Peterborough City Council

Audit Plan

Year ended 31 March 2021

September 2021

Building a better working world

Audit Committee
Peterborough City Council

1 September 2021

Dear Audit Committee Members

Audit Plan – 2020/21

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This Audit Plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council and outlines our planned audit strategy in response to those risks. At the date of this report, our planning and interim procedures remain ongoing and are subject to quality assurance reviews. We have also commenced our substantive audit procedures on the Council's unaudited financial statements for the financial year ended 31 March 2021. We will inform the Audit Committee if there any significant changes or revisions once we have completed these procedures and will provide an update to the next meeting of the Audit Committee.

The Council's Chief Financial Officer and Chair of Audit Committee will have received a copy of the letter from Janet Dawson, our UK Government and Public Sector Assurance Leader dated 1 June 2021, which discusses the scheduling of high-quality UK local public audit. In section 7 of this audit plan we report an audit timeline to ensure we deliver a high quality audit in a timeframe agreed with officers.

Our audit plan responds to the current financial, strategic, operational and reputational risks facing the Council. The most significant event that has informed our audit risk assessment is the circumstances which have led to the Council's conditional capitalisation direction from the Ministry of Housing, Communities and Local Government (MHCLG) as part of setting its 2021/22 budget.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties. We welcome the opportunity to discuss this report with you on 13 September 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully
Neil Harris

Associate Partner
For and on behalf of Ernst & Young LLP
Enc

Contents

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Audit Committee and management of Peterborough City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Peterborough City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee, and management of Peterborough City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2020/21 audit strategy

Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud Risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. The Council is under significant financial pressure to achieve a balanced budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way to achieve these targets and one way management override can manifest. As management is in a unique position to manipulate accounting records directly or indirectly by overriding controls that otherwise appear to be operating effectively, we have identified the key areas at risk of manipulation as set out below.
Misstatements due to fraud or error – the incorrect capitalisation of revenue expenditure and REFCUS	Fraud risk	No change in risk or focus	We consider the risk applies to capitalisation of revenue expenditure and revenue expenditure funded from capital under statute (REFCUS). Management could manipulate revenue expenditure by incorrectly capitalising expenditure which is revenue in nature and should be charged to the comprehensive income and expenditure account.
Misstatements due to fraud or error – the incorrect application of MRP accounting	Fraud risk	No change in risk or focus	The Council must make an annual contribution from revenue to reduce its overall borrowing requirement. This is termed the Minimum Revenue Provision (MRP). The MRP is determined prudently in accordance with statutory guidance. Over recent years, the Council's approach to MRP has been subject to media attention as well as scrutiny by Ministry of Housing, Communities & Local Government (MHCLG). Given this level of scrutiny and that MRP could be manipulated to artificially reduce expenditure we have identified the MRP calculation as a significant risk.
Misstatements due to fraud or error – inappropriate use of capital receipts	Fraud Risk	No change in risk or focus	The adjustments between accounting basis and funding basis under regulation changes the amounts charged to General Fund balances. Regulations are varied and complex, resulting in a risk that management misstatement accounting adjustments to manipulate the General Fund balance. We have identified the risk to be highest for adjustments concerning the application of capital receipts.

23

Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Valuation of property, plant and equipment assets under depreciated replacement cost model	Significant Risk	No change in risk or focus	Property, plant and equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet. For assets valued using depreciated replacement cost (DRC) this risk is heightened due to the specialised nature of the assets and insufficient availability of market-based evidence to assist the valuation. As the Council's DRC asset base is significant, and the outputs from the valuer are subject to estimation, there is a significant risk PPE may be under/overstated or the associated accounting entries incorrectly posted. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.
Valuation of other Land and Buildings and Investment Properties	Significant Risk	Change in audit focus for 2020-21	The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Our review of the 2020/21 draft statement of accounts has identified that the Council and its valuer has reported a material uncertainty in the valuation of retail and office sector assets. This is because they determine there is still an absence of relevant/sufficient market evidence on which to base judgements. We have therefore identified this area as a significant risk.
Accounting for Covid-19 related Government Grants	Significant Risk	New risk area for 2020-21	The Council has received a significant level of government funding in relation to Covid-19. There is a need for the Council to ensure that it accounts for these grants appropriately, taking into account any associated restrictions and conditions.

Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Accounting for Empower Loan	Significant Risk	New risk area for 2020-21	Following on from our audit procedures in 2019/20 in relation to the Empower loan the Council has decided to bring the solar panel assets and asset management arrangements in-house. We therefore expect the Council to obtain an up-to-date valuation of the assets as soon as practicable in order that the Council can determine whether there are any indicators of impairment and the basis on which the solar panel assets are recognised for financial reporting and asset management purposes. The Council will need to obtain this information to consider whether an adjusting or non-adjusting event is required and make appropriate disclosures and accounting judgements in the 2020/21 financial statements.
Going Concern	Significant Risk	New risk area for 2020-21	Our 2019/20 statutory audit report concluded a material uncertainty in relation to the Council's ability to continue as a going concern associated with the continuity of service provision for the period of at least 12 months from the date of the authorised 2019/20 financial statements. The Council has flagged the following in the draft 20-21 statement of accounts: There are material uncertainties on the current levels of service provision as set out in Phase Two of the Medium Term Financial Strategy (MTFS) which estimates a budget gap of £26.8 million for 2022/23 rising to £28.9 million in 2023/24. Without additional funding from Government for the future years there remains a risk that the Council may not be able to set a balanced budget for the 2022/23 financial year. Based on the information available at the time of publishing this document these uncertainties cast doubt over the Council's ability to continue operating the level of services currently provided beyond the next 12 months. We have therefore flagged this as a significant risk in our audit strategy.

Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Pension Liability Valuation & Pensions Assets	Inherent Risk	No change in risk or focus	The Council makes extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Cambridgeshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2021 this totalled £322 million. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf.
Accounting for Private Finance Initiative (PFI) Liabilities	Inherent Risk	No change in risk or focus	The Council has a material PFI arrangement for three secondary schools in Peterborough. PFI accounting is a complex area. We undertook a detailed review of the arrangements in 2018/19 and concluded that the accounting disclosures were materially correct. However, given the complexities involved and size of the liabilities we have identified the PFI accounting as an inherent risk.
Group Accounting and the scope of the group audit	Inherent Risk	Change in audit focus for 2020-21	The Council will be preparing group accounts for the second time in 2020/21 due to the consolidation of the Peterborough Limited financial statements with the single entity Council financial statements. We identify this as an inherent risk as we expect the activities of Peterborough Limited to increase in 2020/21. In addition, Peterborough Limited have engaged Azets as their new auditors in 2020/21. We have already held a planning call with Azets and issued our group instructions for 2020/21.

Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Business Rates Appeals Provision	Inherent Risk	New risk area for 2020-21	Statistics compiled by the Ministry for Housing, Communities and Local Government, reveal that councils are forecasting net additions to appeal provisions totalling £927 million this financial year, and £1.2 billion next year. The reason behind the forecast increase is that, due to the impact of Covid-19, businesses are likely to seek reductions based on a decrease in rental prices on which rateable values are based. In light of this we consider there to be a higher inherent risk of misstatement of the Council's NNDR appeals provision.
Other Bad Debt Provisions	Inherent Risk	Change in audit focus for 2020-21	As a result of the impact of Covid-19, there may be increased uncertainty around the recoverability of receivables. The provision for these bad debts is an estimate, and calculation requires management judgement. We would expect the Council to revisit their provision for bad debt calculation in light of Covid-19 and assess the appropriateness of this estimation technique. In 2019/20 we considered this with respect to NHS receivables but in 2020/21 we have extended this to include other trade receivables, Council Tax and Business Rate receivables.

27

Auditing accounting estimates

In addition to the above risks and areas of focus, a revised auditing standard has been issued in respect of the audit of accounting estimates. The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors now consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we may see the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area. The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required.

Overview of our 2020/21 audit strategy

Materiality - Peterborough City Council - Single Entity financial statements

Planning materiality

£4.72m

Materiality for the Council's financial statements has been set at £4.719 million, which represents 1.0% of the draft statement of accounts gross expenditure on net cost of services plus financing and investment expenditure. In the prior year we applied a threshold of 1.0%. We have judged it appropriate to remain at a lower level of materiality based on the risks we have identified around the Council's budget position and the higher public interest and profile this has.

Performance materiality

£3.54m

Performance materiality has been set at £3.539 million, which represents 75% of materiality. We have considered a number of factors such as the Council's control environment, number of errors in the prior year and any significant changes in our accounts audit risk assessment when determining the percentage of performance materiality. We have used the higher end of the range. We will monitor this during the course of the audit.

Audit differences

£0.24m

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement and cash flow statement) greater than £0.236 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

We also identify areas where misstatement at a lower level than our overall materiality level might influence the reader and develop an audit strategy specific to these areas, including:

- Remuneration disclosures including councillor allowances: we will agree all disclosures back to source data, and councillor allowances to the agreed and approved amounts.
- Related party transactions we will test the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

Group materiality – Due to the limited impact on the group statement of accounts of the consolidation of Peterborough Live the group materiality figures are not materially different to those of the single entity shown above.

Overview of our 2020/21 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Peterborough City Council and Group give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and

- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness (Value for Money). We include further details on VFM in Section 03, highlighting the changes included in the NAO's Code of Audit Practice 2020.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Taking the above into account, and as articulated in this Audit Plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as Going Concern disclosure in recent years as well as the expansion of factors impacting the Value for Money conclusion. Therefore, to the extent any of these or any other risks are relevant in the context of Peterborough City Council's audit, we will discuss these with management as to the impact on the scale fee.

02 Audit risks

Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

	What is the risk?	What will we do?
Misstatements due to fraud or error *	The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement. As part of our work to identify fraud risks during the planning stages, we have identified those areas of the accounts that involve management estimates and judgements as the key areas at risk of manipulation. These are set out on the following pages.	In order to address this risk we will carry out a range of procedures including: ▸ Identifying fraud risks during the planning stages. ▸ Inquiry of management about risks of fraud and the controls put in place to address those risks. ▸ Understanding the oversight given by those charged with governance of management's processes over fraud. ▸ Consideration of the effectiveness of management's controls designed to address the risk of fraud. ▸ Determining an appropriate strategy to address those identified risks of fraud. ▸ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements. To address the residual risk of management override we perform specific procedures which include: ▸ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, for example using our journal tool to focus our testing on specific journals such as those created at unusual times or by staff members not usually involved in journal processing; ▸ Assessing key accounting estimates for evidence of management bias; and ▸ Evaluating the business rationale for significant unusual transactions

Audit risks

Our response to significant risks (continued)

Misstatements due to fraud or error - the incorrect capitalisation of revenue expenditure and REFCUS *

Financial statement impact

We have identified a risk of expenditure misstatements due to fraud or error that could affect the income and expenditure accounts.

We consider the risk applies to capitalisation of revenue expenditure and REFCUS and could result in a misstatement of cost of services reported in the comprehensive income and expenditure statement.

In 2020/21 the Council incurred £53.7 million capital expenditure (of which REFCUS represented £9.9 million).

What is the risk?

The Council is under significant financial pressure to achieve budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way to achieve these targets.

We consider the risk applies to capitalisation of revenue expenditure and revenue expenditure funded from capital under statute (REFCUS). Management could manipulate revenue expenditure by incorrectly capitalising expenditure which is revenue in nature and should be charge to the comprehensive income and expenditure account.

What will we do?

In order to address this risk we will carry out a range of procedures including:

- Sample testing, at a lower testing threshold, additions to property, plant and equipment to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised; and
- Using our data analytics tool to identify and test journal entries that move expenditure into capital codes.

Audit risks

Our response to significant risks (continued)

Misstatements due to fraud or error - the incorrect application of MRP accounting *

Financial statement impact

We have identified a risk of expenditure misstatements due to fraud or error that could affect the income and expenditure accounts.

We consider the risk applies to the calculation of the minimum revenue provision calculation and could result in a misstatement of cost of services reported in the comprehensive income and expenditure statement.

In 2020/21 the Council set aside £10.6 million minimum revenue provision.

What is the risk?

The Council is under significant financial pressure to achieve budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way to achieve these targets.

We consider the risk applies to application and calculation of the minimum revenue provision.

The Council must make an annual contribution from revenue to reduce its overall borrowing requirement. This is termed the Minimum Revenue Provision (MRP). The MRP is determined prudently in accordance with statutory guidance.

Over recent years, the Council's approach to MRP has been subject to media attention as well as scrutiny by Ministry of Housing, Communities & Local Government (MHCLG). Given this level of scrutiny and that MRP could be manipulated to artificially reduce expenditure we have identified the MRP calculation as a significant risk.

What will we do?

In order to address this risk we will carry out a range of procedures including:

- Testing the application of MRP to ensure the calculation met the statutory guidance;
- Re-performing the MRP calculation; and
- Engaging our EY MRP technical specialist to review the Council's MRP policy and disclosure.

Audit risks

Our response to significant risks (continued)

Misstatements due to fraud or error – inappropriate use of capital receipts *

Financial statement impact

We have identified a specific risk of misstatements due to fraud or error that could affect the income and expenditure accounts and the balance sheet.

We consider the risk applies to the application of capital receipts in the comprehensive income and expenditure statement (CIES) and balance sheet (via the capital financing requirement).

In 2020/21 the Council applied £6.3 million of capital receipts funding in the Capital Financing Requirement.

What is the risk?

The Council is under significant financial pressure to achieve its revenue budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way of achieving these targets.

We consider the risk applies to the application and use of capital receipts in the financial statements.

The adjustments between accounting basis and funding basis under regulation changes the amounts charged to General Fund balances. Regulations are varied and complex, resulting in a risk that management misstatement accounting adjustments to manipulate the General Fund balance. We have identified the risk to be higher for adjustments concerning the application of useable capital receipts and deferred capital receipts.

What will we do?

Our approach will focus on:

- Sample testing the application of capital receipts in the capital financing requirement to ensure they meet the definition of sources of funding;
- Sample testing deferred capital receipts to ensure any conditions have been correctly applied; and
- Using our data analytics tool to identify and test journal entries adjustments that impact capital receipts.

Audit risks

Our response to significant risks (continued)

Valuation of property, plant and equipment assets under depreciated replacement cost model

Financial statement impact

We have identified a specific risk of misstatements due to the valuation of assets that could affect the balance sheet.

We consider the risk applies to the valuation of property, plant and equipment using the depreciated replacement cost method in the balance sheet.

What is the risk?

Property, plant and equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet. For assets valued using depreciated replacement cost (DRC) this risk is heightened due to the specialised nature of the assets and insufficient availability of market-based evidence to assist the valuation.

As the Council's DRC asset base is significant (approximately £250 million), and the outputs from the valuer are subject to estimation, there is a significant risk PPE may be under/overstated or the associated accounting entries incorrectly posted.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

What will we do?

Our approach will focus on:

- Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample test key asset information used by the valuers in performing their DRC valuations (e.g. floor plans to support valuations based on price per square metre and the specialised nature of the assets);
- Consider the use of EY valuation specialists to review a sample of the underlying assumptions used to value any material specialist DRC assets;
- Review DRC assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;
- Consider changes to useful economic lives as a result of the most recent valuation;
- Review of the Council's approach to the Energy From Waste Facility (£74.7 million) by our EY capital equipment team. Given the specialized and high value nature of the asset we are ascertaining whether the Council should engage valuers with specialist plant and machinery expertise to be involved in the assessment of valuation of the facility from the 2020-2021 financial year; and
- Test accounting entries have been correctly processed in the financial statements.

Audit risks

Our response to significant risks (continued)

Valuation of property, Valuation of other Land and Buildings and Investment Properties

Financial statement impact

We have identified a specific risk of misstatements due to the valuation of assets that could affect the balance sheet.

We consider the risk applies to the valuation of property, plant and equipment using the depreciated replacement cost method in the balance sheet.

36

What is the risk?

Property, plant and equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet. Our review of the 2020/21 draft statement of accounts has identified that the Council and its valuer has reported a material uncertainty in the valuation of retail and office sector assets. This is because they determine there is still an absence of relevant/sufficient market evidence on which to base judgements.

The fair value of Property, Plant and Equipment (PPE) (approximately £300 million) and Investment Properties (IP) (£25.6 million) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

What will we do?

Our approach will focus on:

- Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre or signed contracts for IP);
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Review assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;
- Consider changes to useful economic lives as a result of the most recent valuation; and
- Test accounting entries have been correctly processed in the financial statements.

Audit risks

Our response to significant risks (continued)

Accounting for Covid-19 related Government grants

Financial statement impact

We have identified a risk of Government grant income misstatement that could affect the Income and Expenditure accounts.

We consider the risk applies to the classification of Government grant income and could result in a misstatement of 'Cost of Services' reported in the 'Comprehensive Income and Expenditure' statement and Balance Sheet.

What is the risk?

The Council has received a significant level of government funding in relation to Covid-19. In 2020/21, this consists of non-ringfenced Covid-19 response grants, amounting to £34.5 million and ringfenced funding totalling £20.1 million.

Included in this grant funding, the Government announced further financial support to Councils in July 2020 to partially reimburse Councils for lost income (eligible lost sales, fees and charges income and taxation) resulting from Covid-19. For the year 2020/21 this claims are forecast to be approximately £6.0 million.

Whilst there is no change in the CIPFA Code or Accounting Standard (IFRS 15) in respect of accounting for government grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment within the 2020/21 statements.

What will we do?

In order to address this risk we will carry out a range of procedures including:

- Sample testing Government Grant income to ensure that they have been correctly classified as specific or non-specific in nature.
- Sample testing Government Grant income to ensure that they have been correctly classified in the financial statements based on any restrictions imposed by the funding body.

Audit risks

Our response to significant risks (continued)

Accounting for Empower loan

Financial statement impact

We have identified a specific risk of misstatements due to the valuation of assets that could affect the balance sheet.

We consider the risk applies to the valuation and classification of the Empower loan or assets held by the Council and could result in a misstatement of assets reported in the Balance Sheet.

What is the risk?

In 2019/20 we reviewed the recoverability of the Council's £23 million loan to Empower Community Management LLP, taking account of conditions and events that took place before and after the balance sheet date. We agreed that it was appropriate for the Council to make a post balance event adjustment disclosure and impair the loan by £2.646 million.

Since the approval of the 2019/20 statement of accounts the Council has decided to bring the solar panel assets and asset management arrangements in-house. We therefore expect the Council to obtain an up-to-date valuation of the assets as soon as practicable in order that the Council can determine whether there are any indicators of impairment and the basis on which the solar panel assets are recognised for financial reporting and asset management purposes. The Council will need to obtain this information to consider whether an adjusting or non-adjusting event is required and make appropriate disclosures and accounting judgements in the 2020/21 financial statements.

Given the value of the loan is £20.4 million and the complexity of bringing the assets in-house we have identified this area as a significant risk.

What will we do?

In order to address this risk we will carry out a range of procedures including:

- Reviewing the governance arrangements and committee decisions made by the Council in relation to the Empower loan;
- Reviewing the external advise received by the Council to support the accounting treatment proposed.
- Assessing whether an adjusting or non-adjusting event has taken place which requires disclosure in the statement of accounts. If an adjusting event is required we will need to ensure an appropriate valuation is performed by the Council; and
- Engaging with our EY Valuation, Modelling and Economics team to confirm the value of any assets brought on to the Council's balance sheet and assess that any impairments have been accounted for in line with the Code of Practice and accounting standards.

Audit risks

Our response to significant risks (continued)

Going Concern

Financial statement impact

We have identified a specific risk of misstatements due to the Council's ability to continue current levels of service provision.

We consider the risk applies to the going concern assumption and the associated disclosures in the statement of accounts.

What is the risk?

Our 2019/20 statutory audit report concluded a material uncertainty in relation to the Council's ability to continue as a going concern associated with the continuity of service provision for the period of at least 12 months from the date of the authorised 2019/20 financial statements.

The Council has flagged the following in the draft 20-21 statement of accounts:

There are material uncertainties on the current levels of service provision as set out in Phase Two of the Medium Term Financial Strategy (MTFS) which estimates a budget gap of £26.8 million for 2022/23 rising to £28.9 million in 2023/24. Without additional funding from Government for the future years there remains a risk that the Council may not be able to set a balanced budget for the 2022/23 financial year. Based on the information available at the time of publishing this document these uncertainties cast doubt over the Council's ability to continue operating the level of services currently provided beyond the next 12 months.

We have therefore flagged this as a significant risk in our audit strategy.

What will we do?

We will meet the requirements of the revised auditing standard on going concern (ISA 570) and consider the adequacy of the Council's going concern assessment and its disclosure in the accounts by:

- Reviewing the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern;
- Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern;
- Reviewing the appropriateness of the Council's going concern disclosure and corroborating evidence;
- Consulting with our internal Professional Practice Directorate on our audit work and assessment of the Authority's going concern disclosure to determine the level of reporting in our audit report;
- Utilising the work of our specialist support team in relation to our financial sustainability value for money work to stress test the Council's assumptions on its viability and continuity of service provision in its next 12 months budget and medium term financial plan; and
- Consideration of exercising our statutory powers at this point (by April 2021) and if appropriate issuing a statutory written recommendation under section 24 (schedule 7) of the Local Audit and Accountability Act 2014.

Audit risks

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
Pension Liability Valuation & Pensions Assets The Council makes extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Cambridgeshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2021 this totals £322 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. We undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	We will: ▶ Liaise with the auditors of Cambridgeshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Peterborough City Council. This includes Identifying, documenting and reviewing the controls over the accuracy and completeness of information extracted from the Membership Administration system; ▶ Assess the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used, by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and by considering any relevant reviews by the EY actuarial team. This will include the consideration of the latest McCloud judgement guidance; and ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19 considering fund assets and the Council's liability.

Audit risks

Other areas of audit focus (continued)

41

What is the risk/area of focus?	What will we do?
Accounting for Private Finance Initiative (PFI) Liabilities The **Council** has a material PFI arrangement for three secondary schools in Peterborough. PFI accounting is a complex area. We undertook a detailed review of the arrangements in 2018/19 and concluded that the accounting disclosures were materially correct. However, given the complexities involved and size of the liabilities we have identified the PFI accounting as an inherent risk. In 2020/21 the **Council** reported future PFI repayments totalling £154.0 million in the financial statements. We have identified a specific risk of misstatements due to fraud or error that could affect the balance sheet. We consider the risk applies to the valuation of PFI liabilities in the balance sheet.	We will: ▸ Make enquiries to management in respect of any changes to arrangements and the calculation of annual payments and the PFI liability in the balance sheet; and ▸ Agree the figures in the PFI accounting models to the entries and disclosures in the financial statements.
Group Accounting In July 2018 the Council incorporated Peterborough Limited, a local authority trading company (LATCo), with the Council as the sole owner. Activity increased in the company in 2019/20 to a level that is considered material. Peterborough Live has continued to grow and group accounts are still required in 2020/21. We note that Azets have been engaged as the auditors of Peterborough Live for 2020/21. We identify this as an inherent risk due to the growth on Peterborough Live and the fact that there are new, non-EY, auditors engaged for the 2020/21 audit of Peterborough Live.	We will: ▸ Review the group assessment prepared by the Council, ensuring that the accounting framework and accounting policies are aligned to the Peterborough City Council group; ▸ Scope the audit requirements for Peterborough Limited based on their significance to the group accounts. Liaising with the external auditor of Peterborough Limited and issuing group instructions that detail the required audit procedures they are to undertake in order to provide us with assurance for the opinion we will issue on the group accounts; ▸ Ensure the appropriate consolidation procedures and the Code of Practice are applied when preparing the Council group accounts.

Audit risks

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
Business Rates Appeals Provision The calculation of the NNDR Appeals Provision is estimate based. Statistics compiled by the Ministry for Housing, Communities and Local Government, reveal that councils are forecasting net additions to appeal provisions totalling £927 million this financial year, and £1.2 billion next year. The reason behind the forecast increase is that, due to the impact of Covid-19, businesses are likely to seek reductions based on a decrease in rental prices on which rateable values are based. In light of this we consider there to be a risk of misstatement of the Council's NNDR appeals provision.	We will: ▸ Review the assumptions made by the Council's NNDR appeals provision specialist; and ▸ Assess the reasonableness of any local adjustments made by the Council on the NNDR appeals provision.
Other Bad Debt Provisions As a result of the impact of Covid-19, there may be increased uncertainty around the recoverability of receivables. The provision for these bad debts is an estimate, and calculation requires management judgement. We would expect the Council to revisit their provision for bad debt calculation in light of Covid-19 and assess the appropriateness of this estimation technique. Given that there might be some subjectivity to the recoverability of debtors the Council will need to consider the level of any provision for bad debts. In 2019/20 we considered this with respect to NHS receivables but in 2020/21 we have extended this to include other trade receivables, Council Tax and Business Rate receivables. We have therefore raised as an inherent risk in our audit strategy.	We will: ▸ Review the calculation of the bad debt provision for reasonableness and accuracy; and ▸ Consider the recoverability of debts in testing a sample of trade receivables, Council Tax receivables and Business Rate receivables.

42

Audit risks

Other areas of audit focus (continued)

What is the risk/area of focus?

Auditing accounting estimates

ISA 540 (Revised) - Auditing Accounting Estimates and Related Disclosures applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019.

This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors.

The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we expect the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area.

The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required, particularly in cases where an accounting estimate and related disclosures are higher on the spectrum of inherent risk. For example:

- We may place more emphasis on obtaining an understanding of the nature and extent of your estimation processes and key aspects of related policies and procedures. We will need to review whether controls over these processes have been adequately designed and implemented in a greater number of cases.
- We may provide increased challenge of aspects of how you derive your accounting estimates. For example, as well as undertaking procedures to determine whether there is evidence which supports the judgments made by management, we may also consider whether there is evidence which could contradicts them.
- We may make more focussed requests for evidence or carry out more targeted procedures relating to components of accounting estimates. This might include the methods or models used, assumptions and data chosen or how disclosures (for instance on the level of uncertainty in an estimate) have been made, depending on our assessment of where the inherent risk lies.
- You may wish to consider retaining experts to assist with related work. You may also consider documenting key judgements and decisions in anticipation of auditor requests, to facilitate more efficient and effective discussions with the audit team.
- We may ask for new or changed management representations compared to prior year's.

03 Value for Money Risks

Value for money

The Council's responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

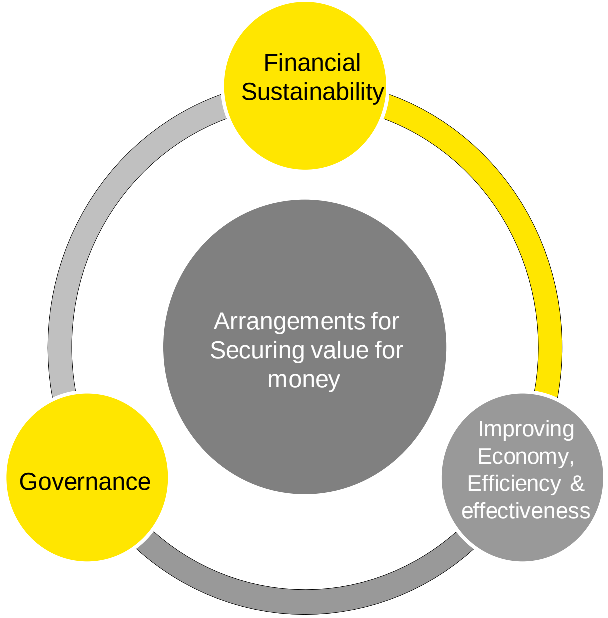
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailor's the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion which we need to conclude on. Instead the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- **Financial sustainability**
  How the Council plans and manages its resources to ensure it can continue to deliver its services;
- **Governance**
  How the Council ensures that it makes informed decisions and properly manages its risks; and
- **Improving economy, efficiency and effectiveness**
  How the Council uses information about its costs and performance to improve the way it manages and delivers its services.



Value for money

Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes where the NAO required auditors as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

In considering the Council's arrangements, we are required to consider:

- The Council's governance statement
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates (such as OfSTED) and other bodies and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the Council to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves, or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.

Value for money

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Audit Committee.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the Audit Report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2020/21 VFM planning

We have yet to complete our detailed VFM planning. However, two significant weaknesses in arrangements have already been identified;

- Financial Sustainability of the Council; and
- Empower Accounting and Governance Decisions.

See the following slides for further information.

We will update a future Audit Committee meeting on the outcome of our VFM work, narrative commentary and whether, subject to professional practice consultations, we intend to exercise any of our statutory audit powers (for example statutory recommendations or Public Interest Report) for significant weaknesses that we have identified from our work.

Value for Money

Value for Money Risks

What is the significant weakness in arrangements?	What reporting criteria does the risk affect?	What will we do?
We reported an adverse value for money opinion in 2019/20. This was to recognise that the structural financial resilience pressures and concerns facing the **Council** before and after the Covid-19 pandemic have a significant and pervasive impact on the **Council**'s ability to secure adequate arrangements for Value for Money in its use of resources. In October 2020 the Council approached MHCLG to enable the further exploration of alternatives to issuing a Section 114 notice. The Council has been engaged in regular discussions with MHCLG in respect of the **Council**'s finances. In February 2021 the Council received conditional confirmation for a Capitalisation Direction of up to £4.8 million in 2020/21 and approval in principle a Capitalisation Direction of up to £20.0 million in 2021/22. This exceptional support has enabled the Council to prepare a balanced budget for 2021/22. The Council continues to report significant gaps in the budget over the period of the Medium Term Financial Strategy which have still not been addressed. The cumulative unmitigated budget gap to 2023/24 is £55.7 million and this also includes the successful delivery of £17.9 million of savings up to that period and some savings which are still subject to finalisation. It also includes the conditional capitalisation direction approved by MHCLG. Whilst the Council is taking action to identify ways to bridge the gaps, there remains a significant risk to its financial sustainability.	• Financial Sustainability	Our approach will continue on the procedures performed in 2019/20 and focus on: Phase 1 – Financial Resilience Concerns (August to November 2021): ‣ Robust review of the Council's Medium Term Financial Strategy and the concerns raised by the Chief Financial Officer, including correspondence with MHCLG on the conditional capitalisation direction; ‣ Developing an understanding of how the Council identifies its budget gaps and risk mitigations; ‣ Consideration of exercising our statutory powers at this point (by April 2021) and if appropriate issuing a statutory written recommendation under section 24 (schedule 7) of the Local Audit and Accountability Act 2014. Phase 2 – Council's Response to Financial Resilience Concerns (September to November 2021): ‣ Developing an understanding of how the Council quantifies and quality assures its savings plans; ‣ Reviewing the extent to which the Council is addressing the future budget gaps identified within its Medium Term Financial Strategy, including the robustness of assumptions and judgements associated with savings and transformation plans. ‣ Consideration of exercising our statutory powers at this point (by April 2021) and if appropriate issuing a statutory written recommendation under section 24 (schedule 7) of the Local Audit and Accountability Act 2014. For both of these areas, we will be utilising specialist support to work with the audit team in reviewing, challenging and exercising appropriate professional scepticism on the savings and transformation plans. To inform our reporting obligations, we will also consider how the Council is responding to any recommendations and findings from external financial sustainability reviews performed by CIPFA and MHCLG in response to its request for financial support and conditional capitalisation directives.

Value for Money

Value for Money Risks

What is the significant weakness in arrangements?	What reporting criteria does the risk affect?	What will we do?
In our 2019/20 Audit Results Report we reported our audit procedures associated with a loan to Empower Community Management LLP of £23.046 million. We remained sceptical that with the passage of time, there had been no impairment adjustment associated with the loan up to the 31 March 2020 and we questioned how the loan could be classified as short-term as at 31 March 2020 given it has been in place now for nearly six years. The Director of Corporate Resources covering report to the 25 January 2021 Audit Committee set out the background to the loan relating to the construction of solar panels for residential properties, which was first recognised in the 2014/2015 financial statements. The Council's 2019/2020 draft financial statements recognised the loan as a short-term debtor and valued at £23.046 million without recognising any impairment since inception. In our subsequent enquiries, we became aware that in October 2020, the Council, with the support of legal and specialist corporate finance advisors, renegotiated the terms of the loan. The loan repayment profile within the Heads of Terms, agreed by both parties, was underpinned by an aggressive financial model. This was discussed by the Council, its advisors and Empower, and assurances were given by Empower that this was achievable and realistic despite its aggressiveness in comparison to other market solar portfolios. We will consider the decision making performed by the Council in renegotiating the terms of the loan.	• Governance	We reported the following significant weaknesses in our 2019/20 Audit Result Report: We believe there have been significant weaknesses in the governance arrangements with Empower Community Management LLP during the 2020/2021 financial year which has exposed the Authority to financial loss. Our specialist work has determined that the re-financing of the loan after the balance sheet had aggressive assumptions on debt/equity ratios, which we note the Authority also recognised in its decision making papers. Empower Community Management LLP had proposed additional income streams from P2P trading, however we understand from the Authority that this could not be included in the model for valuation as the contracts had not been signed. We will undertake a follow-up to ensure we have sufficiently taken into account all the information used by the Council in its decision making, including specialist advice, Committee papers and minutes, and the Council's response to the weaknesses and recommendations identified and reported in our 19-20 ARR. Our approach will continue on the procedures performed in 2019/20 and focus on: ‣ Advice sought by the Council to support its decision making for the renegotiation of the loan; ‣ The decisions made by the Council in the Committee meetings where the Empower loan was discussed; ‣ Considering the advice received by our EY specialists on the aggressive refinancing of the loan; ‣ Consideration of the Council's decision making for any similar financing arrangements, for example the redevelopment of the Hilton Hotel; and ‣ Consideration of exercising our statutory powers at this point (by April 2021) and if appropriate issuing a statutory written recommendation under section 24 (schedule 7) of the Local Audit and Accountability Act 2014.

04 Audit materiality

Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2020/21 has been set at £4.72 million. This represents 1% of the Council's prior year gross expenditure on net cost of services plus financing and investment expenditure and other operating expenditure. This value is consistent with the prior year due to the risks we have raised around the Council's financial position. We have provided supplemental information about audit materiality in Appendix C.

Expenditure for Materiality purpose
£472m

Planning materiality
£4.72m

Performance materiality
£3.54m

Audit differences
£236,000

We request that the Audit Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £3.54 million which represents 75% of planning materiality. We have considered a number of factors such as the number of errors in the prior year and any significant changes when determining the percentage of performance materiality. We have used the higher end of the range.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee, or are important from a qualitative perspective.

Specific materiality – We have set a lower materiality for Senior Officer's Remuneration, Members' Allowances and Exit Packages disclosures which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this.

Group materiality – Due to the limited impact on the group statement of accounts of the consolidation of Peterborough Live the group materiality figures are not materially different to those of the single entity shown to the left.

05 Scope of our audit

Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. **Financial statement audit**

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Scope of our audit

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

Our intention is to carry out a fully substantive audit in 2020/21 as we believe this to be the most efficient audit approach. Although we are therefore not intending to rely on individual system controls in 2020/21, the overarching control arrangements form part of our assessment of your overall control environment and will form part of the evidence for your Annual Governance Statement.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Committee.

Internal audit:

As in prior years we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit work, where they raise issues that could have an impact on the financial statements.

Scope of our audit

Scoping the group audit

Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

1. **Significant components:** A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
2. **Not significant components:** The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below.

55

Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below.

Nil	Full scope audits
1	Specific scope audits
Nil	Review scope audits
Nil	Specified procedures
Nil	Other procedures

Peterborough Limited is a wholly owned subsidiary of Peterborough City Council. The principal activity of the company is to deliver waste services, environmental services and leisure services.

Scope definitions

Full scope: locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

Specific scope: locations where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

Review scope: locations where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

Specified Procedures: locations where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

Other procedures: For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.

Scope of our audit

Scoping the group audit (continued)

Coverage of Revenue and Expenditure

Based on the group's prior year results, our scoping is expected to achieve the following coverage of the group's net cost of service revenue and group's net cost of service expenditure.

Revenue — 3.8% of the group's provision of services revenue will be covered by specific scope audits, with the remainder covered by the single entity's audit.

Expenditure — 3.7% of the group's provision of services expenditure will be covered by specific scope audits, with the remainder covered by the single entity's audit.

Based on our group scoping we do not require specific procedures to be performed on balance sheet accounts based on our assessment of materiality and risk. Our audit approach is risk based and therefore the data above on coverage is provided for your information only.

Peterborough Limited will be audited by Azets, a non-EY member firm, who will confirm their independence via our group instructions.

Key changes in scope from last year

We are not aware of any changes in the scope of the group in 2020/21. On 1 October 2020 Peterborough Limited took over the management of the Council's leisure facilities when Vivacity ceased trading. Peterborough Limited also has a new auditor, Azets, for 2020/21. These will not change the scoping of the group.

Details of specified procedures

In order to provide us with reasonable assurance over Peterborough Limited, we will request the component team to perform specified procedures in relation significant transactions and balances. For example Revenue, Employee Salaries and Cost of Sales.

We will also request specific assurances over the accounting for Covid-19 implications including Going Concern.

Group audit team involvement in component audits

Auditing standards require us to be involved in the work of our component teams. We have listed our planned involvement below.

- We provide specific instruction to component team and our expectations regarding the detailed procedures;
- We set up initial meeting with component team to discuss the content of the group instructions;
- We will consider the need to perform a file review of component team's work where appropriate; and
- We will attend a closing meeting with component team to discuss their audit procedures and findings.

06 Audit team

Audit team and use of specialists

Audit team

The engagement team is led by Neil Harris who is now in his second year as the engagement partner. Neil has significant public sector audit experience, with a portfolio of Local Authorities (including upper tier Councils) and Local Government Pension Funds and is a member of the Chartered Institute of Public Finance and Accountancy (CIPFA).

Neil is supported by Dan Cooke, Manager, who is responsible for the day-to-day direction of audit work and is the key point of contact for the chief accountant. This will be Dan's third year as manager on the audit.

Specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where we expect either EY or third party specialists provide input for the current year audit are:

Area	Specialists	
	EY	Council
Valuation of Land and Buildings	EY Real Estates and EY Capital Equipment	NPS
Pensions disclosure	EY Actuaries	Hymans
MRP accounting	EY MRP Specialist	Link
Empower Loan	EY Strategies and Transactions	Deloitte, Link and Pinsent Mason
Financial Resilience	EY Advisory	N/A

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

07 Audit timeline

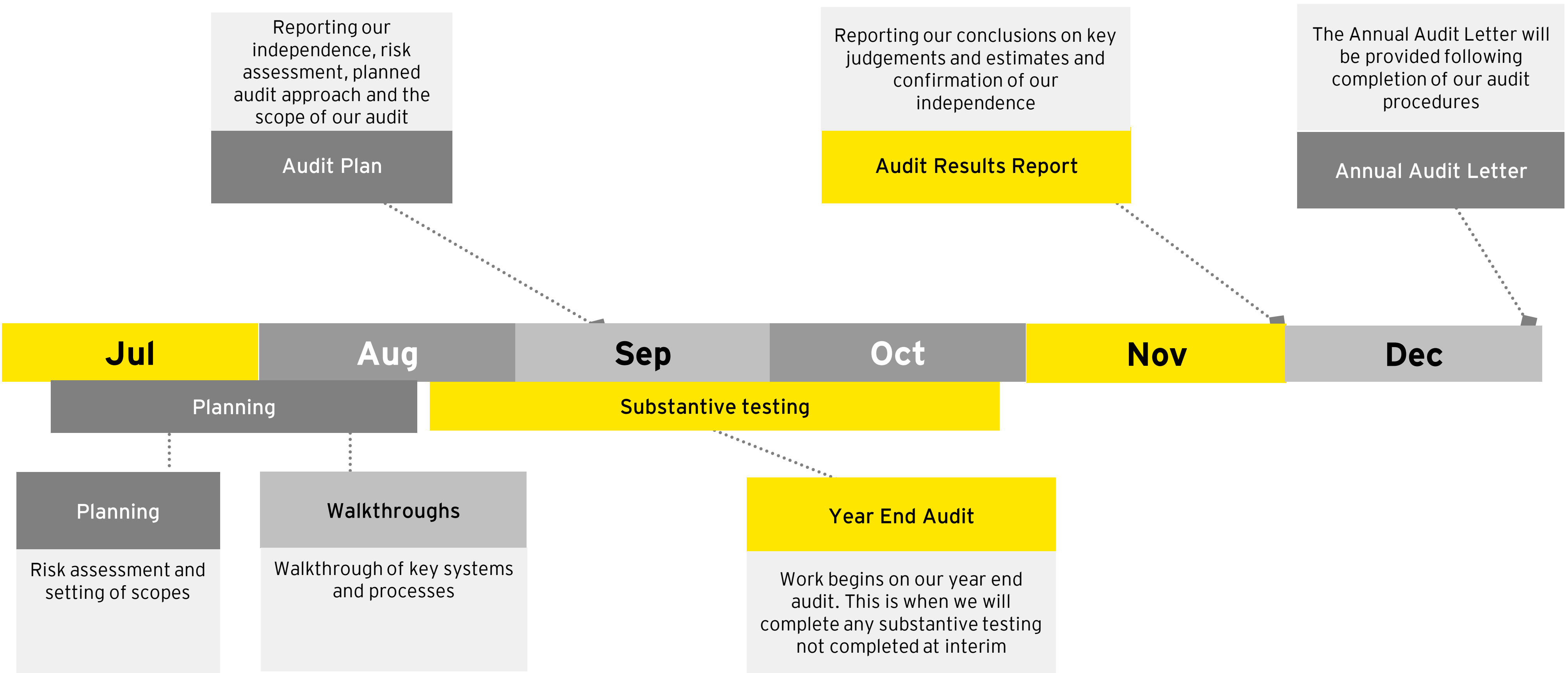
Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2020/21.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.



08 Independence

Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence. ▸ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard.	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Written confirmation that all covered persons are independent; ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▸ An opportunity to discuss auditor independence issues.

62

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Independence

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Neil Harris, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

63

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

When the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you. At the time of writing, the current ratio of non-audit fees to audit fees is 0%.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 0%.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Independence

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020:

https://www.ey.com/en_uk/who-we-are/transparency-report-2020

Independence

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 165 March 2021. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

65

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 16 March 2021 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We do not provide any non-audit services which would be prohibited under the new standard.

09 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned Fee 2020/21	Final Fee 2019/20
	£	£
Scale Fee – Code work	83.570	83,570
Changes in work required to address professional and regulatory requirements and scope associated with risk	77,000	77,000
Revised Proposed Scale Fee (see Note 1)	**160,570**	**160,570**
Additional work:		
2019/20 Additional Procedures required and as reported within the Audit Results Report (Note 2)	-	52,701
2020/21 Additional Procedures required in response to the additional risks identified in this Audit Plan in respect of: • Empower Loan Accounting; • Accounting for Covid-19 related Government Grant income; • Business Rates Appeals Provision; • Other Bad Debt Provisions; • Liaising with non-EY group auditor • Changes to the NAO Code for Value for Money Arrangements; and • Value for Money significant weaknesses procedures.	TBC	
Total fees (excluding VAT)	**TBC**	**213,271**

Note 1: For 2019/20 and 2020/21, we have proposed an increase to the scale fee to reflect the increased level of audit work required which has been impacted by a range of factors, as detailed in our 2019/20 Audit Plan. Our proposed increase has been discussed with management and is with PSAA for determination.

Note 2: As reported in the 2019/20 Audit Results Report we encountered changes to the audit strategy that resulted in additional audit procedures and audit fees:

- The need to engage EY Real Estate to review the valuation of non-DRC and investment properties assets as a result of the RICs guidance to valuers highlighting the uncertain impact of Covid-19.
- The corrected and uncorrected audit adjustments identified in this report.
- The impact of the McCloud consultation on the IAS 19 pension liability.
- The impact of Covid-19 on our audit procedures and the Council's going concern assessment, including the requirement for internal consultation.
- The additional audit procedures required to conclude on the Empower loan issue.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee. At the time of this report we have not received any correspondence from the public.

Appendix A

Fees (continued)

We do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity. For an organisation such as Peterborough City Council the extent of audit procedures now required mean it will take approximately 3,000 hours to complete a quality audit. A commercial benchmark for this size of external audit would be in the region of £300,000. Your scale fee is £83,570 and our current estimate is a final fee of approximately £220,000.

Summary of key factors

1. **Status of sector**. Financial reporting and decision making in local government has become increasingly complex, for example from the growth in commercialisation, speculative ventures and investments. This has also brought increasing risk about the financial sustainability / going concern of bodies given the current status of the sector.

    - To address this risk our procedures now entail higher samples sizes of transactions, the need to increase our use of analytics data to test more transactions at a greater level of depth. This requires a continual investment in our data analytics tools and audit technology to enhance audit quality. This also has an impact on local government with the need to also keep pace with technological advancement in data management and processing for audit.

2. **Audit of estimates**. There has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities.

    - To address these findings, our required procedures now entail higher samples sizes, increased requirements for corroborative evidence to support the assumptions, use of our internal specialists and increased correspondence with external specialists.

3. **Regulatory environment**. Other pressures come from the changing regulatory landscape and audit market dynamics:

    - Parliamentary select committee reports, the Brydon and Kingman reviews, plus within the public sector the Redmond review and the new NAO Code of Audit practice are all shaping the future of Local Audit. These regulatory pressures all have a focus on audit quality and what is required of external auditors.

    - This means continual investment in our audit quality infrastructure in response to these regulatory reviews, the increasing fines for not meeting the requirements plus changes in auditing and accounting standards. As a firm our compliance costs have now doubled as a proportion of revenue in the last five years. The regulatory lens on Local Audit specifically, is greater. We are three times more likely to be reviewed by a quality regulator than other audits, again increasing our compliance costs of being within this market.

Appendix A

Fees (continued)

Summary of key factors (cont'd)

4. As a result Public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff and multidisciplinary teams (for example valuation, pensions, tax and accounting) during the compressed timetables.

    - We need to invest over a five to ten-year cycle to recruit, train and develop a sustainable specialist team of public sector audit staff. We and other firms in the sector face intense competition for the best people, with appropriate public sector skills, as a result of a shrinking resource pool. We need to remunerate our people appropriately to maintain the attractiveness of the profession, provide the highest performing audit teams and protect audit quality.

    - We acknowledge that local authorities are also facing challenges to recruit and retain staff with the necessary financial reporting skills and capabilities. This though also exacerbates the challenge for external audits, as where there are shortages it impacts on the ability to deliver on a timely basis.

Next steps

We have provided PSAA with the breakdown of our audit procedures, skill mix and time requirements that supports our fee variation proposals for the 2019/20 audit. PSAA have yet to determine the 2019/20 fee variation. Once this has been determined, we will update the Audit Committee on the final fee position. We will continue to follow a similar set of principles to discuss with management our proposed fee variations for the 2020/21 audit and thereafter provide our supporting information and explanations for PSAA to determine. We will report to the Audit Committee our proposed variation to the 2020/21 audit in either our Audit Results Report or Annual Audit Letter.

Appendix B

Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee.

Required communications	What is reported?	Our Reporting to you: When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit Plan – September 2021
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit Results Report – November 2021

71

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Major Local Authorities	For the audits of financial statements of public interest entities our written communications to the Audit Committee include: ▸ A declaration of independence ▸ The identity of each key audit partner ▸ The use of non-member firms or external specialists and confirmation of their independence ▸ The nature and frequency of communications ▸ A description of the scope and timing of the audit ▸ Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits ▸ Materiality ▸ Any going concern issues identified ▸ Any significant deficiencies in internal control identified and whether they have been resolved by management ▸ Actual or suspected non-compliance with laws and regulations identified relevant to the Audit Committee ▸ The valuation methods used and any changes to these including first year audits ▸ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework ▸ The identification of any non-EY component teams used in the group audit ▸ The completeness of documentation and explanations received ▸ Any significant difficulties encountered in the course of the audit ▸ Any significant matters discussed with management ▸ Any other matters considered significant	Audit Plan - September 2021 Audit Results Report – November 2021

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	Audit Results Report – November 2021
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Corrected misstatements that are significant ▸ Material misstatements corrected by management	Audit Results Report – November 2021
Fraud	▸ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ A discussion of any other matters related to fraud	Audit Results Report – November 2021
Related parties	▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	Audit Results Report – November 2021

73

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence	Audit Results Report – November 2021 Audit Plan – September 2021
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit Results Report – November 2021
Consideration of laws and regulations	▸ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▸ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of	Audit Results Report – November 2021
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit Results Report – November 2021

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Group audits	▸ An overview of the type of work to be performed on the financial information of the components ▸ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▸ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▸ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements	Audit Results Report – November 2021 Audit Plan – September 2021
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report – November 2021
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report – November 2021
Auditors report	▸ Key audit matters that we will include in our auditor's report ▸ Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report – November 2021
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit Results Report – November 2021 Audit Plan – September 2021

74

Appendix C

Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards	▸ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. ▸ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. ▸ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. ▸ Concluding on the appropriateness of management's use of the going concern basis of accounting. ▸ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. ▸ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and ▸ Maintaining auditor independence.

Appendix C

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The locations at which we conduct audit procedures to support the opinion given on the Council's financial statements; and
- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.