

**MINUTES OF THE EXTRAORDINARY AUDIT COMMITTEE MEETING
HELD AT 6PM, ON
31 AUGUST 2022
COUNCIL CHAMBER, TOWN HALL, PETERBOROUGH**

Committee Members Present: Councillors Shaz Nawaz, Haseeb, Rangzeb, Sainsbury and Sandford

Co-Opted Members: Chris Brooks (Chair), Mike Langhorn, Stuart Green

Officers Present: Cecilie Booth, Corporate Director Resources – S151 Officer
Sian Warren, Financial Accounting and Control Manager
Carole Coe, Commercial Finance Manager
Dan Kalley, Senior Democratic Services Officer

Also Present: Neil Harris, Associate Partner, Ernst&Young (EY)
Councillor Andy Coles, Cabinet Member for Finance and Corporate Governance
Councillor Imtiaz Ali via Teams

26. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Jackie Allen. Councillor Sainsbury attended as substitute.

27. DECLARATIONS OF INTEREST

There were none.

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

The Audit Committee received a verbal update with regards to the annual audit results report 2020/21.

The report was introduced by the Associate Partner EY. Members were informed that a number of verbal updates had been presented to the committee over the past year for the financial year ending 31 March 2021. The report being presented to members was the provisional audit results report from EY on the financial statements of Peterborough City Council.

Members were informed that at the date the report was submitted the external auditors had substantially concluded their auditing work. There was a final assessment on events after the balance sheet dates and a final revisiting of the group boundaries to consider the Councils interest in the Empower loan before the Council moved the loan in-house.

Consultations were also being completed with the professional practices team on two areas. One area was to lead to an opinion that there were significant weaknesses with the Councils value for money arrangements. From this there were weaknesses around financial sustainability which was mentioned as part of the external auditors reporting up to 31 March 2021. In addition, there was also an impairment noted due to the Empower loan in the region of £2.6 million. The final report would reference these areas in more detail once complete.

The committee were informed that consultations were in the process of being concluded on the Councils going concern disclosure which looked 12 months ahead of the date of this meeting. This looked at the Councils forecast on the robustness of its budget, level of reserves and robustness of the savings plan. In addition, the external auditors were looking at whether the Council had sufficient cash levels or borrowing ability to maintain continuity of services. The opinion at EY at the current time was that there was no material uncertainty that needed to be disclosed in the Councils accounts.

The committee were updated as to the national position around infrastructure assets, the Council had taken a number of proactive steps with CIPFA and EY to ascertain what records were currently existed on infrastructure assets. The Council had taken the position to delay the conclusion of the 2020/21 accounts until there was a final resolution from CIPFA. Once this had been resolved it would need to be reflected in the Councils final accounts, however it was still not clear when this was going to be resolved.

Members were informed that the whole of the audit would need to be reviewed by the new partner at EY who was taking over the audit of the accounts from the current partner.

The report contained a separate appendix that outlined the external auditors concerns over some of the valuations of assets that were being held. In addition, once a final report was ready members of the committee would be informed.

Officers were thanked for their work with the audit partner over the past few years in difficult circumstances.

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

- The issues were technical, this was the main reason the accounts had yet been signed off. Where issues had been raised these had been adjusted and reviewed by officers.
- In terms of the deadlines for concluding external audits for the year 2020/21 this was end of September 2021. This had gone past the deadline but was not inconsistent with other local authorities, especially considering the impact of the issues around infrastructure assets. It was important to note that the accounts were published on time in draft form and were in the public domain within time.
- There were no financial consequences from finalising the accounts past the deadline. There was always a possibility that questions could be raised over the practicality of why the accounts were late, which could cause reputational issues for the Council. The lateness for the Councils accounts was due to national issues rather than issues within the Council directly.
- A number of other Chief Finance Officers were facing similar issues as Peterborough. These authorities were deciding whether to wait for the national issue to be resolved or press ahead with a qualified opinion.
- CIPFA had been working with the Council to try and collect all the documentation required around infrastructure assets. Following this it was agreed that the task was too big and time consuming and that it was a risk, reputationally, to go ahead with a qualified opinion rather than wait for the national issues to be resolved.

- The Councils credit rating was the same as central governments. This had no impact on the Councils perceived credit rating.
- If a local authority had some other issues that affected their reputation it was possible that they would be less likely to be able to borrow money from other local authorities.
- The difficulty for members with the report was that it looked backwards at the value for money arrangements at the Council, rather than what was currently in place or was planned to be in place. There was evidence to show that the Council had made improvements since 2021. The external auditors had commented on the arrangements with Empower and the Hilton Hotel development. Members needed to be aware of commercial activities going forward, with the risks that were associated with this, it was good that the committee were going to look at these at a future meeting.
- There were occasions when there had been transportation issues on balance sheets, however it was important to note that this did not affect the Councils bottom line.
- The external auditors were now satisfied with the set of accounts having taken into account some potential inaccuracies around the valuation of some of the Councils assets.
- Members were informed that previously the Council outsourced the whole of the property function to Norse Property Services (NPS). The Council had limited oversight over the valuations and little expertise to verify the valuations. The property service was now being taken back in house from end of June 2023. A new Commercial and property Service Director was in the processes of being appointed.
- In terms of community centre assets the method DRC stood for Depreciated Replacement Costs and were more specialised assets. The external auditors were satisfied that the adjustments had been made correctly.
- It was not possible to blame NPS solely for the errors and the incorrect valuations, there had been occasions where promises had been made without proper valuations.
- With regards to the hydrotherapy pool this was not around the valuation, rather the selling off of land that might be valuable in the future.
- There was confidence that the issues around valuations would not happen in the future. There would be a process to ensure second independent valuations were taken before any assets were disposed of.
- There was worrying data within Appendix H, which referenced numbers relating to the MTFs (Medium Term Financial Strategy) 2020/21 and how this might impact the MTFs going forward.
- Although this was a substantial report from EY this was not the final report as there were still some outstanding issues to finalise. In addition, with the handover to a new partner at EY it was appropriate that a final report was published once they had a chance to review the findings.
- The information in Appendix H was included to give the report context as to why the external auditors had concerns over the value for money and the Council as a going concern. The Associate Partner confirmed that as the external auditors no longer had concerns with the information in Appendix H this could be removed from the final published audit as this was based on information at the time of the report being written.
- Members were informed that there was, as far as EY could see, no material uncertainty and that the Council was going to keep providing services to residents.
- An updated analysis would be provided when the final report was published.
- In addition, an expert team had done an analysis of the Councils MTFs position and could be presented to the Audit Committee at a later date. The report in front of members was as up to date as possible. It was important that the Audit

Committee had a meeting to discuss and digest the latest position before it was signed off.

- It was anticipated that the final report would be published before the end of 2022 to allow the external auditors to concentrate on the 2021/22 audit.
- Members went through the different sections covered in the EY report and agreed that the primary areas had been covered by the committee. One of the key areas was to ensure that internal controls were tighter to prevent some of the issues that had gone before from happening again.
- All recommendations in terms of school payroll reconciliation had been taken into account and actioned.

The Audit Committee considered the report and **RESOLVED** (Unanimous) to

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 and notify committee members if any changes are made.

ACTIONS:

1. Officers to liaise with EY to remove information held in Appendix H from the final report – Sian Warren/Cecilie Booth/EY - November 2022
2. Ensure that if any changes were made to the report that the Audit Committee members be notified of these changes – Chris Brooks (Chair)/Cecilie Booth – November 2022
3. Audit Committee to review commercial activities and risks going forward. Item to be added to work programme for a later date – Chris Brooks (Chair)/Dan Kalley - TBC