

<b>AUDIT COMMITTEE</b>	<b>AGENDA ITEM No. 3</b>
<b>21 JUNE 2021</b>	<b>PUBLIC REPORT</b>

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

**AUDIT OF STATEMENT OF ACCOUNTS TO THOSE CHARGED WITH GOVERNANCE (ISA260)**

<b>R E C O M M E N D A T I O N S</b>	
<b>FROM:</b> Peter Carpenter - Director of Corporate Resources	<b>Deadline date:</b> 21 June 2021
<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 2020" from Ernst &amp; Young (EY), the Council's external auditors.</li> <li>2. To note the amendment made for the inclusion of the 'Post Balance Sheet Event'</li> <li>3. Receive and approve the 2019/20 Management Representation Letter.</li> <li>4. Receive and approve the audited Statement of Accounts 2019/20.</li> <li>5. To delegate to the Chairman to approve further changes if needed.</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 2020" from Ernst & Young (EY) on behalf of the Council.
- Inform the Committee that the results of the External Audit will follow in a supplementary report to this meeting
- To note the amendment made for the inclusion of the 'Post Balance Sheet Event'
- 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 if needed.

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 On 16 November 2020 Audit Committee received the draft 'Audit Results report year ended 31 March 2020' as issued by Ernst & Young (EY), the Council's external auditors. This was considered by Committee as part of the regulations that require the Council's Section 151 officer to recertify the accounts, from those certified in July 2020, and for the Audit Committee to approve the Accounts no later than 30 November 2020 following, and in the knowledge of, the audit findings. It was noted in the Audit Results report that EY reserved the right to finalise the audit of Statement of Accounts by the deadline of 30 November 2020.
- 4.2 The Statement of Accounts audit was not completed by EY by the deadline of 30 November 2020. On review of the audit files prior to audit sign off, EY's Associate Partner raised additional queries to Council officers with regards to the loan made to ECS Peterborough 1 LLP (known as the Empower loan). On 25 January 2021 Audit Committee received an update on the progress of the External Audit by EY of the Council's 2019/20 Statement of Accounts.
- 4.3 Following the additional queries raised, Council officers and EY have been in liaison as to whether an adjustment and further disclosures are required to the 2019/20 Statement of Accounts including an additional note in recognition of a 'Post Balance Sheet Event', (IAS10). Application of this accounting standard states that:

*IAS 10 Events After The Reporting Period contains requirements for when events after the end of the reporting period should be adjusted in the financial statements. Adjusting events are those providing evidence of conditions existing at the end of the reporting period, whereas non-adjusting events are indicative of conditions arising after the reporting period (the latter being disclosed where material).*

As at the 31 March 2020 the Empower loan arrangement was shown as a short-term debtor in the Council's balance sheet which reflected the repayment terms of the loan and the Council's accounts were closed with this best knowledge at the time of the 31 March 2020. However, the condition existing at this time is the Coronavirus pandemic which influenced the refinancing activity being undertaken at this time in relation to the loan.

- 4.4 As part of the further consideration requested by EY into a Post Balance Sheet Event, the Council has taken additional expert advice from both Deloitte and Link, the latter being the Council's treasury advisors who provided technical accounting advice for the application of 'fair value' in the local authority context for this loan.
- 4.4 The following text is an extract from the revised Statement of Accounts, Note 45 – Post Balance Sheet Event.

#### **Event After the Reporting Period**

*The financial statements and notes have been adjusted for the following event, which took place after the 31 March 2020 which relates to Covid-19 and its subsequent impact. The disclosure is made to provide information relevant to an understanding of the Council's Financial Statements as at 31 March 2020.*

#### **Short Term Debt**

*The short term debt as at 31 March 2019 included £23.0m relating to the outstanding balance on*

*a loan granted to ECS Peterborough 1 LLP (ECSP1). On the 31 March 2020 the Council were in advanced discussions with a long-term funder to refinance the Council's short term loan facility. Subsequent to that date, due to continuing uncertainty within the financial markets because of the immediate impact of the pandemic, the long-term funder was unable to proceed with the refinance. The Council then commenced the re-negotiation of the loan with ECSP1, but when the revised terms were unable to be agreed, a letter was sent by the Council on 30 March 2021 requesting repayment of the loan within six weeks.*

*The loan was not repaid at the expiry of the notice period and Teneo Restructuring Ltd were appointed jointly by the Council and ECSP1 to provide insolvency advice. Deloitte have assessed the Fair Value (as per IFRS 13) of ECSP1 to fall within a range of £14.5m to £16.4m, with a mid-point of £15.4m, as at 31 March 2020. Whilst this is a fair commercial assessment based on market conditions as at 31 March 2020, the Council is considering a report from Teneo Restructuring Ltd which has considered various options, recommending one which will maximise the return to the Council. The Council considers the value of the loan calculated from the underlying Net Present Value (NPV) of the forecast cash flows at a rate of 2.1% as more appropriate and as such this is used when estimating the carrying value of the loan at 31 March 2020. This value has been calculated by Deloitte at £20.4m, who express no opinion on the suitability of the discount rate selected by the Council using the same underlying financial model as that used for assessing the Fair Value of ECSP1.*

*As well as restating the value of the loan, it has also been re-classified as a long term debt to more accurately reflect the underlying transaction. The loan to ECSP1 falls within the definition of Capital Expenditure under the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 section 25. The requirement under this regulation necessitates the loan be classed as capital expenditure for the purposes of its accounting treatment. As part of the Council's Minimum Revenue Provision policy, which forms part of the yearly approval of the Medium-Term Financial Strategy by Council, any revaluation of the loan will be attract an annual revenue charge over the remaining life of the assets.*

- 4.6 At the time of reports publication to Committee EY have confirmed to officers that there are no concerns with the approach outlined above. However, EY are finalising the audit requirements for this revision and therefore reserve the right to finalise the audit of Statement of Accounts by the 21 June 2021. 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 will be exercised (if delegation is approved at this meeting).

## **5. ANTICIPATED OUTCOMES OR IMPACT**

- 5.1 To receive and approve the audited 2019/20 Statement of Accounts
- 5.2 To receive an update to the 'Audit Results report year ended 31 March 2020' as issued by EY and considered by Audit Committee on 21 June 2021

## **6. REASON FOR THE RECOMMENDATION**

- 6.1 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."
- 6.2 It is a statutory requirement under the Accounts and Audit Regulations 2015.

## **7. ALTERNATIVE OPTIONS CONSIDERED**

- 7.1 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.

## 8. IMPLICATIONS

### Financial Implications

- 8.1 As noted in section 4.4 the loan to Empower ECSP1 falls within the definition of capital expenditure for accounting purposes and therefore forms part of the Council's Capital Financing Requirement (CFR). The £2.6m write down of the asset would be matched by an adjustment to the Capital Adjustment Account with no direct revenue impact for 2019/20. Instead as this adjustment was made in the 2020/21 financial year (Post Balance Sheet Event) the Council will implement a phased write down of the potential loss in accordance with its Minimum Revenue Provision policy, as contained in the Medium Term Financial Strategy. This equates to an average yearly MRP charge of £176k to commence in 2021/22.

Additional fees have been incurred for this specific work from EY which were estimated to be £8.6k as at the end March 2021, and from Deloitte who were commissioned to calculate the 'fair value' of the loan at an estimated cost of £25k.

### Legal Implications

- 8.2 None.

### Equalities Implications

- 8.3 None.

## 9. BACKGROUND DOCUMENTS

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

Cabinet 21 September 2020, Item 6 - Amendment to arrangements with empower

Council 21 October 2020, Item 10 - Record of executive decisions made since the last meeting

Audit Committee 16 November 2020 - Item 4

Audit Committee 21 January 2021 – Item 4

Cabinet 21 June 2021 - Amendment to arrangements with Empower report

Accounts and Audit Regulations 2015, as amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404.

<http://www.legislation.gov.uk/ukxi/2015/234/regulation/10/made>

<https://www.legislation.gov.uk/ukxi/2020/404/regulation/2/made>.

- 9.1 The Accounts & Audit Regulations 2015  
Council Constitution

## 10 APPENDICES

- 10.1
- Appendix 1 - Statement of Accounts 2019/20
  - Appendix 2 - Peterborough City Council - Audit Results Report (ISA260) – to follow
  - Appendix 3 – Peterborough City Council Management Letter of Representation 2019/20



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