

AUDIT COMMITTEE	AGENDA ITEM No. 3
31 AUGUST 2022	PUBLIC REPORT

Cabinet Member(s) responsible:	Cllr Coles - Cabinet Member for Finance and Corporate Governance	
Contact Officer(s):	Cecilie Booth - 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: Cecilie Booth - Interim Director of Corporate Resources	Deadline date: 31 August 2022
<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 2021" from Ernst & Young (EY), the Council's external auditors. 2. Receive and note that the Council have opted to delay the signing of the 2020/21 Statement of accounts for the outcome of the CIPFA consultation process and any adaptations to the Code of Practice that result relating to Infrastructure Assets. 3. To delegate to the Chairman to approve further changes if needed. 	

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 2021" from Ernst & Young (EY) on behalf of the Council.
- Receive and note that the Council have opted to delay the signing of the 2020/21 Statement of accounts for the outcome of the CIPFA consultation process and any adaptations to the Code of Practice that result relating to Infrastructure Assets
- To delegate to the Chairman to approve further changes to the Statement of Accounts and the Going Concern judgement if needed.

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

2.2.1.19 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.

2.2.1.20 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 2020/21

- 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 2020/21 Code of Practice (the Code) and are followed in the preparation of the 2020/21 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 – 2.2.1.19 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 2021 by the Council's Section 151 Officer / Chief Finance Officer (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 2021.
- 4.6 The draft Statement of Accounts was shared with the chair of the Audit Committee and Cabinet member for Finance prior to publication on the Council's Website on 31 July 2021. This published draft has subsequently been the subject of external audit by EY.
- 4.7 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 September 2021 following, and in the knowledge of, the audit findings (Appendix 1) unless
- 4.8 The external audit of the draft statement of accounts for the year ended 31 March 2021 has not yet been completed by our external auditors, EY LLP, due to the audit being rescheduled. This situation is allowed for by Regulation 10, paragraph (2a) of the Accounts and Audit Regulations 2015. (See attached link: <https://www.legislation.gov.uk/ukSI/2015/234/regulation/10/made>). This notification explains, as per paragraph (2a), that EY LLP are not yet able to publish our audited 2020/21 final statement of accounts in line with deadline of 30th September 2021, as per paragraph (1). The Governance & Assurance Committee will consider the results of the 2020/21 audit, after which we will publish the final audited accounts.
- 4.9 The lateness of the signing of the 2020/21 Accounts is not due to the adjustments noted in the Draft ISA260 or the performance of the Council's finance team as the Council is one of many Councils that are still waiting for the 2020/21 accounts to be signed off. The main reason is that each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects that requires more resources which are not readily available. Plus the changes in the wider environment in which both organisations have been working under including the recovery from COVID-19.
- 4.10 A further issue has been raised via the NAO's Local Government Technical Group that some

local authorities are not writing out the gross cost and accumulated depreciation on highways infrastructure assets when a major part/component has been replaced or decommissioned in line with the requirements of the Code of Audit Practice. This matter is currently under consideration by CIPFA. The Council has opted to delay the authorisation of the 2020/21 financial statements for the outcome of the CIPFA consultation process and any adaptations to the Code of Practice that result, as this may change the reporting requirements and hence the need for additional appropriate audit evidence.

- 4.11 There are no concerns regarding completing the outstanding items which are under the control of the Council and EY.
- 4.12 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 2021
 - 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 2020/21.
 - 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 is an item on this meeting agenda and therefore subject to change, consequently it will be included in the audited accounts, published by 30 September 2021, following its approval.

2020/21 Report to Those Charged with Governance

- 4.13 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’.
- 4.14 The ‘Audit Results Report’ for 2020/21 from Ernst & Young (EY), the Council's external auditors is attached as Appendix 1.

4.15 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 one new risk area (Infrastructure Assets) that have been identified since the September 2021.
- 2) **Understanding Financial Statements** - provides some commentary on the key components of net expenditure.
- 3) **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 PFI and MRP accounting. During the course of the audit, two new risks relating to the Empower Loan and Infrastructure Assets have been added.
- 4) **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.
- 5) **Audit Differences** – this section notes that EY found some misstatements during the audit which have been corrected. The only unadjusted difference relates to the MRP charge of the Empower Loan which is discussed further in 4.16.
- 6) **Value for Money** - During the 2020/2021 financial year, the Council has demonstrated good arrangements for the development of their medium term financial strategies. Despite exhibiting a good understanding of the saving challenges they are facing, in the 2020/2021 financial year, the size of the Council's budget gap was significant and led to the Council seeking exceptional financial support and conditional capitalisation directives from DLUHC. The value for money conclusion has been modified to recognise that the structural financial resilience pressures and concerns facing the Council before and after the Covid-19 pandemic up to the 31 March 2021 have had a significant and pervasive impact on the Council's ability to secure adequate arrangements for Value for Money in its use of resources
- 7) **Other Reporting Issues** - The NAO's Whole of Government Accounts (WGA) team issued Group Audit Instructions (GAI) in respect of the 2020/21 WGA process on 28 July 2022. In a change to the process for 2020/21, HM Treasury have elected to raise the threshold for local government entities to £2 billion. As the Council fall below the testing threshold set by the NAO for detailed procedures on the consolidation return, EY therefore do not expect to have any issues to report.
- 8) **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 identified four areas where improvements could be made. Two of these improvements relate to the Land and Buildings Valuations provided by Norfolk Property Services – Peterborough Limited (NPS). Including the specialist valuation of the Energy for Waste Plant which is discussed further in section 4.16 of this report.
- 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.
- 11) **Appendices**
 - Appendix A - Significant Risk Findings – Valuations of Property Plant and Equipment and Investment Properties
 - Appendix B - Audit Approach Update
 - Appendix C - Summary of Communications during 2020/21
 - Appendix D - Required Communications with the Audit Committee
 - Appendix E - Outstanding Matters
 - Appendix F - Draft Request for a Management Representation Letter

- Appendix G - Implementation of IFRS 16 Leases
- Appendix H - Key Findings – MTFS Position

Management Response to Audit Findings

4.16 The following table provides further detail on the Accounting Issues raised in the EY report under Sections 4 and 6, and associated management comments from the council:

EY Report - Summary of Points Raised	Management Comment
<p>MRP Charge on Empower Loan - There is one uncorrected misstatement identified as part of our audit that is greater than our reporting threshold. As a result of our audit procedures in relation to the Empower Loan we identified that the Council had not followed their 2020/2021 minimum revenue provision (MRP) policy and did not apply MRP on the value of the loan which was impaired in 2019/2020. The existing policy indicates MRP should be charged on “the outstanding loan amount” as the loan was impaired in 2019/2020. The outstanding loan amount is the amount not expected to be recovered via capital receipt or the exercise of security. This impairment value was £2.645 million. The current policy requires this to be charged over the next MTFS periods (3 years). No charge has been made in 2020/2021. We therefore believe that MRP has been understated by £0.882 million (£2.645 million / 3 years). We have discussed this finding with Management and as the Empower Loan impairment was identified after the 31 March 2021, as part of the 2019/2020 audit, Management have applied the MRP for the impairment prospectively as part of their 2021/2022 MRP policy. We have considered this reasonable as the impact is immaterial but we still request that this uncorrected misstatement be considered and approved by the Audit Committee and provided within the Letter of Representation.</p>	<ul style="list-style-type: none"> • Management agreed with EY to adjust the MRP Charge in 2021/22 to reflect the impairment charge on the Empower Loan which has been done. The MRP element is guidance only, and does not prescribe what should occur in the event of the post balance sheet event.
<p>Valuations of Property Plant and Equipment and Investment Properties - We have also set out at Appendix A an extensive list of findings from our review of the asset valuation methodology, assumptions and supporting information made available from the Council and its</p>	<ul style="list-style-type: none"> • Management has been working closely with NPS to address the issues with the 2020/21 valuations that both EY and the Council have raised and can confirm that NPS have amended their valuations processes.

<p>external valuer, Norfolk Property Services – Peterborough Limited (NPS). We believe there are significant control deficiencies in the Council's approach to the valuation of its property, plant and equipment assets.</p>	<ul style="list-style-type: none"> • Please also note notice has also been given to the NPS contract and an alternative valuer is being procured for the 2022/23 valuations.
<p>Infrastructure Assets - An issue has been raised via the NAO's Local Government Technical Group that some local authorities are not writing out the gross cost and accumulated depreciation on highways infrastructure assets when a major part/component has been replaced or decommissioned in line with the requirements of the Code of Audit Practice. This matter is currently under consideration by CIPFA. Currently, we have insufficient evidence to support an unqualified audit opinion in respect of Infrastructure Assets. This situation would currently lead us to modify our audit report. The Council may opt to delay the authorisation of the 2020/2021 financial statements for the outcome of the CIPFA consultation process and any adaptations to the Code of Practice that result, as this may change the reporting requirements and hence the need for additional appropriate audit evidence.</p>	<p>Management can confirm that the Council has opted to delay the signing of the 2020/21 SoA until the conclusion of the CIPFA Infrastructure Assets consultation process have been decided.</p>

4.17 The Interim 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 F for review by Audit Committee.

5. CONSULTATION

5.1 Between 2 August 2021 and 14 September 2021, 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. A final clearance meeting is expected to occur with EY and the Council's S151 Officer. The draft ISA260 report was discussed with the council's finance team.

5.3 Due to Covid-19 no training event was held for Audit Committee.

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.

7. REASON FOR THE RECOMMENDATION

7.1 Paragraph 2.2.19 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

12.1

- Appendix 1 – Draft Peterborough City Council - Audit Results Report (ISA260)

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