



**MINUTES OF THE AUDIT COMMITTEE MEETING
HELD AT 5:00PM, ON
MONDAY, 16 NOVEMBER 2020
VIA ZOOM CONFERENCE**

Present: Councillors Over (Chairman), Fower, Sandford, Coles, Jones, Joseph and Warren.

Officers in

Attendance: Peter Carpenter, Acting Corporate Director of Resources
Dan Kalley, Senior Democratic Services Officer
Steve Crabtree, Chief Internal Auditor
Fiona McMillan, Director of Law & Governance and Monitoring Officer
Kirsty Nutton, Head of Corporate Finance and Deputy S151 Officer
Sam Smith, Assistant Director, IT Services

Also in

Attendance: Dan Cooke, Audit Manager (EY)
Neil Harris, Associate Partner, Ernst & Young (EY)

25. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Shaheed. Councillor Sandford was attending as substitute.

26. DECLARATIONS OF INTEREST

There were no declarations of interest received.

27. MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 14 SEPTEMBER 2020

The minutes of the meeting held on 14 September 2020 were agreed as a true and accurate record.

28. AUDIT RESULTS REPORT YEAR ENDED 31 MARCH 2020

The Audit Committee received a report in relation to the Audit Results Report Year Ended 31 March 2020.

The purpose of the report was for the Committee to receive and note the Audit Results report and associated documents.

The Head of Corporate Finance and Deputy S151 Officer introduced the report and outlined that this was the final statement of accounts for the financial year 2019/20. Members were reminded that a draft version went to Committee in July. In response

to the Coronavirus pandemic Government had passed emergency legislation that relaxed the previous shortened timescales and that a fully audited set of accounts would now need to be signed off by the end of November. The external audit commenced on the 22 June 2020 and over 300 queries had been raised by EY and over 1000 pieces of audit evidence had been provided to EY. At the current time there were still a few audit queries outstanding.

The Associate Partner Ernst & Young explained that EY had undertaken a range of audit procedures on the Council's financial condition pre and post Covid-19. EY looked at the arrangements that were put in place to seek and obtain a capitalisation directive from the Ministry of Housing, Communities and Local Government (MHCLG) prior to the pandemic. EY were satisfied that the Council were alerting to MHCLG to its current financial position and what steps had been taken to secure further savings and transformations to enable the council to secure its medium to longer term financial position. Members were informed that the Covid-19 pandemic had a long lasting impact on a number of authorities including Peterborough City Council due to lost income and additional cost pressures. EY in the past few weeks had a number of weekly conversations with senior financial officers within the authority to understand the future implications on the Councils' financial planning.

Members were informed that the Council had written to MHCLG at the beginning of October to set out its financial status and the steps the Council were seeking to address the position. In addition to this the Council sought financial assistance and support from Government. EY stated that they believed this was the appropriate action to take in the circumstances. EY believed the Council had been open and transparent around its financial position before writing to MHCLG. Members were informed that EY had not issued a statutory recommendation or public interest report to the Council to date as they believed the Council had taken all necessary steps and all governance and decision making to date was carried out in the public domain. It was also felt a statutory recommendation was not appropriate to date as EY did not believe there were any significant gaps in its analysis undertaken to arrive at risks identified and actions that needed to be taken by the Council.

The Council had set out what it needed from Central Government in terms of what its future financial viability looked like. In terms of auditing what was presented in the financial statements the Council has a responsibility under the accounting standards to present information that showed the Council as a going concern. This looked at the Council viability including forecast budget gap and available usable reserves, in addition to the Council liquidity and short term cash available, along with the forecast borrowing position. At the current time there was material uncertainty over the ability of Council to continue as a going concern, as if the Council did not receive additional funding from Central Government it did cast a significant doubt on the Council being able to provide the current level of services for the foreseeable future. As the Council had openly disclosed this position in the updated financial statements, the external auditors are likely to provide an unqualified audit position, with a reference in the report to a material uncertainty associated with the Council's current and future viability.

The Council's value for money conclusion looked at the arrangements the Council had in place to look at its effectiveness and use of resources. This looked at themes around governance, risk management, effective decision making, partnership and contract management and how the Council secured its financial resilience. The external auditors at the current time proposed an adverse value for money position due to the uncertainty around the Council's financial future in light of the ongoing pandemic. In

terms of reaching the conclusion that had been placed in front of Committee EY had been working with a number of consultants to review the Council's assumptions in order to understand the worst case scenario's with the Council's forecasts. The specialist consultants had forecast that the Council's medium term financial strategy was robust and was consistent with forecasts that the external auditors were seeing. A stress test was carried out on two scenarios one of which was when the economic recovery took place and how quickly that might recover in 2021 and another scenario where there was a more protracted economic recovery over the next few years. A summary of this had been provided to the Council's finance team. This was to appear in the annual audit letter.

In addition EY had been looking at how the design of services was being implemented at the Council pre-covid. This was to look at how the Council was securing its financial status before the pandemic took hold.

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- If the Council was not able to secure additional funding then it may need to source finances from additional borrowing. The Council was forecasting that it would run out of its available usable reserves within the foreseeable future based on current forecast and medium term plans.
- The auditors were satisfied that the Council had made their financial situation clear to MHCLG and had been open and transparent in this. The Council had been clear in the steps it needed to take, subject to any funding decision to address the gaps in funding it was forecasting. There were more pressing concerns for the Council over funding, instead of making contingency plans.
- If there was no further funding forthcoming then there was a possibility that the Council, like many others in the same position, would have to consider a section 114 notice. Members were informed that in the auditors view there were going to be more local authorities facing financial pressures than before. Peterborough City Council had been open and transparent from an early stage.
- The Council had received some additional funding during the current financial year due to Covid. However at the current time the Government had not looked at funding for the next financial year, this was why the Council had written to MHCLG in October to look at ways of addressing issues going forward. The difficulty was that the Council had to make assumptions as the final settlement figure would not be known until quite late in the current financial year.
- The situation at Croydon Council was different to the challenges faced by other authorities as they had financial issues before the impact of Covid. Members were informed that the Peterborough City Council had been open and clear about the financial issues that it faced.
- In terms of comparison with other Councils the auditors confirmed Peterborough were one of the most open and transparent, during a difficult set of circumstances.
- There were a team in EY that were specialists in helping the auditors show a number of scenarios in terms of the Council's finances going forward and the economic recovery. The Council was being prudent in keeping stress testing its finances at the current time and to try and reflect trends.
- It was important to see what settlement the Council receives from MHCLG and what options the Government allowed the Council to take before making any further plans or decisions.

- There was no evidence of any financial mismanagement by the Council and the officers had taken all the necessary steps at each stage of the audit.

There was a correction that needed to be made to the audit results report, there was a difference noted between the pension fund accounts and the actuarial set of results from the actuary on the investment asset valuations. This was a difference of £2.56 million and in the report it did indicate that this had been amended for this item but that in the end this was not amended. This item was not material and did not have an impact on the fund position. This would need a letter of representation from management and the committee for the reason why this was not corrected.

In terms of impacts of Covid-19 to note there was the impact on the recoverability of debtors. There was a focus on the long standing debt with the CCG, however there were no matters to draw to the attention of the committee. Auditors also considered the Council's operating environment, especially in light of the Council's working post Covid-19 and remote working and internal controls and again there were no matters to draw to the committee's attention.

There were still a number of areas that needed to be signed off before the 30 November, by both officers and the auditors. However there was a risk that this could be missed, but there were plans in place to report any delay to the publication of audited accounts should this be the case.

Members were made aware that the audit fee was likely to increase in the next year due to the amount of work undertaken by the auditors and this was reported in the annual audit results report.

The Audit Committee considered and **RESOLVED** (unanimously) to:

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.

At this point Councillor Sandford left the meeting.

29. INTERNAL AUDIT: MID YEAR PROGRESS 2020/21

The Audit Committee received a report in relation to the internal audit mid year progress 2020/21.

The purpose of the report was to provide an overall opinion on the soundness of the control environment in place to minimise risk to the council. It was based on the findings of the completed internal audits from the Annual Audit Plan 2019 / 20120 as at 30 September 2019.

The Chief Internal Auditor introduced the report and explained that the report set out the progress the audit team had made so far. The job of internal audit was to look at the key risks and the impacts these had on the Council. The audit plan was built from conversations with chief officers of the Council and previous experience of the audit team. The report focused on a number of key areas and identified the use of resources within the audit team and the outcomes of any audits that had been completed or were ongoing. Any areas that are deemed of little or no assurance had been provided to members in the report. There were two areas that had so far received little or no assurance.

Members were directed to appendix A which was a progress report focusing on the pandemic and work carried out by departments at the Council. In addition the appendix looked at the grant claim processing procedure. Officers had been working with internal and external parties during the pandemic, including the Covid hub, for which one officer had been seconded full time. There had been a number of support packages that had come from central Government for which the officers had been working on monitoring the process for business to be able to claim these. The service to the Combined Authority ceased in September 2020. There was currently a full time auditing position that was in the process of being recruited to.

Despite the extra workloads and reduction in staff numbers, almost all of the planned audits had been undertaken or were in the process of being undertaken. The team were now going to be focusing on the work of the audit plan until the end of the financial year.

The Assistant Director IT Services informed members that the IT audit had taken place when Serco were still responsible for this service, but this had now moved in-house. There were 11 audit findings of which six had now been completed and the remaining five were in progress.

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- In terms of the overall IT strategy officers were looking at how remote working was provided. It was important to look at how this was controlled properly going forward. Equipment was being looked in to, to ensure that it was fit for purpose. It was important that the Council provided what was needed within its budgets.
- In terms of keeping a track of IT equipment this involved mouse's, keyboards etc that people had used for working at home and trying to keep a track of this. There was no shortage of equipment as far as officers were aware.
- The audit IT strategy was still being developed and more defined information could be presented to members once further work had taken place.

The Audit Committee considered the report on the Internal Audit update and **RESOLVED** (unanimously) to note the report.

30. TREASURY MANAGEMENT MID YEAR UPDATE

The Audit Committee received a report in relation to the Treasury Management report.

The purpose of the report was to report current performance and the forecast outturn position against the Prudential Indicators in the strategy.

The Head of Corporate Finance and Deputy S151 Officer introduced the report and confirmed the indicators helped show members how the Treasury Management report was underpinned. Performance against the indicators was included in the report. There were no indicators to draw to member's attention.

The report showed that the Council had managed to reduce its debt by 23%. It was anticipated that borrowing after the pandemic would be £551 million by the end of the financial year.

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- Debt levels were slightly higher than other authorities, however this was still substantially lower than some authorities. Most of the investment was in schools and highways and were not in commercial activities.
- Most of the capital investment was linked to the Council being one of the fastest growing areas in the Country. Being a growth city meant that investment was needed in schools and road infrastructure.

The Audit Committee considered the report on Counter Fraud Policies and **RESOLVED** (unanimous) to review current performance against the Prudential Indicators as approved in the Treasury Management Strategy (TMS) contained in the Medium-Term Financial Strategy (MTFS).

31. USE OF CONSULTANTS – UPDATE REPORT

The Audit Committee received a report into the use of consultants and agency workers.

The purpose of the report was to provide an update on the use of consultants and agency staff.

The Acting Corporate Director Resources explained the content of the report to the committee and that this was a regular report. Overall spend on consultants for the first six months was £0.9 million with a projected overall spend at the end of the financial year of £1.8 million. This was around £1 million pound lower than the previous financial year. In terms of agency spend in the first six months this was £1.7 million which was projected to reach £3.4 million by the end of the financial year. This was significantly less than the average £6 million a year for the past few years. There had been a lot of success recently in converting agency social workers into permanent staff. The Manor Drive Solution business support service was identified as a saving, however this was not part of the savings at the moment as staff had been used for the Covid hub.

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- The Council saved on average around £20,000 per agency social worker that was made permanent. People were now more comfortable having a permanent job than moving from place to place to fulfil social work roles.
- There were potential savings in terms of consultancy spend this was due to ICT now being moved in-house and no further work carried out by Grant Thornton. It was anticipated that in the financial year 2021/22 there could be savings of around £300k to £400k.
- There were still a number of unfilled position across the authority that could be filled instead of using agency staff or are not needed at all.
- When it came to delivering services the staff at the authority were the experts and when it came to helping out in the Covid crisis the expertise where already in house.
- The only area that might increase the use of consultants was to assist in implementing the budget, most of this was to be delivered by the project and IT teams. However it was anticipated that this would not be the case as IT was not in-house.
- The use of consultant's report had always been put before the committee so that the spend on consultants was open and transparent.

The Audit Committee considered the update report on the use of consultants for the first six months of 2020/21 and **RESOLVED** (unanimous) to note the report.

32. USE OF REGULATION OF INVESTIGATION POWERS ACT 2000 (RIPA)

There were no RIPA authorisations in this quarter.

33. APPROVED WRITE-OFFS EXCEEDING £10,000

There were no Write-Off items exceeding £10,000 items to report.

34. FEEDBACK REPORT

The Audit Committee received a report in relation actions from the previous meeting.

The purpose of the report was to provide feedback on items considered or questions asked at previous meetings of the Committee. It also provided an update on any specific matters which are of interest to the Committee or where Committee have asked to be kept informed of progress.

There was no meaningful list across all councils for consultant spends.

A response had been chased by the Chief Internal Auditor in terms of the single person council tax discounts.

The Audit Committee considered the report and **RESOLVED** (unanimous) to note the report.

35. WORK PROGRAMME

The Audit Committee received a report in relation to the work programme for 2020/2021.

The report was introduced by the Senior Democratic Services Officer who advised that the format followed a similar process to previous years and further items could be added to the programme at the Members discretion.

The Audit Committee debated the report and in summary, key points raised and responses to questions included:

- It would be useful to keep an item on the agenda in relation to Brexit and any effects this was to have on the Council.

The Audit Committee considered and **RESOLVED** (unanimously) to note the report.

Chairman
Virtual Meeting
5:00 – 6:35pm