

Peterborough City Council Audit Results Report - Final Update

Year ended 31 March 2021

12 July 2023

12 July 2023



Private and Confidential
Audit Committee
Peterborough City Council

Dear Members of the Audit Committee,
2020/21 Audit Results Report

We are pleased to attach our final Audit Results Report. This report should be read in conjunction with our Audit Results Report report discussed with the Audit Committee on 31 August 2022. In our previous Audit Results Report, some of our procedures in relation to the areas of audit focus were incomplete. This report outlines the final conclusions in respect of testing in the areas of audit focus.

Our audit is designed to express an opinion on the 2020/21 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Peterborough City Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. We have also included our findings in respect of our work on the Council's Value for Money arrangements.

This report is intended solely for the information and use of the Audit Committee, and management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on the 24 July 2023.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Janet Dawson', written in a cursive style.

Janet Dawson
Partner
For and on behalf of Ernst & Young LLP

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.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 Executive Summary

Executive Summary

Status of the audit

The purpose of this final report is to update you on the conclusion of our external audit of the Council's 2020/21 statement of accounts, further to the Audit Results Report presented to the Audit Committee on the 31 August 2022.

We reported the following outstanding work at the date of the previous report:

- Consultation with our professional practice team on the Council's revised going concern disclosure and our reporting on this risk area;
- Consultation with our professional practice team on the Council's accounting for infrastructure assets following the national issue investigated by CIPFA;
- Consultation with our professional practice team on the final value for money reporting by exception on the significant weaknesses in the Council's arrangements to secure its financial resilience in the period up to 31 March 2021;
- The Council's updated group boundary assessment in relation to Empower given the events that have occurred up to the reporting date, and our review of this with specialist financial reporting support in EY;
- Additional audit procedures arising from quality review and support processes. This relates to additional evidence requirements for our journals and Covid-19 grants testing;
- New Engagement Partner review of the audit procedures; and
- Whole of Government Accounts procedures.

The following slides provide an update on each of the areas above.

Executive Summary

Status of the audit

Consultation with our professional practice team on the Council's revised going concern disclosure and our reporting on this risk area

We have concluded our consultation with the EY professional practice team in relation to the Council's revised going concern disclosure and supporting working papers. We have concluded that based on the information available up to the time of the consultation that no material uncertainty exists in the Council's 2020/21 going concern position. We therefore proposed that, based on the information provided to-date, that our audit opinion is not modified in respect to this matter.

We have received an updated going concern disclosure note from management containing the latest Council information in relation to cash flow forecasting and liquidity. We are currently working through the information provided to ensure our previous conclusion is not impacted. We will update the Audit Committee with our findings at the meeting on 24 July 2023.

Consultation with our professional practice team on the Council's accounting for infrastructure assets following the national issue investigated by CIPFA

We have now concluded our audit procedures in relation to Infrastructure Assets.

At the time of presenting the Audit Results Report on 31 August 2022 we reported the following in relation to infrastructure assets.

An issue has been raised via the NAO's Local Government Technical Group that some local authorities are not writing out the gross cost and accumulated depreciation on highways infrastructure assets when a major part/component has been replaced or decommissioned in line with the requirements of the Code of Audit Practice. This matter is currently under consideration by CIPFA. We have insufficient evidence to support an unqualified audit opinion in respect of Infrastructure Assets. This situation could lead us to modify our audit report. We have discussed this issue with the senior management and following consultation, internally and with CIPFA, the Council wishes to await the outcome of the CIPFA consultation process and any adaptations to the Code of Practice that result. This is likely to change the reporting requirements and require the need for additional appropriate audit evidence. Given that as at 31 March 2021 the Council holds £347 million of gross book and £188 million of net book infrastructure assets we have allocated this as a significant audit risk.

July 2023 Update:

- The Department for Levelling Up, Housing and Communities (DLUHC) issued an optional Statutory Override/Instrument (SI) which was laid before Parliament on 30 November and become active from 25 December 2022. The SI contained two key aspects:
 - When infrastructure assets are replaced, the Council can assume that the asset being replaced was being held at a nil net book value (NBV); and
 - Assume that the balance brought forward from the last audited statement of accounts is correct.
- CIPFA issued Bulletin 12 - Accounting for Infrastructure Assets - Temporary Solution on 11 January 2023 containing an adaptation for Councils to report Net Book Value (NBV) only for Infrastructure Assets.
- The Council has decided to adopt CIPFA's temporary solution and has amended the Statement of Accounts accordingly. Our audit opinion will not be modified in respect to this matter on infrastructure assets.

Executive Summary

Status of the audit

Consultation with our professional practice team on the final value for money reporting by exception on the significant weaknesses in the Council's arrangements to secure its financial resilience in the period up to 31 March 2021

We have concluded our consultation with the EY professional practice team in relation to the Council's value for money arrangements in the period up to 31 March 2021. We have identified two areas of significant weakness in the Council's 2020/21 value for money arrangements:

1. Financial Sustainability of the Council

Reporting Criteria - Financial Sustainability: how the Council plans and manages its resources to ensure it can continue to deliver its services

Overall Conclusion

During the 2020/21 financial year, the Council has demonstrated good arrangements for the development of their medium-term financial strategies. Despite exhibiting a good understanding of the saving challenges they are facing, in the 2020/21 financial year, the size of the Council's budget gap was significant and led to the Council seeking exceptional financial support and conditional capitalisation directives from DLUHC. We are therefore modifying our value for money conclusion to recognise that the structural financial resilience pressures and concerns facing the Council before and after the Covid-19 pandemic up to the 31 March 2021 have had a significant and pervasive impact on the Council's ability to secure adequate arrangements for Value for Money in its use of resources.

Please note that this value for money conclusion is considering the arrangements in place for the period up to 31 March 2021, as per the requirement of the NAO Code of Audit Practice. Our going concern consultation considers the Council's financial position post 31 March 2021 including the three-year medium-term financial plan period up to 2024/25.

2. Empower Accounting and Governance Decisions

Reporting Criteria - Governance: how the body ensures that it makes informed decisions and properly manages its risks

Overall Conclusion

Whilst the Authority has taken the appropriate steps to seek specialist legal, professional and commercial advice on the events that have taken place with the financing of the loan since the balance sheet date; adjusting and reporting these circumstances in the 2019/20 accounts and in decision making papers to Cabinet on 21st June 2021, nevertheless we believe there have been significant weaknesses in the governance arrangements with Empower Community Management LLP during the 2020/21 financial year which exposed the Authority to financial loss of £2.646 million.

We expect to issue our Auditor's Annual Report at the start of September 2023. This will include our commentary on the Council's value for money arrangements for the 2020/21 financial year.

Executive Summary

Status of the audit

These areas covered on this page were identified as part of the remediation required in the 2020/21 audit file following the findings by the Financial Reporting Council in their review of our 2019/20 audit file. The contents of the Financial Reporting Council report were shared with the Committee at the Audit Committee on 28 November 2022.

The Council's updated group boundary assessment in relation to Empower Community Management LLP given the events that have occurred up to the reporting date, and our review of this with specialist financial reporting support in EY

We have now concluded our audit procedures in relation to the consideration of the Council's group boundary assessment.

We received an updated group boundary assessment from the Council in relation to Empower Community Management LLP. We then worked with our EY financial reporting group specialist and concluded that there was no group boundary relationship between the Council and Empower Community Management LLP that would require consolidation into the Council group accounts.

We also considered the potential of a post balance sheet event as the solar panel asset portfolio was transferred to the Council on 12 November 2021 following the Council's decision to take this in-house from Empower Community Management LLP. We concluded that the transfer of assets did not meet the requirements of an adjusting post balance sheet event and therefore the Council has disclosed a non-adjusting post balance sheet event in the statement of accounts.

Additional audit procedures arising from quality review and support processes. This relates to additional evidence requirements for our journals and Covid-19 grants testing

We have concluded our audit procedures in conjunction with our professional practice team in relation to journals and Covid-19 grant testing.

Journals: The main area of additional work required was in relation to extended testing on the authorisation of journals and more detailed consideration of the Council's year-end journals. Our testing of year-end journals did not identify any audit adjustments.

We have identified that the Council does not have any formal procedure in place for the authorisation of journals before they are posted to the General Ledger. This represents a level of weakness in the Council's overall control environment and increases the potential risk of Management Override.

Recommendation: We recommend that the Council initiates a control to authorise journals before they are posted to the General Ledger.

Covid-19 Grants: The main area of additional work was in relation to the Covid-19 grants where the Council had classified the grant as agent (rather than principal). We also tested a sample of expenditure transactions to ensure they met the conditions of the grant and were paid to eligible recipients. Our audit procedures did not identify any grants where the Council incorrectly classified the grant or any expenditure items that were incorrectly issued.

We have identified that the Council did not have a disclosure note for the agent grants in the statement of accounts. The Council have now processed an audit adjustment to appropriate disclosure their agent grants.

Executive Summary

Status of the audit

New Engagement Partner review of the audit procedures

Following the departure of Neil Harris from EY, Janet Dawson has taken over as the Audit Partner. Janet has held introduction calls with the Council and attended the 28 November 2022 Audit Committee. Janet has substantively completed her review of the audit file, but there are still a limited number of areas that require her finalisation. We will update the Audit Committee should any significant or material issues impacting the conclusion of the audit arise.

Whole of Government Accounts procedures

The NAO's Whole of Government Accounts (WGA) team issued Group Audit Instructions (GAI) in respect of the 2020/21 WGA process on 28 July 2022.

In a change to the process for 2020/21, HM Treasury have elected to raise the threshold for local government entities to £2 billion, aligning it with the central government threshold. As group auditor, the NAO WGA team will need to consider the revised HM Treasury thresholds alongside HM Treasury's developing analytical review controls to determine whether they require, for their purposes, any assurances from auditors of components who are below the HM Treasury thresholds. Where additional work is required the NAO WGA team will contact the relevant component auditor(s) regarding the scope and timing of this work.

As the Council would fall below the testing threshold set by the NAO for detailed procedures on the consolidation return, we will be able to submit an assurance statement verifying this position.

We will not be able to issue our Audit Certificate until this work is complete.

Other Issues Arising

As part of closing our audit procedures we have identified the following issues that we believe are necessary to bring to the attention of the Audit Committee.

A national issue emerged in relation to the potential impact of the latest Pension Fund Triennial Valuation on the Pension Liability at the 31 March 2022. Management obtained a updated IAS 19 Report for 2021/22, which took into account the assumptions used within the Triennial Valuation process. We reviewed the underlying assumptions used within the Triennial Valuation report for reasonableness, and were able to gain assurance that assumptions used remained within our range expectations. The assumptions used within the Triennial valuation approach had the impact of increasing the Council's net 2021/22 Pension Liability by £3.888 million. This is below our overall 2020/21 materiality figure of £4.719 million.

We have therefore concluded that the impact on the 2020/21 statement of accounts would also be immaterial.

Executive Summary

Status of the audit

Our audit work in respect of the Council's audit opinion is substantially complete. The following items relating to the completion of our audit procedures are outstanding at the date of this report:

Those final closing procedures are:

- Subsequent events review;
- Agreement of the final set of financial statements;
- Receipt of signed management representation letter; and
- Final Manager and Engagement Partner reviews.

Subject to satisfactory completion of the items above, we expect to issue the audit opinion on the Council's financial statements in the form which appears at Section 3.

However until work is complete, further amendments may arise.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of Peterborough City Council's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

We have reported in respect of going concern earlier in this report. We have no other matters to report.



02 Summary of audit differences



Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Other than those already reported in the Executive Summary section of this report, we have not identified any additional audit adjustments since our last report that require reporting to the Audit Committee.

Summary of unadjusted differences

There remains one uncorrected misstatement identified as part of our audit that is greater than our reporting threshold.

- ▶ As a result of our audit procedures in relation to the Empower Loan we identified that the Council had not followed their 2020/21 minimum revenue provision (MRP) policy and did not apply MRP on the value of the loan which was impaired in 2019/20. The existing policy indicates MRP should be charged on “the outstanding loan amount” as the loan was impaired in 2019/20. The outstanding loan amount is the amount not expected to be recovered via capital receipt or the exercise of security. This impairment value was £2.645 million. The current policy requires this to be charged over the next MTFS periods (3 years). No charge has been made in 2020/21. We therefore believe that MRP has been understated by £0.882 million (£2.645 million / 3 years).

We have discussed this finding with Management and as the Empower Loan impairment was identified after the 31 March 2021, as part of the 2019/20 audit, Management have applied the MRP for the impairment prospectively as part of their 2021/22 MRP policy.

We have considered this reasonable as the impact is immaterial but we still request that this uncorrected misstatement be considered and approved by the Audit Committee and provided within the Letter of Representation.



03 Audit Report

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Our proposed opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PETERBOROUGH CITY COUNCIL

Opinion

We have audited the financial statements of Peterborough City Council ('the Council') and its subsidiaries (the 'Group') for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Council and Group Movement in Reserves Statement,
- Council and Group Comprehensive Income and Expenditure Statement,
- Council and Group Balance Sheet,
- Council and Group Cash Flow Statement,
- the related Council notes 1 to 47 and Group notes 1 to 6,
- Collection Fund and the related notes 1 to 4

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

In our opinion the financial statements:

- give a true and fair view of the financial position of Peterborough City Council and the Group as at 31 March 2021 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Our proposed opinion on the financial statements

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Chief Financial Officer’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Council’s ability to continue as a going concern for a period to 31 July 2024.

Our responsibilities and the responsibilities of the Chief Financial Officer with respect to going concern are described in the relevant sections of this report.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group’s ability to continue as a going concern.

Other information

The other information comprises the information included in the Statement of Accounts 2020/21 set out on pages 1 to 141, other than the financial statements and our auditor’s report thereon. The Chief Financial Officer is responsible for the other information contained within the Statement of Accounts 2020/21.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Group and the Council
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014

We have nothing to report in these respects.



Our proposed opinion on the financial statements

In respect of the following, we have matters to report by exception:

- Report on the Group and Council's proper arrangements for securing economy, efficiency and effectiveness in the use of resources

We report to you, if we are not satisfied that the Group and Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

On the basis of our work, having regard to the Code of Audit Practice 2020 and the guidance issued by the Comptroller and Auditor General in April 2021, we have identified the following significant weaknesses in the Group and Council's arrangements for the year ended 31 March 2021.

Significant weaknesses in arrangements

Our judgement on the nature of the weakness identified

The Council disclosed in its narrative report and note 44 of the 2019/20 financial statements, which were authorized for issue on 21 June 2021, material uncertainties on its financial position up to and including the 2023/24 financial year. The Council disclosed that without additional government funding, there is a risk that the Council may not be able to set a balanced budget for the 2021/22 financial year. This position cast a significant doubt on the ability of the Council to continue operating the level of services currently provided for the 12 months from 21 June 2021 and beyond.

- The evidence on which our view is based:

These circumstances have arisen because the Council's financial condition deteriorated during the 2019-2020 financial year and has been ruthlessly exposed by the operational and financial consequences of the Covid-19 outbreak. In particular:

- The Council was able to deliver a balanced budget in the 2020/21 financial year but initially required a capitalisation direction from Department for Levelling Up, Housing and Communities (DLUHC) to enable this.
- The Council, at the beginning of October 2020, wrote to DLUHC setting out the pervasive impact that the Covid-19 outbreak had on its financial position. The Council was seeking alternative funding options to mitigate the risk that it could issue a notice under Section 114(3) of the Local Government Finance Act 1988 that it is unable to balance its 2021/2022 budget.

This position casts a doubt on the ability of the Council to continue operating the level of services currently provided for medium term financial strategy period.

- The impact on Peterborough City Council:

Whilst we have found that the Council responded appropriately to its deteriorating financial position, we have concerns about the Council's current and future financial resilience and ability to remain viable following the Covid-19 outbreak. Without a comprehensive package of additional government funding support or a significant unplanned reduction in services, the Council's weak financial resilience has a pervasive and fundamental impact on the Council's ability to put in place the appropriate arrangements to secure Value for Money in its use of resources.



Our proposed opinion on the financial statements

- The action the body needs to take to address the weakness:

The Council needs to continue to address the future budget gaps as part of the Improvement Plan agreed by Council in December 2021.

Both Members and senior management should take a lead role in discussing and addressing the challenging financial position that the Council faces.

This issue is evidence of weaknesses in proper arrangements for:

- How the body plans to bridge its funding gaps and identified achievable savings; and
- How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities.

Our judgement on the nature of the weakness identified

There were significant weaknesses in the governance arrangements with Empower Community Management LLP during the 2020/21 financial year which has exposed the Council to financial loss.

- The evidence on which our view is based:

In March 2021 Empower Community Management LLP defaulted on the 23 million loan owed to the Council. The Council sought advice from its advisors Deloitte and Pinsent Mason and to serve notice of repayment for the loan. Teneo Restructuring Ltd were appointed jointly by the Council and ECSP1 to provide insolvency advice. Deloitte calculated assessed the Fair Value of the financial instrument at £20.4 million which resulted in the Council recognising an impairment of £2.646 million in the financial statement. The Council has made the decision to bring the operation in-house in 2021/2022.

- The impact on Peterborough City Council:

Proactive monitoring of financial arrangements can ensure that the Council is not exposed to further financial losses.

- The action the body needs to take to address the weakness:

The Council should implement procedures and controls to closely review finance arrangements, similar to that with Empower Community Management LLP, during the life of the financial instruments to ensure that it is not exposed to further financial losses. This would include detailed assessments of the value and recoverability of financial assets in line with IFRS 9 - Financial Instruments.

This issue is evidence of weaknesses in proper arrangements for:

- How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee.



Our proposed opinion on the financial statements

Responsibility of the Chief Financial Officer

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities set out on page 19, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the Council and Group financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Group and Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Group and the Council either intends to cease operations, or has no realistic alternative but to do so.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

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Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.



Our proposed opinion on the financial statements

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are:

- Local Government Act 1972,
- School Standards and Framework Act 1998,
- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
- Transport Act 2000,
- Education Act 2002 and school Standards and Framework Act 1998 (England),
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018,2020 and 2021,
- Waste and Emissions Trading Act 2003,
- National Health Service Act 2006,
- Planning Act 2008 and the Community Infrastructure Levy Regulations 2010 (SI 2010/948),
- Business Rate Supplements Act 2009,
- The Local Government Finance Act 2012,
- The Local Audit and Accountability Act 2014, and
- The Accounts and Audit Regulations 2015.

In addition, the Group and Council has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.

We understood how Peterborough City Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Group and Council's committee minutes, through enquiry of employees to confirm Group and Council policies, and through the inspection of employee handbooks and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Group and the Council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified the incorrect capitalisation of revenue expenditure and revenue expenditure funded from capital under statute (REFCUS), the incorrect application of minimum revenue provision (MRP) accounting, inappropriate use of capital receipts and management override of control to be our fraud risks.



Our proposed opinion on the financial statements

To address our fraud risk of incorrect capitalisation of revenue expenditure and REFCUS, we sample tested property, plant and equipment additions and REFCUS transactions and used our data analytics tools to identify and test journal entries that moved expenditure into capital code.

To address our fraud risk of the incorrect application of MRP accounting we tested the Council's application of MRP to ensure the calculation met the statutory guidance, reperformed the Council's MRP calculation and engaged our EY technical specialist to review the Council's MRP policy and disclosure.

To address our fraud risk of inappropriate use of capital receipts we sample tested the Council's application of capital receipts in the capital financing requirement, sample tested deferred capital receipts and used our data analytics tools to identify and test journal that impact capital receipts.

To address our fraud risk of management override of controls, we specific journal entries by applying a risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were accounted for appropriately.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice 2020, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in April 2021, as to whether Peterborough City Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Peterborough City Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Peterborough City Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



Audit Report

Our proposed opinion on the financial statements

Certificate

We cannot formally conclude the audit and issue an audit certificate until the NAO as group auditor has confirmed that no further assurances will be required from us as component auditors of Peterborough City Council. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements.

Use of our report

This report is made solely to the members of Peterborough City Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Group and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Janet Dawson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
London
XX July 2023



04

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of Peterborough City Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether Peterborough City Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We considered whether circumstances arising from Covid-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely.

We have identified one additional control finding, since our report dated 5 August 2022, which we would like to bring to your attention:

1. We have identified that the Council does not have any formal procedure in place for the authorisation of journals before they are posted to the General Ledger. This represents a level of weakness in the Council's overall control environment and increases the potential risk of Management Override.

Recommendation: We recommend that the Council initiates a control to authorise journals before they are posted to the General Ledger.



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05

Independence

Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 2 September 2021.

We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 24 July 2023.

There are no relationships from 1 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The next page includes a summary of the fees that you have paid to us in the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are in the next page. Further detail of all fees has been provided to the Audit Committee.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

We confirm that we have not undertaken non-audit work.

Other communications

EY Transparency Report 2022

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 2022:

[EY UK 2022 Transparency Report | EY UK](#)

Independence

Services provided by Ernst & Young

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for the DLUHC. 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. In our Audit Results Report dated 5 August 2022 we reported an estimated total audit fee of £294,820. Since that time we have performed additional audit procedures in relation to those items covered within this report.

We will determine the final additional audit fees in relation to the 2020/21 engagement on completion of the audit. We will discuss all additional fees with management before submission to PSAA for determination. We will report these to the Audit Committee via our Auditor's Annual Report.

2019/20 fee

We 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 approved the 2019/20 additional audit fees on 18 March 2022. We submitted an additional audit fee of £129,701 (£77,000 for changes in work required to address professional and regulatory requirements and scope associated with risk and £52,701 for additional audit procedures required as reported within the 2019/20 Audit Results Report). PSAA approved £91,979 of this additional audit fee.



06 Appendices






Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:





- ▶ Existence: An asset, liability and equity interest exists at a given date
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- ▶ Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework.

Balance sheet category 	Current Year Audit Approach	Prior Year Audit Approach 	Explanation for change 
48 ▶ Property, plant and equipment (including Infrastructure) ▶ Investment property ▶ Intangible assets ▶ Short term debtors ▶ Cash & cash equivalents ▶ Short and long term borrowings ▶ Short & long term creditors ▶ Short term provisions ▶ PFI liability (short and long term) ▶ Other long term liabilities - Pension Liability ▶ Capital grants received in advance ▶ Useable and unusable reserves	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A
▶ Long term investments ▶ Short term investments ▶ Inventories ▶ Assets held for sale	Immaterial - Substantively tested assertion for presentation and disclosure	Immaterial - Substantively tested assertion for presentation and disclosure	N/A

Appendix B




Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 Our Reporting to you
Required communications	 What is reported?	  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.	Audit Plan - 2 September 2021 presented to the Audit Committee on 13 September 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan - 2 September 2021 presented to the Audit Committee on 13 September 2021
Significant findings from the audit	<ul style="list-style-type: none"> ▶ 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 - presented to the Audit Committee on 31 August 2022 and 24 July 2023





Appendix B - continued

		Our Reporting to you
Required communications	 What is reported?	  When and where
Major Local Audits	<p>For the audits of financial statements of major local audits our written communications to the Audit Committee include:</p> <ul style="list-style-type: none"> ▶ 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 ▶ Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee ▶ Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof ▶ 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 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 	<p>Audit Plan - 2 September 2021 presented to the Audit Committee on 13 September 2021</p> <p>Audit Results Report - presented to the Audit Committee on 31 August 2022 and 24 July 2023</p>



Appendix B - continued

		Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ 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 - presented to the Audit Committee on 24 July 2023
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Audit Results Report - presented to the Audit Committee on 31 August 2022 and 24 July 2023
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit Results Report - presented to the Audit Committee on 31 August 2022 and 24 July 2023
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Council any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility. 	Audit Results Report - presented to the Audit Committee on 31 August 2022 and 24 July 2023



Appendix B - continued

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Council's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ 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 Council 	Audit Results Report - presented to the Audit Committee on 31 August 2022 and 24 July 2023
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ 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 <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Plan - 2 September 2021 presented to the Audit Committee on 13 September 2021</p> <p>Audit Results Report - presented to the Audit Committee on 31 August 2022 and 24 July 2023</p>
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	We have received all requested confirmations



Appendix B - continued

		Our Reporting to you
Required communications	What is reported?	When and where
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ 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 Audit Committee may be aware of 	Audit Results Report - presented to the Audit Committee on 31 August 2022 and 24 July 2023
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit Results Report - presented to the Audit Committee on 31 August 2022 and 24 July 2023
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Audit Results Report - presented to the Audit Committee on 31 August 2022 and 24 July 2023
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report - presented to the Audit Committee on 31 August 2022 and 24 July 2023
Auditors reporting	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report ▶ Commentary on VFM arrangements 	Audit Results Report - presented to the Audit Committee on 31 August 2022 and 24 July 2023 Auditors Annual Report - Sept 2023
Fee Reporting	<ul style="list-style-type: none"> ▶ 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 Plan - 2 September 2021 presented to the Audit Committee on 13 September 2021 Audit Results Report - presented to the Audit Committee on 31 August 2022 and 24 July 2023 Auditors Annual Report - September 2023

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