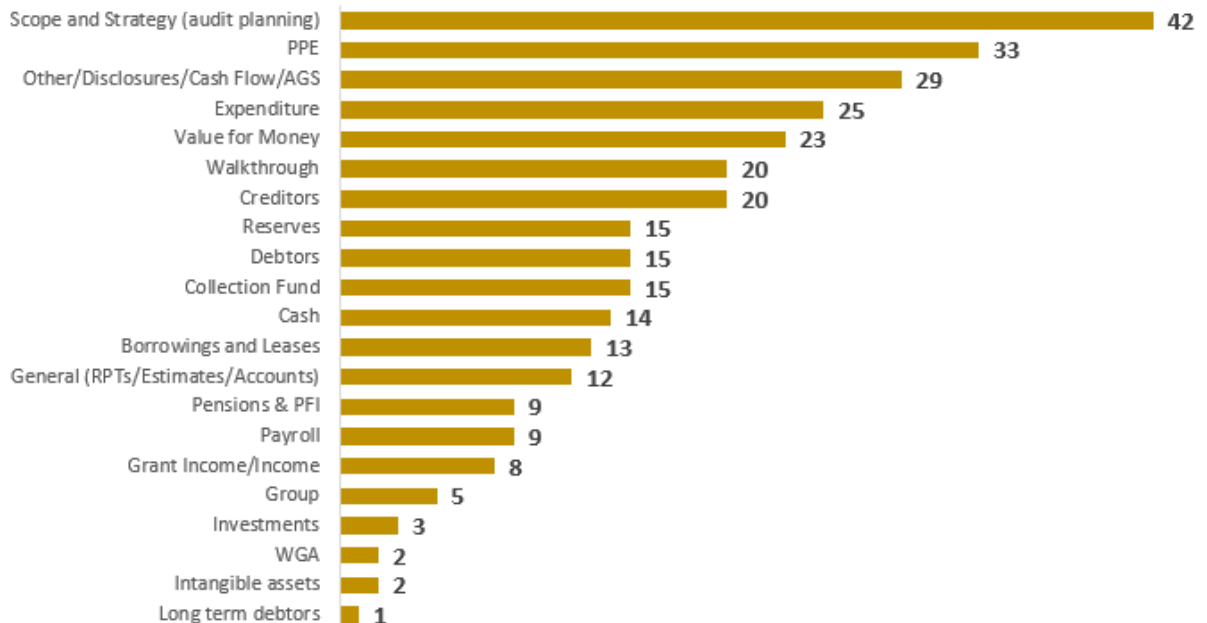
- 1) **Executive Summary** – provides a summary of the audit and includes an overview of the new risk areas that have been identified since the 9 March 2020 Audit Plan.
- 2) **Areas of Audit Focus** – represents the inherent risks identified in the Audit Plan for Local Authorities, the audit procedures performed in relation to testing for the presence of these risks and the results of the audit work performed. This section includes findings with compliance with Going Concern which has been a revised approach in response to the corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after their audits had concluded.
- 3) **Audit Differences** – this section notes that the audit differences adjusted for in the SoA following the audit.
- 4) **Value for Money** - On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019/20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019/20 VFM arrangements conclusion.
- 7) **Other Reporting Issues** - includes information on the work performed on the Annual Governance Statement and Whole of Government Accounts (WGA). Any matters that arise will be reported to the Audit Committee.
- 8) **Assessment of Control Environment** - EY report that they only test internal controls to the extent necessary for them to complete their audit.
- 9) **Data Analytics** - explains the use of data analytics tools to improve the audit.
- 10) **Independence** - confirmation that there are no changes in EYs assessment of their independence. Includes information on audit fees and details additional costs that have been incurred as part of the additional audit requirements placed on the audit.
- 11) **Appendices**
 - Appendix A – Audit Approach Update
 - Appendix B – Summary of Communications during 2019/20
 - Appendix C – Required Communications with the Audit Committee
 - Appendix D - Draft Management Representation Letter
 - Appendix E – Accounting and Regulatory Update
 - Appendix F – Reflections From the Redmond Review
 - Appendix G – Draft Independent Auditors' Opinion Report

4.17 The impact of COVID-19 and the national lockdown has meant that officers of both the Council and EY had to find alternative ways of providing audit evidence and communicating the responses to EY enquiries over the audit period. Council officers received and responded to over 315 requests from EY and provided over 1,300 items of evidence. All communications were held electronically making use of Teams with video conferencing and screen sharing facilities being used, and with evidence securely submitted through the EY portal which enabled a dashboard to be developed for the first time enabling progress to be monitored at each of the weekly client meetings held between both organisations. The below charts provide an overview as to how the audit was carried out, and the range of requests involved to complete the audit of accounts.

EY Requests by the week beginning of due date



EY Request by Classification Type



- 4.18 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 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 July 2020 and 11 September 2020, 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.

- 5.2 Weekly update meetings have been held with council finance officers and EY, where the key findings of the audit to date have been discussed in detail. Weekly meetings have also been held with the Chief and Deputy Finance Officer from the Council and Associate Partner and Audit Manager from EY in the latter part of the audit. The draft Audit Results Report has been discussed and agreed with the Council's finance team.

6. REDMOND REVIEW

6.1 Independent Review of Local Authority Financial Reporting and External Audit

The Local Audit and Accountability Act 2014 (the 2014 Act) introduced a new Audit regime for local government to replace the previous arrangements, under which the Audit Commission performed that role. The Redmond review examined the effectiveness of local audit as now practised. The purpose of the Review is to test not only the impact of external audit activity in local government but also to look, critically, at how this helps to demonstrate public accountability, particularly to service users and council taxpayers. The brief of the Review also extends to the issues of transparency in financial reporting of local authorities, with attention being directed towards whether the annual accounts and associated published financial information can be readily understood by the public.

- 6.2 During the course of this Review it has become increasingly apparent that the current local audit arrangements fail to deliver, in full, policy objectives underpinning the 2014 Act. As a result, the overriding concern must be a lack of coherence and public accountability within the existing system. For audit to be wholly effective it must provide a service which is robust, relevant, and timely; it must demonstrate the right balance between price and quality; and be transparent to public scrutiny. The evidence the Review suggests is compelling to suggest that the current audit service does not meet those standards.

- 6.3 In reaching the outcome and recommendations for this Review the following key factors have been taken into account:

- providing clarity of purpose in local audit;
- giving emphasis to performance and accountability in local audit framework;
- maintaining and improving the stability of the local audit market;
- reaffirming the importance of the auditing and accounting staff having the requisite skills, training and experience to fulfil their roles;
- improving and strengthening the governance arrangements underpinning effective local audit;
- developing coherence and coordination in the procurement and effective delivery of audit performance within a clear and consistent accountability framework;
- engaging key stakeholders in regular dialogue as an aid to maintaining an effective local audit service; and
- providing transparency in financial and external audit reporting to reinforce public accountability

Further information about the Redmond Review can be found in the Audit Results Report, Section 11 'Appendix F – Reflections From the Redmond Review'. The detailed report can be found using the link provided in Section 11 of this report below, or found on the GOV.UK website under Local Government.

7. ANTICIPATED OUTCOMES OR IMPACT

- 7.1 To receive and approve the audited 2019/20 Statement of Accounts.
- 7.2 To receive and note the "Peterborough City Council - Audit Results Report" (ISA260) from EY on

behalf of the Council.

7.3 To receive and approve the 2019/20 Management Representation Letter.

7.4 To note the recommendations and conclusions of the Redmond Review

8. REASON FOR THE RECOMMENDATION

8.1 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.”

8.2 It is a statutory requirement under the Accounts and Audit Regulations 2015.

9. ALTERNATIVE OPTIONS CONSIDERED

9.1 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.

10. IMPLICATIONS

Financial Implications

10.1 See Section 10 of the EY Audit Results Report. This outlines the audit fees for the 2019/20 Statement of Accounts, along with the increase in fees identified as per the March Audit Plan, and subsequent increase in fees following the additional work required to be completed following Covid-19 and Going Concern audit risks. As this additional work was unknown at the time of setting the budget, these increased fees create a budget pressure for the Council.

Legal Implications

10.2 None.

Equalities Implications

10.3 None.

11. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

11.1 The Accounts & Audit Regulations 2015
Council Constitution

[Link to the Independent review into the oversight of local audit and the transparency of local authority financial reporting](#)

12. APPENDICES

- 12.1
- Appendix 1 – Statement of Accounts 2019/20
 - Appendix 2 – Draft Peterborough City Council - Audit Results Report

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