AUDIT COMMITTEE

MONDAY 21 JUNE 2021
4.30 PM

Sand Martin House, Bittern Way, Peterborough, PE2 8TY, meeting will be livestreamed here: Peterborough City Council Youtube Page

THE CHAIRMAN WILL ASSUME THAT MEMBERS HAVE READ THEIR PAPERS PRIOR TO THE MEETING TO AVOID UNNECESSARY INTRODUCTIONS TO REPORTS. IF ANY QUESTIONS ARE APPARENT FROM THE REPORTS THEY SHOULD BE PASSED TO THE REPORT AUTHOR PRIOR TO THE MEETING

SUPPLEMENTARY AGENDA

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Committee Members:

Councillors: D Over (Chairman), A Shaheed, Joseph, Ali, Farooq, Haseeb and Sainsbury (Vice Chairman)

Substitutes: Councillors: Burbage, Iqbal, Jones and Bond

Further information about this meeting can be obtained from Daniel Kalley on telephone 01733 296334 or by email – daniel.kalley@peterborough.gov.uk

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AUDIT COMMITTEE	AGENDA ITEM No. 3
21 JUNE 2021	PUBLIC REPORT

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

SUPPLEMENTARY PAPER - AUDIT OF STATEMENT OF ACCOUNTS TO THOSE CHARGED WITH GOVERNANCE (ISA260)

1.	**BACKGROUND**
1.1	This paper fulfils the action contained in the Audit Committee report 'Audit of Statement of Accounts to those Charged with Governance (ISA260)' at point 4.6 and 10.1. This is a supplementary paper covering the Final Audit Results Report IAS260 21 June 2021 from EY LLP, the revised Management Representation Letter 2019/20 and note the two amendments made to the Statement of Accounts since publication of the papers.
2.	**SUMMARY OF THE AMENDMENTS**
2.1	**Amendment to the Management of Representation Letter** EY amendment to the Unadjusted Area of the Financial Statements to the Appendix of the Management Representation Letter

Unadjusted Area of Financial Statements	£
Credit: Balance Sheet Long Term Debtors – Empower Loan	(605,000)
Debit: CIES Financing and Investment Income and Expenditure	605,000
Credit: Mirs Adjustments between accounting basis and funding basis under regulations	(605,000)
Debit: Balance Sheet – Capital Adjustment Account	605,000

Amendments to the Statement of Accounts

Minor presentational amendments have been made to the Statement of Accounts 2019/20 as follows:

- The movement shown under both the Useable Reserves and Unusable Reserves columns in Movement in Reserves Statement (MiRS) (p.24) updated to reflect the audit 'Adjustments between accounting basis and funding basis under regulations' line from (30,606) to (36,693). With the more detailed breakdown shown in Note 15 Summary of Usable and Unusable Reserves table page 49 Total Usable Reserves.

- Note 15 Summary of Usable and Unusable Reserves table (p.49) Total Unusable

	Reserves 2018/19 has been corrected from 89,795 to 137,469 to reflect the final 2018/19 Statement of Accounts.
3.0	**APPENDICES**
3.1	Appendix 1 - Audit Results Report – Position Statement 31 March 2020 Appendix 2 – Management Letter of Representation 2019/20

Peterborough City Council
Audit results report

Year ended 31 March 2020

21 June 2021

Building a better working world

21 June 2021

Dear Audit Committee Members

We are pleased to attach our final audit results report for the forthcoming meeting of the Audit Committee. This report summarises our audit conclusion in relation to the audit of Peterborough City Council (the Authority) for 2019/20.

We have reported the draft results of our audit to Audit Committee members on the 16th November 2020 and provided an executive summary update on the progress resolving outstanding matters on 25th January 2021. We have now concluded all of our remaining audit procedures. Subject to the Audit Committee on 21st June 2021 authorising the audited financial statements for issue and we receive management's letter of representation, we intend to issue our statutory audit report on the Authority's financial statements on 21st June 2021. Our statutory audit report is set out at pages 5 to 8 in which conclude:

- That the audited 2019/2020 financial statements present a true and fair view of the Authority's financial position as at 31st March 2020.
- With reference to the Authority's going concern disclosures at Note 44 of the financial statements, a material uncertainty associated with the continuity of service provision for the period of at least 12 months from the date of the authorised 2019/2020 financial statements.
- With reference to the Authority's disclosures on estimation and uncertainties at Note 22 and Note 43 of the financial statements, an emphasis of matter on the Authority's description of the valuation uncertainty the Authority is facing as a result of Covid-19 in relation to property valuations.
- A qualified conclusion of the Authority's arrangements for securing value for money in its use of resources. Whilst we have found that the Authority has responded appropriately to its deteriorating financial position, we have serious concerns about the Authority'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 Authority's weak financial resilience has a pervasive and fundamental impact on the Authority's ability to put in place the appropriate arrangements to secure Value for Money in its use of resources.

In concluding our audit, we draw Audit Committee members attention to the following matters:

- At page 19 of this report, we set out the outcomes of our audit procedures to review the recoverability of the Authority'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 agree that it is appropriate for the Authority to make a post balance event adjustment and disclosure note at Note 45 of the financial statements to recognise the conditions which have led to an impairment of the loan and reclassification from short to long term debtors. The Authority's disclosures at Note 45 explain the conditions which have led to an impairment of the loan, and the decisions the Authority began to take at the end of the 2020/2021 and are finalising now during the 2021/2022 financial year on options associated with the future asset management arrangements underpinning the finance agreement.

Continued over the page.

We noted the judgement of the Authority that the impairment of the £23 million loan recognised in the audited 2019/2020 accounts has been determined using a effective interest rate (2.1%), consistent with the Authority's weighted average cost of capital as the Authority believe the likely decision to bring the asset management arrangements in-house is a more representative discount rate to estimate the carrying value of the loan as at 31st March 2020. This value is within a reasonable range of estimation and uncertainty to the 2.5% terms of the long-term refinancing agreed with Empower Community Management LLP after the balance sheet date; and the effective interest rate we believe should have been used to determine the expected credit loss on the loan under IFRS9. The Authority's disclosure at Note 45 to the financial statements appropriately sets out that in the unlikely event that the Authority were to seek an external provider to buy-out the finance and asset management arrangements under commercial terms, the enterprise value would be £15.4 million.

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 2019/2020 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 2020/2021 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 recommend that the Authority:

- Reviews any similar finance arrangements to ensure that there is not a risk of exposure to further financial loss.
- Reviews the appropriateness of its Minimum Revenue Provision policy for capital loans in light of these events.
- Should it decide to bring the solar panel assets and asset management arrangements in-house, obtains an up-to-date valuation of the assets as soon as practicable in order that the Authority can determine whether there are any additional indicators of impairment and the basis on which the solar panel assets are recognised for financial reporting and asset management purposes. Although we have yet to determine whether this would be an adjusting or non-adjusting event for the 2020/2021 financial statements, the Authority will need to obtain this information to make appropriate disclosures and accounting judgements in the 2020/2021 financial statements to reflect the conditions that are or are expected to be in place between now and the time when the audited accounts are authorised for issue.

  We will follow-up all of these matters during our audit of the 2020/2021 Authority's financial statements and in terms of arrangements for informed decision making, we will provide further reporting in our Value for Money arrangements narrative commentary as appropriate.

Continued over the page.

21 June 2021

Finally, we have reported to the Audit Committee in previous meetings on the work we performed on the Authority's financial sustainability risks.

We now draw members attention to the following pages 9 to 14 which highlights the scale of the financial challenge facing the Authority under stress tested scenarios. This analysis provides additional commentary on the work we performed with specialist support during the course of the audit to review the Authority's financial sustainability and arrangements prior to the Covid-19 outbreak to deliver its savings and transformation plans. This analysis supported our judgements on the appropriateness of the Authority's going concern disclosure note and also our qualified Value for Money conclusion on the Authority's financial sustainability. We appreciate that since this work was completed, the Authority's financial position will have taken account of conditional capitalisation directions issued by Ministry of Housing, Communities and Local Government and these conditions have been reflected in the Authority's updated and final going concern disclosure note. Therefore, the projections and forecasts set out in this analysis will not have factored these conditions in. We will update our assessment of the Authority's financial resilience with specialist support during our 2020/2021 audit, and provide a commentary of our findings and recommendations in our annual audit report at the conclusion of the audit.

We welcome the way in which the Authority have continued to operate a culture of being open, transparent, showing integrity and taking sufficient and appropriate ownership over the critical judgements and decisions that inform the preparation and disclosures contained in its budgets, medium term financial planning, key business decisions and the financial statements themselves. We say this in recognition of the difficult and uncertain financial circumstances facing the Authority pre and post the Covid-19 pandemic, and the time required to conclude the audit of the Authority's financial statements.

This report is intended solely for the use of the Audit Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent. We would like to thank your staff for their help during the engagement. We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 21 June 2021.

Yours faithfully

Neil Harris
Associate Partner
For and on behalf of Ernst & Young LLP
Encl

Draft audit report

This is an draft report. Our audit report will be completed on the conclusion and signing of the statement of accounts.

Our 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 for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement,
- Authority Statement of Accounting Policies
- and the related Authority notes 1 to 46 and Group notes 1 to 5,
- 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 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of Peterborough City Council as at 31 March 2020 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 2019/20.

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 below. We are independent of Peterborough City 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.

Emphasis of matter – Property, Plant and Equipment

We draw attention to Note 22 and Note 43 of the financial statements, which describe the valuation uncertainty the Authority is facing as a result of COVID-19 in relation to property valuations. Our opinion is not modified in respect of this matter.

Material uncertainty related to going concern

We draw attention to Note 44 in the financial statements, which describes the Authority's ability to continue as a going concern. As stated in Note 44, this indicates that a material uncertainty exists that may cast significant doubt on the Authority's ability to continue providing the current level of services without an increase in planned funding. Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the Statement of Accounts 2019/20, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information.

Audit Report

Our opinion on the financial statements

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.

In connection with our audit of the financial statements, 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 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 or a material misstatement of the other information. 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.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

Basis for Qualified Conclusion

- **Sustainable resource deployment**

The Authority has disclosed in its narrative report and note 44 of the 2019/2020 financial statements material uncertainties on its financial position up to and including the 2023/2024 financial year. The Authority discloses that without additional government funding, there is a risk that the Authority may not be able to set a balanced budget for the 2021/2022 financial year. This position casts a significant doubt on the ability of the Authority to continue operating the level of services currently provided for the next 12 months and beyond.

These circumstances have arisen because the Authority's financial condition has 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 Authority was able to deliver a balanced budget in the 2019/2020 financial year but required a capitalisation direction from Ministry of Housing, Communities and Local Government (MHCLG) of £5.6million. The capitalisation direction enabled the Authority to maintain a minimum level of available to use reserves and to put in place the savings and transformation plans required to maintain a sustainable financial position.
- The Authority, at the beginning of October 2020, wrote to MHCLG setting out the pervasive impact that the Covid-19 outbreak had on its financial position. The Authority is 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.

Whilst we have found that the Authority has responded appropriately to its deteriorating financial position, we have serious concerns about the Authority'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 Authority'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.

Qualified conclusion

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General in April 2020, we are not satisfied that, in all significant respects, Peterborough City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Audit Report

Our opinion on the financial statements

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 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; or
- 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.

Responsibility of the Chief Finance Officer

As explained more fully in the Statement of Responsibilities set out on pages [...], the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the 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 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority'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 Authority either intends to cease operations, or have no realistic alternative but to do so.

The Authority 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.

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.

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, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether Peterborough City Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that 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 2020

Audit Report

Our opinion on the financial statements

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 Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place 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 Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Neil Harris (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Luton
21 June 2021

Phase 1 - Financial Resilience Concerns

Medium Term Financial Forecast

As displayed in Figure 4, the combined result of increased expenditure and reduced funding poses a significant challenge for the authority over the next three financial years. If left unmitigated this will present an unsustainable financial challenge for the authority, which will place the authority at significant risk of issuing a Section 114 notice.

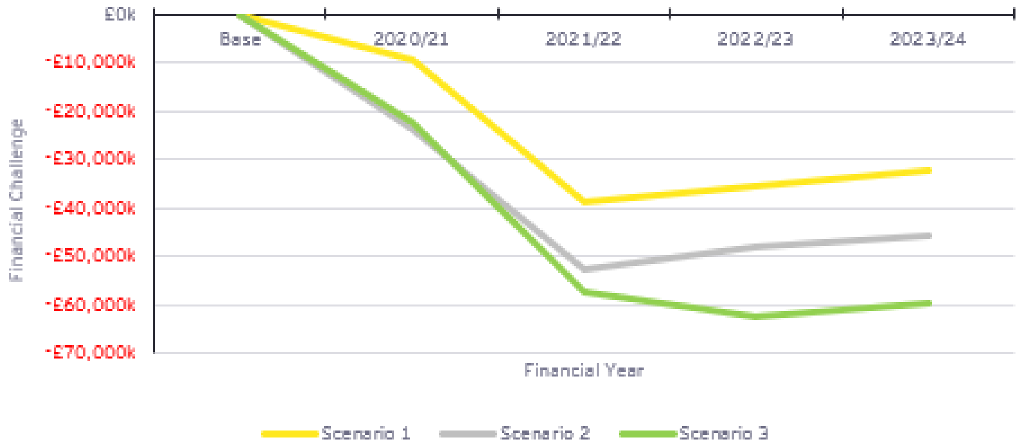
As displayed in Figure 5, without further Government Support, the Council are currently forecasting a significant drawdown from reserves in the current financial year, which means that the Council's ability to utilise reserve balances to mitigate the forecast risks is severely limited. Whilst the most recent funding announcements are likely to reduce forecast in-year drawdowns, they will not be sufficient to maintain reserve balances at appropriate levels.

Peterborough City Council's financial resilience over the Medium-Term is therefore a significant risk to the organisation, with the uncertainty around future funding arrangements, making it very difficult for the Council to achieve best value with public resources.

Financial Challenge £'000	2021/22 Financial Challenge	2022/23 Financial Challenge	2023/24 Financial Challenge
Peterborough City Council Forecast	35,668	36,614	38,584
% Of Budget Requirement	10.8%	11.1%	11.6%
Scenario 1 Position	38,746	35,487	32,389
% Of Budget Requirement	11.7%	10.7%	9.8%
Scenario 2 Position	52,559	47,893	45,713
% Of Budget Requirement	15.9%	14.5%	13.8%
Scenario 3 Position	57,173	62,434	59,829
% Of Budget Requirement	17.3%	18.8%	18.1%

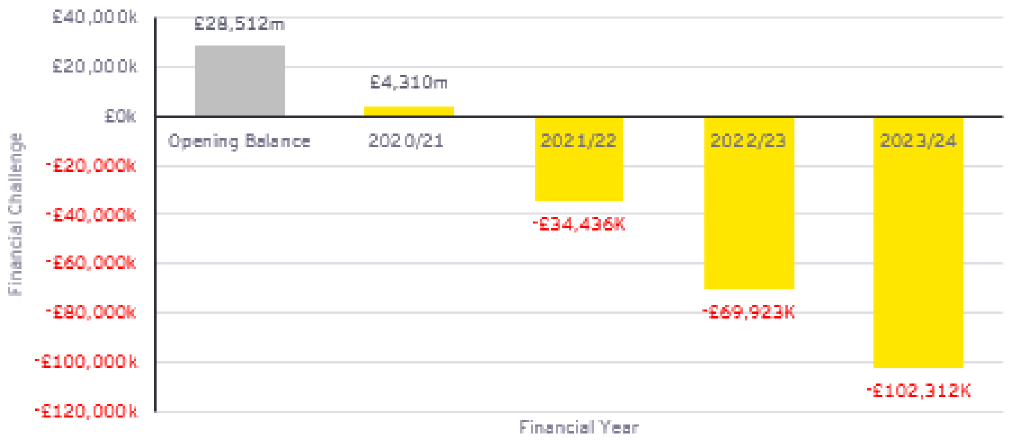
Source: Peterborough City Council Medium Term Financial Strategy 2021/22 to 2023/24 -Phase 1
Source: EY Financial Resilience Model

Fig. 4 - Medium Term Financial Challenge 2020/21 - 2023/24



Source: EY Financial Resilience Model

Fig. 5 - Scenario 1 - Forecast Reserve Levels*



Source: EY Financial Resilience Model

Reserve levels shown as deficits for illustrative purposes

Medium-Term Financial Strategy

Scenario 1

A short-term recession, with strong recovery from 2021.

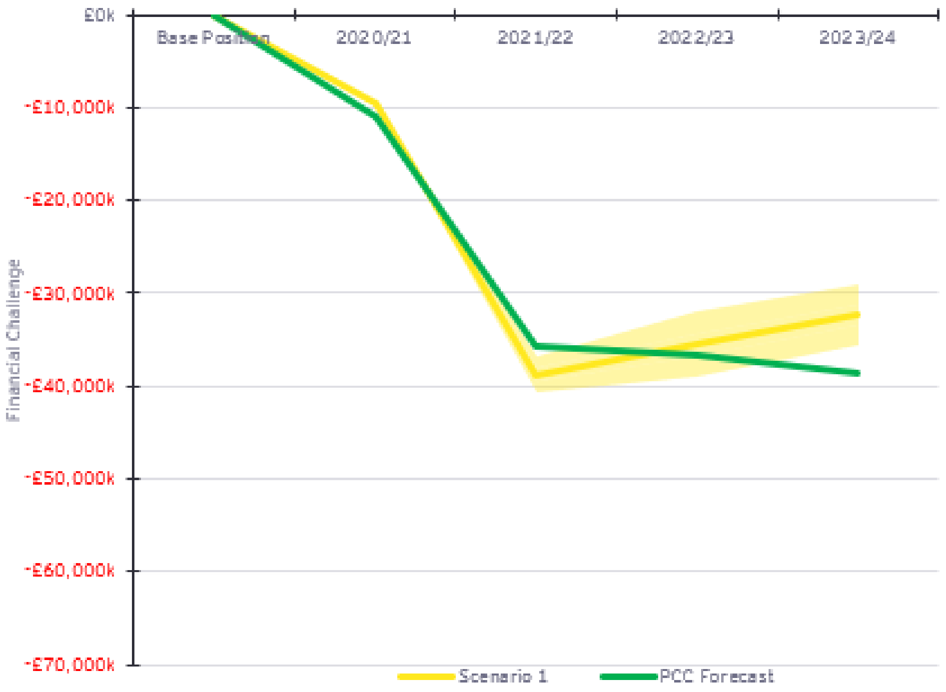
The forecast position in Scenario 1, is based on a sharp drop in economic growth in 2020/21, with a related rise in unemployment. To help stimulate the economy, there is a sharp rise in forecast Central Government Borrowing, and relatively low interest rates and inflation forecast for the period. Within this scenario, it is forecast for a strong economic recovery in 2021/22, with key economic indicators stabilising thereafter.

		MTFS Period		
Funding Model	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Education Services	110,995	109,851	109,851	109,851
Highways and transport services	6,373	5,179	5,293	5,399
Children's Social Care	50,254	47,968	49,023	50,003
Adult Social Care	68,031	56,234	56,060	56,370
Public Health	13,087	11,528	11,324	11,284
Housing services (GFRA only)	10,694	8,613	8,780	8,943
Cultural and related services	7,189	5,110	5,223	5,327
Environmental And Regulatory Services	14,202	13,620	13,911	14,184
Planning and development services	4,510	4,228	4,293	4,362
Central Services	7,031	6,603	6,749	6,884
Total Service Position	292,367	268,933	270,506	272,607
Non-Service Expenditure	71,972	80,639	82,292	82,316
Interest and investment income	456	633	667	691
Grants	180,617	174,070	172,285	171,424
Revenue Support Grant	10,413	10,413	10,413	10,413
Retained income from Rate Retention Scheme	52,717	48,763	52,420	56,109
Collection fund surplus/deficits for council tax	662	662	662	662
Council Tax	83,311	76,285	80,863	83,234
Unachieved Savings	-4,072	0	0	0
Government COVID Funding	27,903	0	0	0
Appropriations from Reserves	2,727	0	0	0
Financial Challenge	9,606	38,746	35,487	32,389
Peterborough City Council MTFS Position	10,986	35,668	36,614	38,584

Source: EY Financial Resilience Model

As displayed in the table to the left, under Scenario 1 significant pressures exist across both the service expenditure position and funding position, which would result in a financial challenge of £106.6m compared with the position of £110.9m presented in the MTFS. This differences is driven by our modelling assumptions assuming that pressures on service expenditure and funding will be somewhat eased by the forecast economic recovery from 2021 onwards, helping reduce pressures felt in 2021/22 in future years.

Fig. 7 - Scenario 1 - MTFP Impact



Source: Peterborough City Council Medium Term Financial Strategy 2021/22 to 2023/24 -Phase 1
Source: EY Financial Resilience Model

Medium-Term Financial Strategy

Scenario 2

A sharper recession during 2020/21, with economic recovery occurring thereafter.

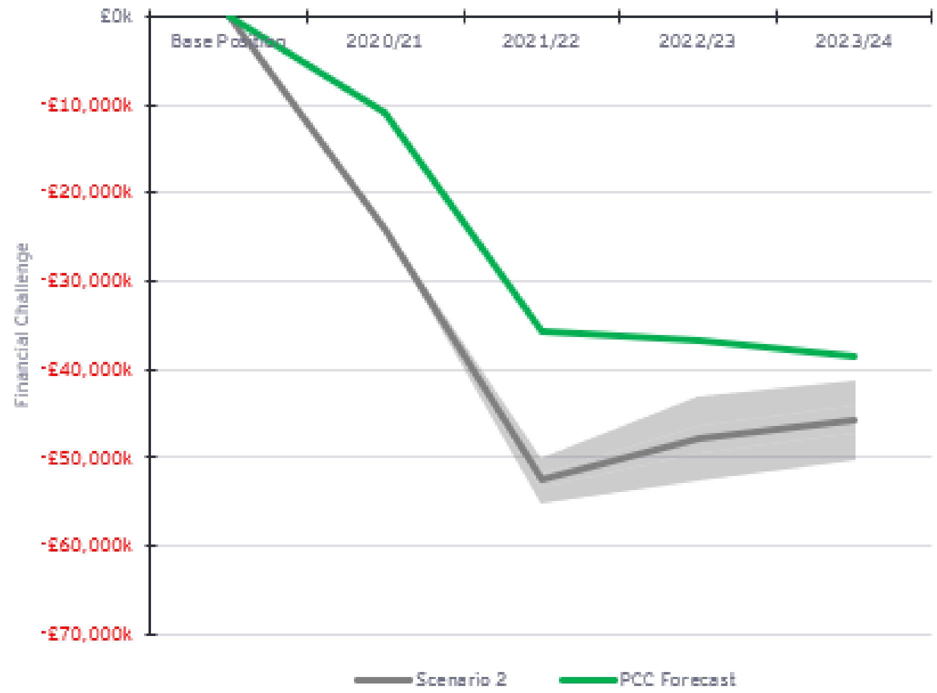
The forecast position in Scenario 2 is for a reduction in GVA of 15% during 2020, with unemployment reaching 10%. This sharper recession has a larger impact on Council finances resulting in a larger funding gap over the medium term. Within this scenario it is forecast that the economy will recover during 2021 and 2022. This scenario includes further lockdown restrictions being implemented in the final quarter of the 2020/21 financial year.

		MTFS Period		
Funding Model	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Education Services	111,722	110,159	110,159	110,159
Highways and transport services	7,703	6,594	6,725	6,860
Children's Social Care	52,400	49,411	50,399	51,407
Adult Social Care	74,867	58,692	58,491	58,712
Public Health	13,818	12,042	11,831	11,782
Housing services (GFRA only)	12,011	8,938	9,098	9,261
Cultural and related services	7,299	5,191	5,295	5,401
Environmental And Regulatory Services	14,680	13,845	14,115	14,393
Planning and development services	4,769	4,459	4,524	4,599
Central Services	7,380	6,796	6,932	7,071
Total Service Position	**306,648**	**276,126**	**277,568**	**279,644**
Non-Service Expenditure	**71,972**	**80,639**	**82,292**	**82,316**
Interest and investment income	270	398	419	435
Grants	180,617	172,670	170,166	168,847
Revenue Support Grant	10,413	10,413	10,413	10,413
Retained income from Rate Retention Scheme	52,717	48,763	52,420	55,959
Collection fund surplus/deficits for council tax	662	662	662	662
Council Tax	83,311	71,301	77,886	79,931
Unachieved Savings	-4,072	0	0	0
Government COVID Funding	27,903	0	0	0
Appropriations from Reserves	2,727	0	0	0
Financial Challenge	**24,072**	**52,559**	**47,893**	**45,713**
Peterborough City Council MTFS Position	**10,986**	**35,668**	**36,614**	**38,584**

Source: EY Financial Resilience Model

Under Scenario 2, the impact of a more severe recession, is that both service expenditure and reduced funding will place heightened pressure on the Council's financial resilience over the MTFS period. In particular it is forecast that significant pressure could be placed on the Council Tax base, with rising unemployment resulting in increased demand for Council Tax Support schemes, and increasing bad debt for the tax. Nevertheless it is forecast that this position will begin to recover as the economic environment improves, resulting in the financial challenge reducing over the final two financial years of the MTFS.

Fig. 8 - Scenario 2 - MTFP Impact



Source: Peterborough City Council Medium Term Financial Strategy 2021/22 to 2023/24 -Phase 1
Source: EY Financial Resilience Model

Medium-Term Financial Strategy

Scenario 3

A more protracted recession, with economic recovery not occurring till 2022.

The forecast position in Scenario 3 is for a reduction in GVA of 12% and 6% in 2020 and 2021 respectively. Within this scenario it is forecast that unemployment and Net Government Borrowing remain above current levels until 2024, both having negative impacts on the Council's funding position. This scenario includes further lockdown restrictions being implemented in the final quarter of the 2020/21 financial year.

		MTFS Period		
Funding Model	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Education Services	111,722	110,159	110,159	110,159
Highways and transport services	7,703	6,540	6,670	6,804
Children's Social Care	52,400	49,044	50,025	51,026
Adult Social Care	73,811	64,242	63,431	63,389
Public Health	13,456	13,723	13,313	13,252
Housing services (GFRA only)	11,998	8,858	9,010	9,152
Cultural and related services	7,299	5,154	5,257	5,362
Environmental And Regulatory Services	14,673	13,760	14,026	14,302
Planning and development services	4,743	4,484	4,541	4,618
Central Services	7,380	6,744	6,879	7,017
Total Service Position	111,722	110,159	110,159	110,159
Non-Service Expenditure	7,703	6,540	6,670	6,804
Interest and investment income	295	386	413	428
Grants	180,617	174,024	170,196	168,877
Revenue Support Grant	10,413	10,413	10,413	10,413
Retained income from Rate Retention Scheme	52,717	48,763	45,721	49,150
Collection fund surplus/deficits for council tax	662	662	662	662
Council Tax	83,311	71,926	75,764	78,036
Unachieved Savings	-4,072	0	0	0
Government COVID Funding	27,903	0	0	0
Appropriations from Reserves	2,727	0	0	0
Financial Challenge	**22,583**	**57,173**	**62,434**	**59,829**
Peterborough City Council MTFS Position	**10,986**	**35,668**	**36,614**	**38,584**

Source: EY Financial Resilience Model

Under the conditions of Scenario 3, it is forecast that the Council will face an increasingly tough financial environment in the first two financial years of the MTFS, with the economic environment meaning that Business Rate and Council Tax receipts may not return to 2020/21 levels across the whole MTFS period. This pressure on the Councils funding base, is forecast to result in a significantly higher financial challenge than currently forecast by Peterborough, with a total challenge of £179.4m forecast over the MTFS period.

Fig. 9 - Scenario 3 - MTFP Impact

Source: Peterborough City Council Medium Term Financial Strategy 2021/22 to 2023/24 -Phase 1
Source: EY Financial Resilience Model

Phase 2 – Response to Financial Resilience Concerns

Overview

Whilst Peterborough City Council exhibit good practice in the development, design and governance of saving proposals, the current size of the budget gap and consequent savings target, results in there being a significant risk to achievability within the 2021/22 financial year. The current size of the budget gap results in the Council being placed under considerable pressure to deliver savings targets that represent significant portions of service expenditure budgets within the 2021/22 financial year. The scale of these savings targets and the short lead time available to the Council in developing appropriate proposals, therefore place a significant risk to the achievability of balancing the budget in the next financial year.

Savings Plan – Design Review

The current design of Peterborough City Council's savings plan, does not signal any significant risk that should hinder the Councils response to financial resilience concerns. Within the current timeframe of finalising the 2021/22 budget, it is viewed that Peterborough City Council exhibit good practice in the development of key documentation associated with the proposed savings plan. Furthermore, there were no concerns raised based on the current directorate or thematic allocation of savings proposals.

Risk Area	Risk Rating
Key Documentation	
Directorate Allocation	
Thematic Review	
Overall Assessment	

Savings Plan – Governance Review

Our review of governance processes found that the Council have robust and comprehensive processes in place for developing, monitoring and reporting against savings proposals. The Council demonstrated that such processes have the appropriate level of political and strategic oversight, and demonstrated that delivery against savings plans forms part of the regular monitoring and reporting cycle.

Risk Area	Risk Rating
Savings Plan Development	
Savings Plan Monitoring Process	
Savings Plan Reporting Process	
Overall Assessment	

Savings Plan – Achievability Review

Our achievability review, however, found that there is a significant risk to the achievability of the savings plan based on the size of the current budget gap. The Council are currently facing a recurring budget gap that reflects on average 19% of the directorate budget position, the size of this gap places significant pressure on the Council to deliver large-savings proposals, which may not be achievable in the short time frames currently available to the Council. Based on both the size of directorate budgets and performance against previous savings plans, this places significant pressure on the Council's financial resilience

Risk Area	Risk Rating
Scale of Current Plan	
Review of Past Performance – Delivery of Savings Plan	
Review of Past Performance – Outturn Performance	
Overall Assessment	

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Savings Plan - Achievability

Key Findings

- The achievability of the Peterborough City Council's savings plan is a significant risk to the Councils response to financial resilience.
- Predominately this risk sits with the scale of the current budget gap, with the Council facing a recurring budget gap that reflects on average 19% of the directorate budget position.
- Whist the Council have delivered at least £15m worth of savings in each of the last four financial years, the current budget gap represents a significant step-up in scale, thus representing a significant achievability risk to the Council.
- Further pressures within the People & Communities directorate could further risk the achievability of the current plan, with significant savings required from this area.

Risk Assessment

Risk Area	Risk Rating
Scale of Current Plan	
Review of Past Performance - Delivery of Savings Plan	
Review of Past Performance - Outturn Performance	
Overall Assessment	

Key

High Risk -

Medium Risk -

Low Risk -

Section 1: Scale of Current Plan

Peterborough City Council are currently forecasting a budget gap of £110.8m over the MTFS period. Currently with uncertainty remaining around future Central Government support, this amount would result in significant savings having to be made across Council services, with the current budget gap representing 19.0% of the budget requirement for the MTFS period.

Figure 11: Peterborough City Council's Estimated Budget Gap

Financial Year	Budget Gap £'000	Budget Requirement £'000	Portion of Budget Requirement (%)
2021/22	35,668	190,112	18.8%
2022/23	36,614	194,481	19.3%
2023/24	38,584	199,221	20.3%
Total	110,866	583,814	19.0%

The current budget gap therefore reflects a significant portion of service expenditure budgets and without further Government support would result in significant cuts being required to service expenditure budgets. This means that the scale of the Councils savings plan will need to be significantly larger compared with previous years, and will require large scale transformation to close the budget gap.

The scale of the budget gap therefore presents a significant challenge to the Council, as it will require substantial reductions in current service budgets. The timing of the challenge may also present a challenge for Peterborough, as corporate capacity is likely to be stretched as the Council continues to respond to the impact of the Covid-19 pandemic.

Risk Rating

Red

- The scale of the current budget gap poses a significant challenge for the Council to deliver an achievable savings programme. The size of the budget gap represents a substantial portion of service budgets, requiring large scale transformation to achieve in a short time period.

Contents

Public Sector Audit Appointments Ltd (PSAA) have issued a ‘Statement of responsibilities of auditors and audited bodies’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This 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 (updated April 2018)’ issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

01 Executive Summary

Executive Summary

Status of the audit

We have substantially completed our audit of the Peterborough City Council financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit Plan.

The outstanding work at the date of this report is:

- Whole of Government Accounts procedures;
- Review of the final signed version of the financial statements;
- Completion of subsequent events review; and
- Receipt of the signed management representation letter; and
- Final quality review processes.

Subject to satisfactory completion of the following outstanding items above, we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears from slide five in this report. Our audit opinion will include material uncertainty on the following matter:

- Going concern – the Authority's assessment and disclosure about Going Concern in light of the Covid-19 pandemic and its ability to continue to provide the same and current level of service provision in 2020/21 and beyond.

We expect to issue the audit certificate after we issue the audit opinion, once the WGA submission has been completed. We are satisfied that the WGA work does not have a material effect on the financial statements or on our value for money conclusion.

Executive Summary

Scope update

In our Audit Plan dated 9 March 2020, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We also provided a verbal update to the committee on 13 July 2020. We carried out our audit in accordance with this plan, with the following exceptions:

- Changes to reporting timescales – As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to the publication date for approved financial statements from 31 July to 30 November 2020 for all relevant authorities.
- Changes to our risk assessment as a result of Covid-19:
  - Valuation of Non-DRC PPE assets & Investment Property - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment. We therefore increased our inherent risk on valuation of Non-DRC PPE assets & Investment Property to significant, for more detail see Section 2 of this report.
  - Disclosures on Going Concern – Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Local Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Authority's actual year end financial position and performance. See Section 2 of this report for further details.
  - Events after the balance sheet date – We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Authority.
  - Adoption of IFRS16 – The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. We therefore no longer consider this to be an area of audit focus for 2019/20.
- Accounting for PFI Liabilities – We did not include this risk in our audit plan dated 9 March 2020 and, although we recognise that the Authority's PFI liabilities have not changed, given the size and complexity of the balances we have determined that this should be increased to an area of audit focus – inherent risk.
- Change in materiality – We have considered whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Plan remain appropriate.

  We updated our planning materiality assessment using the 2019/20 draft statement of accounts. Based on our materiality measure of 1% of gross expenditure on the provision of services, we have updated our overall materiality assessment to £4.9 million (Audit Plan – £5.2 million). This results in updated performance materiality, at 75% of our overall planning materiality, of £3.7 million, and an updated threshold for reporting misstatements of £0.246 million (5% of Planning Materiality).

  The performance materiality assigned for the group entity is £0.739 million.
- Information Produced by the Entity (IPE) – We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:
  - Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
  - Agree IPE to scanned documents or other system screenshots.

As previously disclosed, additional risks have resulted in additional audit fees which have been agreed with the Deputy S151 officer and currently with PSAA for approval.

Executive Summary

Scope update (continued)

In our executive summary update to the Audit Committee on 25 January 2021 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 31st March 2020 and we questioned how the loan could be classified as short-term as at 31st March 2020 given it has been in place now for nearly six years. The Director of Corporate Resources covering report to the 25 January 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 Authority'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 Authority, 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 Authority, 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.

On 11 March 2021 the Empower team informed the Authority they were unable to make the full repayment of the last quarter's loan instalment (as per the terms of the unsigned long-term loan agreement) and requested the loan be reprofiled to accommodate this shortfall. Empower negotiated a bank overdraft, however the proposed overdraft facility would have given the bank first security in precedence over the Authority's existing security which was considered unacceptable by the Authority.

The Authority sought advice from its advisors Deloitte and Pinsent Mason and concluded, in order to protect its interests, it was left in no option but to serve notice of repayment for the loan. The loan was not repaid at the expiry of the notice period and Teneo Restructuring Ltd were appointed jointly by the Authority and ECSP1 to provide insolvency advice. Deloitte assessed the Fair Value (as per IFRS 13) of ECSP1 to fall within a range of £14.5 million to £16.4 million, with a mid-point of £15.4 million, as at 31 March 2020. Whilst this is a fair commercial assessment based on market conditions as at 31 March 2020, the Authority considered advice from their treasury advisor Link and utilised a report from Teneo Restructuring Ltd which considered various options, recommending one which will maximise the return to the Authority. This considers the value of the loan calculated from the underlying Net Present Value (NPV) of the forecast cash flows at the Authority's weighted average cost of capital of 2.1%. This is because the Authority's recommendation to Cabinet is to bring the operation in-house and therefore is a more appropriate approach for estimating the carrying value of the loan at 31 March 2020. This value has been calculated by Deloitte at £20.400 million.

We engaged our Strategies and Transaction Team within EY to confirm that the financial model used by Deloitte to calculate the loan value is reasonable and with our Technical Specialist to ensure that the expected credit loss (impairment) of the loan meets the criteria of the Code of Practice. We have confirmed that the financial model used by Deloitte is reasonable. We had concerns around the use of the Authority's weighted average cost of capital in calculating the expected credit loss. The expected credit loss (impairment) should be considered at the current effective interest rate of the loan. We have determined that the appropriate effective interest rate to use is that of the re-negotiated loan agreement with Empower, as this is a more representative interest rate of the loan before the Authority has determined whether to take the assets back in-house. The interest rate from the re-negotiated loan agreed is 2.5% and our calculation of the value of the loan at this rate is £19.795 million. This represents an immaterial difference of £0.605 million with the Authority valuation.

The Authority has amended the loan in the statement of accounts to £20.400 million, recognised an impairment of £2.646 million and moved the loan from short-term to long-term debtors. The Authority has also recognised this as an adjusting post balance sheet event and have included updated disclosure on this item in the statements of accounts. We note the adjusting event occurred after the preparation of the statement of accounts and until March 2021 the Authority has received all interest payments from Empower.

We have included the issue in our unadjusted and adjusted audit differences sections in Section 3 of this report.

Executive Summary

Audit differences

Unadjusted differences

We have identified four unadjusted audit differences arising from our audit, please see Section 3 – Audit Differences. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and provided within the Letter of Representation.

Adjusted differences

During the audit we have identified audit adjustments in relation to property, plant and equipment, the Empower loan and some disclosure audit amendments in the draft financial statements which management has chosen to adjust. Further details can be found in Section 3 - Audit Differences.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. The Annual Governance Statement has been updated to reflect the impact of the Covid-19 pandemic on the Authority's arrangements. We have no matters to report as a result of this work.

We have not yet concluded the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

At the date of this report, we consider that the Authority has taken all the appropriate steps to openly disclose and report its financial resilience concerns to MHCLG, taxpayers and other key external stakeholders. This applies to the conditions existing before Covid-19 when the Authority did seek and get approval for a capitalisation direction, and the unprecedented factors which exacerbated its financial concerns post Covid-19. We are keeping this area under review as we conclude our audit procedures on going concern and Value for Money arrangements. For further detail please refer to Section 4 of the report.

We have no other matters to report.

Executive Summary

Areas of audit focus

Our audit plan identified key areas of focus for our audit of the Authority's financial statements. As outlined on page 6, we have since identified a further significant risk. In total we have identified five significant risks and five areas of audit focus. We summarise below our latest findings.

Significant risk	Provisional findings & conclusions, subject to the final completion of our quality review procedures.
Misstatements due to fraud or error – the incorrect capitalisation of revenue expenditure and REFCUS	We have completed our testing and found no indications that revenue expenditure and REFCUS have been inappropriately charged to capital.
Misstatements due to fraud or error – the incorrect application of MRP accounting	We have completed our review of the Authority's MRP disclosures and figures in the financial statement and are satisfied that the MRP accounting is appropriate. There are some implications for MRP as a result of the Empower loan impairment but these will relate to 2020/21 and we will cover as part of that audit period.
Misstatements due to fraud or error – inappropriate use of capital receipts	We have completed our testing and found that for the sample of capital grants we reviewed, they were correctly applied.
Valuation of property, plant and equipment assets under depreciated replacement cost (DRC) model	We have completed our procedures including review of a sample of valuations by our EY Real Estates specialist. Our EY Real Estates team did not identify any material issues with the underlying assumptions used to value to DRC assets. However, they did identify some issues with some of the valuer's methodology which we have shared with management.
Valuation of non-DRC property, plant and equipment assets and investment properties	We have completed our procedures including review of a sample of valuations by our EY Real Estates specialist. Our EY Real Estates team did not identify any material issues with the underlying assumptions used to value to non-DRC assets. However, they did identify some issues with some of the valuer's methodology which we have shared with management.

Areas of audit focus (continued)

Our audit plan identified key areas of focus for our audit of the Authority's financial statements. As outlined on page 5, we have since identified a further area of audit focus. In total we have identified five significant risks and five areas of audit focus. We summarise below our latest findings.

Area of audit focus	Provisional findings & conclusions, subject to the final completion of our quality review procedures
Pension Liability Valuation & Pensions Assets	We have completed our audit procedures and have identified an unadjusted audit difference in relation to pension fund investment value, please see Section 3.
Recoverability of NHS Accounts Receivable Balances	We have performed our audit procedures in relation to the recoverability of NHS accounts receivable balances and have not identified any audit findings.
Group Accounting and the scope of the group audit	We have performed our audit procedures in relation to the group accounting and the scope of the group audit and have not identified any audit findings.
PFI accounting	We have completed our procedures including review the consistency of the accounting models with the financial statements and have no issues to report.
Implementation of new auditing and accounting standards	Leases (IFRS 16) – The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2022. Going Concern (ISA 570) – We have worked with the Authority to update their going concern and events after the balance sheet date disclosures in light of the Covid-19 pandemic, see detailed findings in Section 2 for further information.

This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We report our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section of this report. We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues; and
- You agree with the resolution of the issues; and there are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to your attention.

Executive Summary

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our audit plan we identified a significant risk relating to the challenges facing the Authority to address longer term financial resilience issues. Whilst these challenges are similar to other authorities, the scale appears more significant for Peterborough with the Authority identifying large gaps in future funding requirements. The financial resilience risk we identified impacted two aspects of the value for money arrangements - taking informed decisions and deploying resources in a sustainable manner.

We have included in Section 4 the detailed work we have performed in response to this risk.

As a result of the procedures performed we will be modifying our value for money conclusion and issuing an adverse opinion. This is to recognise that the structural financial resilience pressures and concerns facing the Authority before and after the Covid-19 pandemic have a significant and pervasive impact on the Authority's ability to secure adequate arrangements for Value for Money in its use of resources.

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Independence

Please refer to Section 8 for our update on Independence. There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Correspondence from the Public

We did not receive any formal objections and correspondence from members of the public.

Control observations

We have adopted a fully substantive audit approach, so have not tested the operation of controls.

We have identified one other control finding which we would like to bring to your attention, please see Section 6 of this report for further information.

02 Areas of Audit Focus

Areas of Audit Focus

Fraud risk - misstatements due to fraud or error

What is the risk?

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.

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What did we do?

We have completed our standard procedures to address the fraud risk, which included:

- Identifying fraud risks during the planning stages.
- Inquiring 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.
- Considering 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;
    - Reviewing accounting estimates for evidence of management bias; and
    - Evaluating the business rationale for significant unusual transactions.

What are our conclusions?

Our mandatory procedures did not identify any instances of management override.

As reported in our Audit Plan, our work to identify fraud risks during the planning stages identified those areas of the accounts that involve management estimates and judgements as the key areas at risk of manipulation. The identified areas were:

- the incorrect capitalisation of revenue expenditure and REFCUS.
- the incorrect application of MRP accounting.
- inappropriate use of capital receipts.

The results of our work on these specific risks are set out on the following three pages.

Significant risk

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

Significant Risk

What is the risk?

The Authority is under 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 charged to the comprehensive income and expenditure account.

In 2019/20 the Authority has incurred £64.0 million capital expenditure (of which REFCUS represented £19.0 million).

What judgements are we focused on?

We have identified a risk of expenditure misstatement 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.

What did we do?

Our approach focused on:

- Sample testing additions to property, plant and equipment to ensure that they had been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised;
- Sample testing REFCUS transactions to ensure they had been correctly classified and the expenditure met the definition of allowable expenditure, or was incurred under direction from the secretary of state; and
- Using our data analytics tool to identify and test journal entries that moved expenditure into capital codes.

What are our conclusions?

Our mandatory procedures did not identify any instances of incorrect capitalisation of revenue expenditure.

- Our sample testing of additions to property, plant and equipment found that they had been correctly classified as capital and included at the correct value.
- Our sample testing of additions to property, plant and equipment did not identify any revenue items that were incorrectly classified.
- Our sample testing of REFCUS transactions found that they had been correctly classified and the expenditure met the definition of allowable expenditure, or was incurred under direction from the secretary of state.
- Our data analytical procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.

Significant risk

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

Significant Risk

What is the risk?

The Authority 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 Authority 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 the last 18 months, the Authority'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 judgements are we focused on?

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.

What did we do?

Our approach focused on:

- 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 Authority's MRP policy and disclosure (if required).

What are our conclusions?

Our mandatory procedures did not identify any issues with the application of the MRP accounting.

- Our testing confirmed that the MRP calculation met the statutory guidance.
- Our re-performance of the MRP calculation did not identify any material misstatements although we did identify some trivial adjustments which would need to be applied in future periods to ensure a cumulative material error does to arise.
- Our review of the MRP policy and disclosure did not identify any material audit issues.
- There are some implications for MRP as a result of the Empower loan impairment but these will relate to 2020/21 and we will cover as part of that audit period.

Significant risk

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

Significant Risk

What is the risk?

The Authority 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.

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What judgements are we focused on?

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).

What did we do?

Our approach focused 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.

What are our conclusions?

Our mandatory procedures did not identify any instances of inappropriate use of capital receipts.

- Our sample testing of the application of capital receipts confirmed that they met the correct definition of funding sources.
- Our sample testing of deferred capital receipts found that conditions had been correctly applied.
- Our data analytical procedures performed to identify and test journal entries adjustments that impact capital receipts did not identify any issues.

Significant risk

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

Significant Risk

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What is the risk?

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

Material judgemental inputs and estimation techniques are required to calculate the 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 Authority's DRC asset base is significant (£266 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 significant accounting estimates.

What judgements are we focused on?

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 property, plant and equipment using the depreciated replacement cost method in the balance sheet.

What did we do?

Our approach focused on:

- The adequacy of the scope of the work performed by the Authority's valuer, their professional capabilities and the results of their work;
- Sample testing key judgements used by the valuer in performing their DRC valuations;
- The use of EY valuation specialists to review a sample of the underlying assumptions used to value any material specialist DRC assets;
- Review of DRC assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- Consideration of useful economic lives in the most recent valuation; and
- Testing that accounting entries had been correctly processed in the financial statements.

What are our conclusions?

Our consideration of the work performed by the Authority's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work did not identify any issues.

Our EY Real Estates team did not identify any material issues with the underlying assumptions used to value to DRC assets. However, they did identify some issues with some of the valuer's methodology which we have shared with management.

Our review of DRC assets not subject to valuation in 2019/20 confirmed that the remaining asset base was not materially misstated.

Our consideration of the useful economic lives in the most recent valuation did not identify any issues.

Accounting entries had been correctly disclosed in the financial statements.

Note we have identified some audit adjustments in relation to property, plant and equipment. See Section 3 for further details.

Significant risk

Valuation of Non-DRC PPE assets & Investment Property

Significant Risk

What is the risk?

As reported in Section 1 of this report – The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment. We therefore increased our inherent risk on valuation of Non-DRC PPE assets & Investment Property to significant.

As the Authority's non-DRC and investment property asset base is significant (£119 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 judgements are we focused on?

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 non-DRC property, plant and equipment assets and investment properties in the balance sheet.

What did we do?

Our approach focused on:

- The adequacy of the scope of the work performed by the Authority's valuer, their professional capabilities and the results of their work;
- Sample testing key judgements used by the valuer in performing their existing use and market valuations;
- The use of EY valuation specialists to review a sample of the underlying assumptions used to value any material non-DRC and investment property asset categories;
- Review of non-DRC assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- Consideration of useful economic lives in the most recent valuation; and
- Testing that accounting entries had been correctly processed in the financial statements.

What are our conclusions?

Our consideration of the work performed by the Authority's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work did not identify any issues.

Our EY Real Estates team did not identify any material issues with the underlying assumptions used to value to non-DRC assets. However, they did identify some issues with some of the valuer's methodology which we have shared with management.

Our review of non-DRC assets not subject to valuation in 2019/20 confirmed that the remaining asset base was not materially misstated.

Our consideration of the useful economic lives in the most recent valuation did not identify any issues.

Accounting entries had been correctly disclosed in the financial statements.

Note we have identified some audit adjustments in relation to property, plant and equipment. See Section 3 for further details.

Areas of Audit Focus

Other Areas of Audit Focus – PFI accounting

Our audit testing confirmed that there were no audit issues in the calculation of the PFI annual payments or the liability held in the balance sheet.

We have confirmed that the figures in the accounting models are consistent with the disclosures in the financial statements.

The Authority 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 2019/20 the Authority reported future PFI repayments totalling £163.0 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.

Our approach focused on:

- Making 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
- Agreeing the figures in the PFI accounting models to the entries and disclosures in the financial statements.

Other Areas of Audit Focus – Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Cambridgeshire County Council. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2020 this totalled £221 million (£322 million at 31 March 2019).

The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to Cambridgeshire County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.
Our approach has focused on:

- Liaising with the auditors of Cambridgeshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to Peterborough City Council;
- Assessing 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 NAO for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- Reviewing and testing the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

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As part of the audit of the pensions disclosures, in addition to our standard procedures to gain assurance over pension disclosures in the accounts, we have considered the key issues impacting on the reported position of Peterborough City Council. These are:

- movement in fair value of fund assets between the date of the actuary's estimate and year end
- Impact of the McCloud judgement
- Impact of the Goodwin judgement

At the time of our draft Audit Results Report, we were still waiting for assurance from the pension fund auditor. Our findings to-date on each of these items are set out below.

Areas of Audit Focus

Other Areas of Audit Focus - Pension Liability Valuation (continued)

Pensions area	What we did	What we have concluded
IAS 19 assurances	To obtain assurance over the pension fund disclosures, we: • Liaised with the auditors of Cambridgeshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to Peterborough City Council; • Assessed 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 NAO for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and • Reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.	No issues have been identified with our audit procedures performed.
Fair value of fund assets	The Authority receives an annual IAS 19 schedule of results report that contains the valuation of the fair value of assets for the Pension Fund as a whole. We receive assurances from the Pension Fund auditor that these values are materially stated.	We were informed by the Pension Fund auditor that the Peterborough City Council pension fund investment assets are understated by £2.56 million. The Authority has decided not to adjust for this difference. See Section 3 for further information.

Other areas of audit focus

We identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

Pensions area	What we did	What we have concluded
McCloud	Last year, the government's appeal in relation to the age discrimination present in public sector schemes was ruled against in the High Court. Consequently, some members of the schemes need to be compensated with higher benefits. Some schemes (including Peterborough City Council) made an allowance for this impact as past service cost in their accounts last year. Due to no guidance being provided in how members would be compensated, the adjustment made was an estimate based on papers produced by the Government Actuary's Department covering the McCloud impact. On 21 July 2020, a consultation document was released which provided further details on how benefits would be changed to remove the age discrimination. The adjustment for Peterborough City Council related to the McCloud judgement in 2018/19 was £1.3 million. This was reflected in an increased past service cost and results in an increased defined benefit obligation for the Authority. We have engaged EY Pensions Advisory team to understand the impact of the July consultation on IAS 19 report run by the Authority's actuary – Hymans Robertson. EY Pensions Advisory confirmed that the approach taken by Hymans Robertson was reasonable, but asked local teams to confirm that the amount allocated for McCloud is not material and that the proportion of deferred and pensioner members impacted to support the fact that no allowance has been made for these in the calculation. The Authority received an updated IAS 19 report which showed the impact of the consultation was £0.129 million and therefore immaterial.	The revised IAS 19 report showed a trivial movement (£0.129 million) as a result of the McCloud consultation. The Authority has decided not to adjust for this difference. See Section 3 for further information.

Other areas of audit focus

We identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

Pensions area	What we did	What we have concluded
Goodwin	A recent employment tribunal case for the Teachers' Pension Scheme, "Mrs Goodwin v Department for Education" concluded that a female member in an opposite sex marriage is treated less favourably than a female in a same sex marriage or civil partnership, and that that treatment amounts to direct discrimination on grounds of sexual orientation. The ruling will impact LGPS schemes members falling under the following categories: • Impacts male spouse survivor of a female scheme member, whose entitlement to the survivor pension arose on or after 5 December 2005, • Impacts females members who have accrued service from 5 April 1978 and before 5 April 1988. • This includes the following population: • Current male dependants • Future male dependants We engaged EY Pensions Advisory team to understand the impact of the Goodwin case on the IAS 19 report. EY Pensions Advisory asked audit teams to confirm whether an allowance been made for Goodwin and how has this been deemed as not material. We have performed our additional procedures and have confirmed the current impact is not material.	There were no issues to note in relation to the Goodwin ruling in relation to the Authority for 2019/20.

Areas of Audit Focus

Other Areas of Audit Focus - Recoverability of NHS Accounts Receivable Balances

Our audit testing did not identify any issues with the recoverability of the NHS accounts receivable balances.

The Authority has a significant accounts receivable (debtor) balance. As at 31 March 2019 the balance was £53.6 million. We are aware that a significant amount of the balance relates to one NHS debtor of £11 million. The Authority is working closely with NHS bodies on the recoverability of the debtor. There is a risk that the Authority may not receive the payments from their NHS suppliers.

Given that there might be some subjectivity to the recoverability of these debtors the Authority will need to consider the level of any provision for bad debts. We have therefore raised as an inherent risk in our audit strategy.

Our approach focused on:

- Corroborating the relevant NHS debtor balances and ensure that the amounts consistent with confirmations received directly from the NHS bodies (third party information); and
- Testing any NHS bad debt provisions or NHS debtor write-offs to ensure that these are calculated in line with IAS 37.

Other Areas of Audit Focus - Group Accounting

Our audit testing did not identify any issues with the group accounts or the group scoping.

In July 2018 the Authority incorporated Live Peterborough Limited, a local authority trading company (LATCo), with the Authority as the sole owner. Activity has increased in the company in 2019/20 to a level that is considered material. This will require the Authority to prepare group accounts.

We identify this as an inherent risk as the Authority has not prepared group accounts in the past and this can be a complex area of accounting.

Our approach focused on:

- Reviewing the group assessment prepared by the Authority, ensuring that the accounting framework and accounting policies are aligned to the Peterborough City Council group;
- Scoping the audit requirements for Live Peterborough Limited based on their significance to the group accounts. Liaising with the EY external auditor of Live Peterborough Limited and issuing group instructions that detailed the required audit procedures they were to undertake in order to provide us with assurance for the opinion we will issue on the group accounts;
- Ensuring the appropriate consolidation procedures and the Code of Practice are applied when preparing the Authority's group accounts.

Areas of Audit Focus

Other Areas of Audit Focus – Implementation of new auditing and accounting standards

Standard	Audit Findings
IFRS 16 Leases: Implementation of IFRS 16 will be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. This Code has yet to published, but in November 2020 CIPFA/LASAAC issued 'IFRS 16 leases and early guide for practitioners'. There will be some disclosure requirements for the 2019/20 statement of accounts.	The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2022. We no longer consider this to be an area of audit focus for 2019/20. The Authority should continue their preparation for the implementation of IFRS 16.
Going Concern Compliance with ISA 570: This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Authority will be the audit of the 2020/21 financial statements.	Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Authority's actual year end financial position and performance. We discussed the Authority's going concern assessment with management and reviewed the adequacy and the robustness of the assessment, including the assumptions supporting budget, financial planning and cashflow forecasts for at least the next 12 months from the proposed date of the auditors report (e.g. from the end of November 2020 to end of November 2021). We have reviewed and at the date of this report, reached agreement on the addition of the updates to the going concern disclosure note which has been added to the financial statements. We have concluded our internal consultation procedures setting out our assessment of the Authority's going disclosure note and the impact on our audit report. See the following slide for further information.

Areas of Audit Focus

Going concern disclosure

There is a presumption that the Authority will continue as a going concern. However, the current and future uncertainty over government funding and other sources of Authority revenue as a result of Covid-19, increases the need for the Authority to undertake a detailed going concern assessment to support its assertion and to make appropriate disclosures in its accounts. From an audit perspective, the auditor's report considers the going concern concept as a 12-month outlook from the audit opinion date, rather than the balance sheet date.

Findings and conclusions

Officers have carried out an assessment of the impact of Covid-19 on the Authority's income, expenditure, balances and reserves to inform reporting to the Audit Committee and other members. These assessments have been used to enhance the disclosure in the financial statements around the going concern assertion.

We have reviewed the assessment, focusing on the reasonableness of the financial impact assessment, cash flow and liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions, including around reductions in fees and charges. We have also considered the adequacy of the revised disclosure note and its consistency with the going concern assessment and our audit procedures.

At the time of our audit procedures the Authority was forecasting £37.9 million of additional cost pressures as a result of Covid-19. This is broken down as additional expenditure of £26.0 million, income losses of £7.3 million and non-delivery of 2020/21 cost savings of £4.6 million. This is reduced after applying £39.8 million of grant funding from Central Government and the Cambridgeshire and Peterborough Clinical Commissioning Group. The level of general fund reserves as at 31 March 2020 is £6.0 million which is the minimum level required by the CFO. The Authority has indicated that it may need to consider using reserves in the short-medium term to mitigate any further impact of Covid-19 on costs.

The Authority has £30.7 million of other usable reserves, however only £6.7 million of this balance is uncommitted.

In August 2020 the Authority forecast an overspend of £11.3 million for the 2020/21 financial period. As a result of this pressure the CFO initiated detailed discussions with the Ministry of Housing, Communities and Local Government (MHCLG) to discuss the Authority's future financial position. This followed the CFO writing to MHCLG on the 1st October 2020 setting out the Authority's financial circumstances and actions required to improve the medium to long term viability of the Authority. These discussions are as advised through the modified guidance issued by CIPFA, that authoritiess under budgetary pressure due to Covid-19 have the time and space to explore alternatives to freezing spending when budgets do not balance. In February 2021 government conditionally confirmed that the Authority would receive capitalisation directions for 2020/21 of £4.8 million, and £20.0 million for 2021/22. This support will enable the Authority to borrow funds to fund revenue expenditure in those years.

The Authority's cash flow modelling through to June 2022 demonstrates that it is able to work within its capital financing requirement. It has cash and short term investment balances of £10.4 million at 31 March 2020 and the ability for additional short term borrowing of up to £62.3 million.

We have reviewed the revised going concern disclosure and are satisfied that it adequately reflects the Authority's assessment and informs the reader of the impact of the Covid-19 pandemic on the Authority's finances. We have now completed our internal consultation with our Professional Practice Directorate on our audit work and assessment of the Authority's going concern disclosure. This has resulted in a material uncertainty in our audit report as the Authority's current financial position casts significant doubt on their ability to continue to provide the current levels of service provision for the next 12 months and beyond.

03 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.

Summary of adjusted differences

We highlight the following misstatements greater than £0.246 million which have been corrected by management that were identified during the course of our audit.

- Property, plant and equipment – Misappropriation between reversal of a previous impairment and downward revaluation of £1.861 million. There is no 2019/20 general fund impact resulting from this audit adjustment.

- Property, plant and equipment – Downward revaluation of £1.122 million required on St Georges School due to errors in the valuers (NPS) working paper. This reduces the non-current asset value in the balance sheet but there is no 2019/20 general fund impact resulting from this audit adjustment.

- Property, plant and equipment – Net downward revaluation of £2.854 million on PPE assets following updated valuations from the valuer (NPS). This reduces the non-current asset value in the balance sheet but there is no 2019/20 general fund impact resulting from this audit adjustment.

- Short-term debtors (Empower loan) – Impairment of the loan of £2.646 million and reclassification from short-term debtors to long-term debtors. This reduces the current asset value in the balance sheet but there is no 2019/20 general fund impact resulting from this audit adjustment.

We have identified several disclosure adjustments during the audit. We have judged that only one of these adjustments warrant flagging to the Audit Committee in this report:

Going Concern – The impact of Covid-19 has substantial implications for the Authority's finances. We therefore had to assess the work performed by the Authority to ensure there was an adequate disclosure, with a supporting assessment, on the Authority's viability and liquidity for the period of at least 12 months from the proposed date of the auditor's report. Our procedures resulted in an additional disclosure in the statement of accounts. See Section 2 for further details on this issue.

Audit Differences

Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and provided within the Letter of Representation:

Uncorrected misstatements 31 March 2020 (£)		Effect on the current period:	Balance Sheet (Decrease)/Increase			
		Comprehensive income and expenditure statement Debit/(Credit)	Assets current Debit/(Credit)	Assets non current Debit/(Credit)	Liabilities non-current Debit/(Credit)	Equity Components Debit/(Credit)
Calculation of the Empower expected credit loss impairment (judgemental)	Credit: Balance Sheet – Long-Term Debtors			(605,000)		
	Debit: CIES – Financing & Investment Income & Expenditure	605,000				
	Debit: Balance Sheet – Capital Adjustment Account					605,000
	Credit: MiRS – Adjustments between accounting basis & funding basis under regulations					(605,000)
Incorrect impairment of £0.867 million has been made to the land element of an asset demolished in 2019/20 (factual)	Debit: Balance Sheet – Property Plant and Equipment			867,481		
	Credit: Balance Sheet – Revaluation Reserve					(367,681)
	Credit: CIES – Net Cost of Services Expenditure	(499,800)				

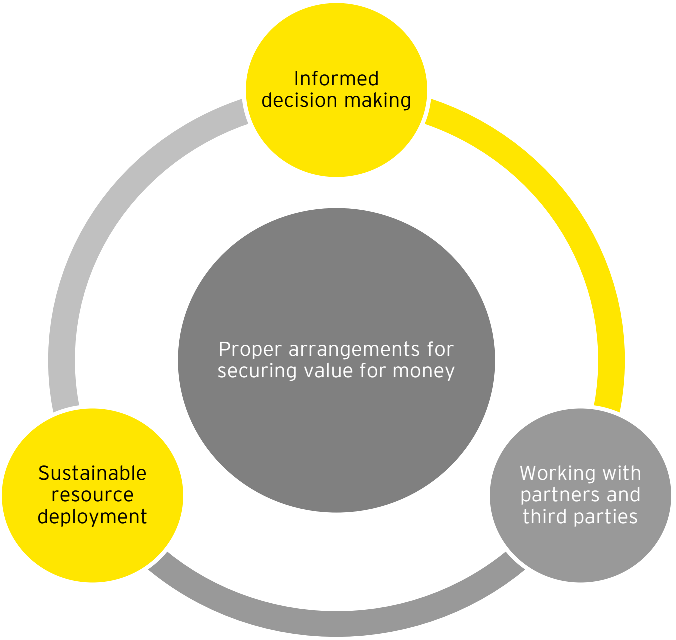
Audit Differences

Summary of unadjusted differences (continued)

Uncorrected misstatements 31 March 2020 (£)		Effect on the current period: Comprehensive income and expenditure statement Debit/(Credit)	Balance Sheet (Decrease)/Increase: Assets current Debit/(Credit)	Assets non current Debit/(Credit)	Liabilities non-current Debit/(Credit)	Equity Components Debit/(Credit)
McCloud Consultation Ruling - Revised IAS 19 Report (judgemental)	Debit: Balance Sheet – Pension Reserve					129,000
	Credit – Balance Sheet – Long Term Creditors (Pension Liability)				(129,000)	
	Debit: CIES – Net Cost of Services Expenditure	129,000				
	Credit: MiRS – Adjustments between accounting basis & funding basis under regulations					(129,000)
IAS 19 - Updated Asset/Investment Figures (judgemental)	Debit: Balance Sheet – Pension Reserve					2,560,000
	Credit – Balance Sheet – Long Term Creditors (Pension Liability)				(2,560,000)	
	Debit: CIES - Actuarial (Gains)/Losses on Pension Asset/Liabilities	2,560,000				
	Credit: MiRS – Adjustments between accounting basis & funding basis under regulations					(2,560,000)
TOTAL		2,794,200	0	262,481	(2,689,000)	(367,681)

04 Value for Money Risks

Value for Money



Background

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2019/20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19.

This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019/20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019/20 VFM arrangements conclusion.

Overall conclusion

We identified one significant risk around these arrangements. The table below presents our findings in response to the risk identified in our Audit Plan as well as any risks identified since then and any other significant weaknesses or issues we want to bring to your attention.

We have concluded our audit procedures on your arrangements to secure economy, efficiency and effectiveness in your use of resources and we will be modifying our value for money conclusion and issuing an adverse opinion. This is to recognise that the structural financial resilience pressures and concerns facing the Authority before and after the Covid-19 pandemic have a significant and pervasive impact on the Authority's ability to secure adequate arrangements for Value for Money in its use of resources.

Value for Money Risk

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report as well as any additional risks identified since then.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
We reported in previous years our views on the financial resilience of the Authority and in particular the scale of the financial challenge it faces. Like most local authorities, the Authority's finances continue to be stretched. There are 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 2022/23 is £30.6 million and this also includes the successful delivery of £26.3 million of savings up to that period and some savings which are still subject to finalisation. It also includes a £10 million capitalisation direction currently with MHCLG for approval. The Chief Financial Officer has expressed concerns on the fragility of the Authority's financial position in the robustness statement presented to 25th February 2020 Cabinet supporting the 2020/2021 budget. In particular, there is a risk the Chief Financial Officer could trigger the production of a Section 114 report if the Authority could not report a balanced budget for 2020/21, where: 1. the Capitalisation Direction approval is not confirmed by 31 March 2020; or 2. realistic transformational plans, for reducing the cost of service delivery required to deliver a balanced and sustainable budget for future years, are not developed, and implementation commenced by July 2020. Whilst the Authority is taking action to identify ways to bridge the gaps, there remains a significant risk to its financial resilience.	• Taking informed decisions; and • Deploying resources in a sustainable manner.	To address this risk, we planned: Phase 1 – Financial Resilience Concerns (March to April 2020): ▸ Robust review of the Authority's Medium Term Financial Strategy and the concerns raised by the Chief Financial Officer, including correspondence with MHCLG on the capitalisation direction application; ▸ Developing an understanding of how the Authority identifies its budget gaps and risk mitigations; ▸ Consideration of exercising our statutory powers at this point (by April 2020) and if appropriate issuing a statutory written recommendation under section 24 (schedule 7) of the Local Audit and Accountability Act 2014. Phase 2 – Authority's Response to Financial Resilience Concerns (April to July 2020): ▸ Developing an understanding of how the Authority quantifies and quality assures its savings plans; ▸ Reviewing the extent to which the Authority 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. See the following slide for details of our audit procedures performed and page 9 to 14 of this report for further analysis.

Value for Money Risk (continued)

What are our findings?

For both phases of the risk we have engaged with our Strategy and Transactions Team to provide specialist support to work with the audit team in reviewing, challenging and exercising appropriate professional scepticism on the Authority's medium-term financial strategy and proposed transformation saving plans.

We prepared a detailed scope of work for phase 1 and 2 and agreed this with officers at the Authority. We have now completed our procedures across both phases.

Phase 1 Conclusion: Our modelling suggests that the Authority's forecasts within the current financial year and over the medium-term financial strategy are both reasonable and appropriate compared with our base-case economic scenario. It is however noted that the financial challenge the Authority is facing, is forecast to be considerably more severe in our more volatile economic conditions.

The Authority's ability to deal with these challenges is significantly hindered by their reserve position, which is insufficient in dealing with the forecast financial challenge beyond the current financial year.

The Authority's financial resilience is therefore a significant hinderance on the Authority's ability to provide value for money from public resources, as the financial uncertainty they face over the medium-term makes it difficult for the Authority to make meaningful and sustainable decisions that provide value for money. We therefore expect to modify our value for money conclusion.

Phase 2 Conclusion: Our analysis of the Authority's response to their financial resilience concerns found that for the latest development of the 2021/22 savings plan, the Authority exhibited good practice in the design principles of the plan. Given the timescales for finalising the Medium Term Financial Strategy, we found the Authority had given appropriate consideration to the budget gap, and developed the expected level of key documentation for current saving proposals. Furthermore, the allocation of these savings was appropriately distributed between departments as well as thematically.

It was also found that the Authority had comprehensive governance processes established for developing, monitoring and reporting against saving proposals. Evidence was provided that these processes are regularly conducted and receive the appropriate level of political and strategic oversight.

Nevertheless, despite the good practices that the Authority exhibits in developing well designed and governed savings proposals, the size of the current budget gap should be viewed as a significant risk in terms of delivering a balanced budget in 2021/22. The budget gap of £35.6 million in 2021/22, reflects a significant uplift in the savings target compared with previous delivery, and furthermore reflects a significant portion of service expenditure levels, which makes achievability a high risk for the Authority.

Capitalisation Direction: In October 2020 the Authority approached MHCLG to enable the further exploration of alternatives to issuing a Section 114 notice. The Authority has been engaged in regular discussions with MHCLG in respect of the Authority's finances. In February 2021 the Authority 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 Authority to prepare a balanced budget for 2021/22.

Overall Conclusion: While the Authority demonstrates good development of their medium term financial strategies and exhibits a good understanding of the saving challenges they are facing the budget gap is still significant. We are therefore modifying our value for money conclusion to recognise that the structural financial resilience pressures and concerns facing the Authority before and after the Covid-19 pandemic have a significant and pervasive impact on the Authority's ability to secure adequate arrangements for Value for Money in its use of resources.

05 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement
We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 with the audited financial statements. We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance. Financial information in the Statement of Accounts 2019/20 and published with the financial statements was consistent with the audited financial statements. We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

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Whole of Government Accounts
Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office. Our work on the Whole of Government Accounts will be concluded once the statement of accounts audit is completed and will report any matters arising to the Audit Committee.

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

At the date of this report, we consider that the Authority has taken all the appropriate steps to openly disclose and report its financial resilience concerns to MHCLG, taxpayers and other key external stakeholders. This applies to the conditions existing before Covid-19 when the Authority did seek and get approval for a capitalisation direction, and the unprecedented factors which exacerbated its financial concerns post Covid-19. There have been frequent public statements, and detailed disclosures in the Authority's unaudited 2019/2020 financial statements. The Authority have formally notified and continue ongoing dialogue with MHCLG on their financial condition and concerns which includes exploring all options on securing a viable Authority now and in the future. The Authority have followed the spirit and intent of the CIPFA guidance on section 114 reporting.

The Authority have also worked constructively to address our questions and challenges on the depth and clarity of their going concern disclosures and assessments. On this basis, whilst we are significantly concerned about the Authority's financial condition and the impact on future budgets and service provision for the taxpayers of Peterborough, we also believe the Authority have acted appropriately in key decisions and public reporting. Therefore, it would be a disproportionate step to issue either a public interest report or a statutory recommendation at this stage. We will revisit this again during our 2020/2021 audit.

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 the Authority'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;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations.

Aside from the matters raised elsewhere in this report, we have no other matters to report.

06 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the Authority 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 the Authority 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 have identified one other control finding which we would like to bring to your attention:

- As part of our procedures performed in relation to the Authority's contracts register we identified two significant contracts which were not held on the register.

Recommendation: We recommend that the Authority revisit their controls covering the completeness of the contracts register and ensure that all significant contracts are recorded on the register.

07 Data Analytics

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Data analytics – Journal Entry Analysis and Payroll Analysis

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2019/20, our use of these analysers in the Authority's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all the financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit plan.

Payroll Analysis

We also use our journal entry analyser in our payroll testing of the non-schools payroll. We obtain all payroll transactions posted in the year from the general ledger system and perform completeness analysis over the data, including reconciling the total amount to the payroll system. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.

08 Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 9 March 2020.

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 21 June 2021.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors 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.

There are no relationships from 01 April 2019 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

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed in have been provided on a contingent fee basis.

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.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the audit fees for the year ended 31 March 2020.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

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.

	Scale fee 2019/20	Final Fee 2018/19
	£	£
Total Fee – Code work	213,271 (Notes)	106,334
Total fees	213,271	106,334

All fees exclude VAT

Note 1: In the audit planning report dated 9 March we reported the an increase to the 2019/20 scale fee based on the following factors, and expanded in the following slides:

- The lowering of our audit materiality from the prior year and the impact this has on our audit testing across all of the Authority's primary financial statements and supporting notes.
- The need to scope and audit the group accounts for the first time.
- The need to audit the significant and heightened risks presented in this audit plan, which includes incorrect capitalisation of expenditure, MRP and incorrect use of capital receipts.
- The need to engage EY Real Estate to review the valuation of DRC assets.
- The need to engage our advisory experts to support our assessment of the Authority's future plans to address concerns on its future financial resilience.

The total of this additional scale fee was agreed at £77,000. This proposed fee adjustment has been discussed and agreed with officers and at the Authority's Audit Committee. We have also shared the supporting details and had discussions on the fee variation with PSAA. PSAA are currently in the process of finalising their determination of the proposed changes to the scale fee.

Note 2: As detailed in slide 5 we have encountered changes to the audit strategy since our audit planning report that have 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 Authority's going concern assessment, including the requirement for internal consultation.
- The additional audit procedures required to conclude on the Empower loan issue.

We have received full co-operation from Authority officers in relation to our audit queries and we would like to thank officers for their support in getting us to this stage of the audit. We have encountered some delays in responses to our queries which have caused delays in our audit procedures. This has been due to fewer officers available to answer queries, a loss of expertise in the finance department and some illness in the finance team. We also acknowledge that the audit has been protracted through to 2021, rather than July 2020 which has required more officer time while also drafting the budget and responding to other day-to-day commitments.

Our additional fees as a result of the items identified above is £52,701. This is not included in the £77,000 proposed change to the baseline fee and this element (£52,701) has been agreed with the Head of Corporate Finance but is currently being reviewed by the PSAA for approval.

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.

Fee analysis (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 and the audit complexities encountered the extent of audit procedures now required mean it will take approximately 3,200 hours to complete a quality audit. A commercial benchmark for this size of external audit would be in the region of £320,000. Your scale fee is £83,570 and our current estimate is a final fee of £213,271.

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.

Fee analysis (continued)

Summary of key factors (continued)

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.

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Next steps

We have communicated with management, this Audit Committee and PSAA on our proposed changes to the baseline fee for the 2019/2020 external audit. This detail was set out in our audit planning report with a proposed £77,000 increase in the scale fee. We have now concluded our discussions with management and the additional fee is now with PSAA for approval.

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://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2020/ey-uk-2020-transparency-report.pdf

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 15 March 2020. 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.

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 15 March 2020 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 will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

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

09 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	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Property, plant and equipment	Substantively test all relevant assertions	Substantively tested all relevant assertions	No change
Investment property			
Intangible assets			
Short term debtors			
Cash & cash equivalents			
Short & long term borrowing			
Short & long term creditors			
Short term provisions			
Other long term liabilities			
Capital grants received in advance			
Reserves			

Summary of communications during 2019/20

Date	Nature	Summary
6 December 2019	Meeting	EY introducing Neil Harris as the new Engagement Partner and hand over meeting held with outgoing Engagement Partner, Suresh Patel, and S151 officer.
13 February 2020	Meeting	EY attended a planning meeting with S151 officer and the finance team to discuss the phasing of the audit and any key issues.
9 March 2020	Report	EY provided Audit Planning Report for 23 March 2020 Audit Committee
3 April 2020	Call	EY and S151 discussed the Peterborough City Council capitalisation direction and impact of Covid-19 on the Authority.
17 June 2020	Meeting	EY and S151 discussed the progress on the draft financial statements.
13 July 2020	Meeting	EY attended Audit Committee to provide an update to the audit strategy as a result of Covid-19
14 August 2020	Meeting	Audit team held meetings with the finance team to discuss audit progress and agree any findings.
From 24 September 2020	Weekly Meetings	EY and S151 discussed the financial position of the Authority and pressure arising from Covid-19, including the actions the Authority were taking and the impact on the financial statements, audit procedures and audit reporting.
3 November 2020	Report	EY provided this Audit Results Report (ISA 260 report) for 16 November 2020 Audit Committee
16 November 2020	Meeting	EY attended Audit Committee to present November 2020 Audit Results Report (ISA 260 report).
21 December 2020	Meeting	EY met with senior officers of the PCC Finance Team to discuss the Empower loan.
25 January 2021	Meeting	EY attended Audit Committee to provide an Audit Results Report summary update.
12 March 2021	Call	PCC Finance Team called EY to update on the Empower loan issue.
21 June 2021	Meeting	EY attended Audit Committee to present this Audit Results Report (ISA 260 report).

In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit progress and audit findings.

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 - March 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan - March 2020
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 2020 and June 2021

Appendix C

		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 ▸ 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	Audit Plan – March 2020 and Audit Results Report – November 2020 and June 2021

Appendix C

Required communications	What is reported?	Our Reporting to you 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 2020 and June 2021
Misstatements	▶ 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 - November 2020 and June 2021
Subsequent events	▶ Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit Results Report - November 2020 and June 2021
Fraud	▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ 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 Authority, any identified or suspected fraud involving: 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 - November 2020 and June 2021

Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Related parties	Significant matters arising during the audit in connection with the Authority'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 Authority	Audit Results Report – November 2020 and June 2021
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 Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016: ▸ Relationships between EY, the company and senior management, its affiliates and its connected parties ▸ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▸ Related safeguards ▸ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▸ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit	Audit Plan – March 2020 and Audit Results Report – November 2020 and June 2021

Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
	▸ Details of any inconsistencies between the Ethical Standard and Authority's policy for the provision of non-audit services, and any apparent breach of that policy ▸ Details of any contingent fee arrangements for non-audit services ▸ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▸ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence	
External confirmations	▸ 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
Consideration of laws and regulations	▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▸ 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	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	Audit Results Report – November 2020 and June 2021

Appendix C

		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 2020 and June 2021
Written representations	▸ Written representations we are requesting from management and/or those charged with governance	Audit Results Report – November 2020 and June 2021
Material inconsistencies or misstatements	▸ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report – November 2020 and June 2021
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report – November 2020 and June 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 Plan – March 2020 and Audit Results Report – November 2020 and June 2021

Management representation letter - Draft

Management Rep Letter

21 June 2021

Neil Harris
Partner
Ernst & Young LLP
1 More London Place
London
SE1 2AF

Dear Neil

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Peterborough City Council ("the Group and Council") for the year ended 31 March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of Peterborough City Council as of 31 March 2020 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and Council CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and Council the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.

3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.

4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and council financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because [specify reasons for not correcting misstatement].

Management representation letter - Draft

Management Rep Letter

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B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the consolidated and council financial statements, including those related to the COVID-19 pandemic.

3. We have made available to you all minutes of the meetings of the Group, Council, Cabinet and Audit Committee held through the year to 16 November 2020.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the 31 March 2020 year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

Management representation letter - Draft

Management Rep Letter

7. From the date of our last management representation letter through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and council financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note 40 to the consolidated and council financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. There have been no events, including events related to the COVID-19 pandemic, subsequent to year-end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

F. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.

2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement.

2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Going Concern (subject to final disclosures in the Authority's financial statements)

Note [X] to the consolidated and council financial statements discloses all the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

I. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the property, plant and equipment and investment property valuations and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

Management representation letter - Draft

Management Rep Letter

J. Estimates

- Minimum Revenue Provision
- Pensions Liability
- Private Finance Initiative
- Property, plant and equipment/Investment Properties – valuations and impairment
- Provision for impairment and recoverability of receivables

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

2. We confirm that the significant assumptions used in making the estimates appropriately reflect our intent and ability to carry out our statutory services on behalf of the entity.

3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimates are complete, including the effects of the COVID-19 pandemic, and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and council financial statements due to subsequent events, including due to the COVID-19 pandemic.

K. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

L. Post Balance Sheet Adjusting Event for Impairment of Loan Granted to ECS Peterborough 1 LLP

1. We believe that the measurement process, including related assumptions and models, used to determine the value of the loan granted to ECS Peterborough 1 LLP and the resulting impairment are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

2. We have made available to you all the information in relation to the loan granted to ECS Peterborough 1 LLP, including information received from Link, Deloitte and Teneo, up to the date of this letter.

3. We confirm that the impairment of the carrying value of the loan granted to ECS Peterborough 1 LLP has been calculated in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Yours faithfully,

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(Chief Financial Officer)

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(Chair of the Audit Committee)

Accounting and regulatory update

Future accounting developments

Since the date of our last report to the Audit Committee, there have been a number of exposure drafts, discussion papers and other projects issues. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on Peterborough City Council
IFRS 16	▸ The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2022. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20.	▸ Consider systems impact and need to gather information for comparatives ▸ Consider timetable to implementation

Appendix E

Regulatory update

Since the date of our last report to the Audit Committee, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on Peterborough City Council
Code of Audit Practice 2020	▸ The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21.	▸ The NAO have updated their Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. ▸ Further updates will be provided in our 2020/2021 audit plan.
Going Concern - ISA (UK) 570 (Revised September 2019)	▸ The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, however EY expects to early-adopt the revised standard for all of our audits of periods ending on or after 30 June 2020. ▸ This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.	▸ Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage. ▸ Further updates will be provided in our 2020/2021 audit plan.
Independence	▸ The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. 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 companies that are UK Public Interest Entities (PIEs) . This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed.	▸ We do not provide any non-audit services. ▸ We will continue to monitor and assess all proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020.

EY | Assurance | Tax | Transactions | Advisory

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Sand Martin House
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21 June 2021

Dear Neil

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Peterborough City Council ("the Group and Council") for the year ended 31 March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of Peterborough City Council as of 31 March 2020 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and Council CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and Council the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.

3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.

4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 that are free from material misstatement, whether due to fraud or error. We have disclosed to you

any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and council financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor as the Pensions adjustments were considered as not material and the impairment to the Multi Story Car Park land is consistent with the treatment the Council have previously done on demolished assets.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

    - involving financial statements;
    - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
    - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
    - involving management, or employees who have significant roles in internal controls, or others; or
    - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

    - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
    - Additional information that you have requested from us for the purpose of the audit; and
    - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the consolidated and council financial statements, including those related to the COVID-19 pandemic.

3. We have made available to you all minutes of the meetings of the Group, Council, Cabinet and Audit Committee held through the year to 15 March 2021.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships

and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the 31 March 2020 year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

7. From the date of our last management representation letter through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and council financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note 40 to the consolidated and council financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than those items described in Note [X] to the consolidated and council financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to year-end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

F. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.

2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement.

2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Going Concern

1. Note 44 to the consolidated and council financial statements discloses all the matters of which we are aware that are relevant to the Group and Council’s ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

I. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the property, plant and equipment and investment property valuations and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

J. Estimates

- Minimum Revenue Provision
- Pensions Liability
- Private Finance Initiative
- Property, plant and equipment/Investment Properties – valuations and impairment
- Provision for impairment and recoverability of receivables

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

2. We confirm that the significant assumptions used in making the estimates appropriately reflect our intent and ability to carry out our statutory services on behalf of the entity.

3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimates are complete, including the effects of the COVID-19 pandemic, and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and council financial statements due to subsequent events, including due to the COVID-19 pandemic.

K. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

L. Refinancing of Loan Granted to ECS Peterborough 1 LLP

1. We believe that the measurement process, including related assumptions and models, used to determine the value of the loan granted to ECS Peterborough 1 LLP are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

2. We have made available to you all the information in relation to the refinancing of the loan granted to ECS Peterborough 1 LLP.

3. We confirm that no impairment of the carrying value of the loan granted to ECS Peterborough 1 LLP is required in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Yours faithfully,

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(Chief Financial Officer)

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(Chair of the Audit Committee)

Unadjusted Audit Differences

Uncorrected misstatements 31 March 2020 (£)		Effect on the current period:	Balance Sheet (Decrease)/Increase			
		Comprehensive income and expenditure statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities non-current Debit/ (Credit)	Equity Components Debit/ (Credit)
Incorrect calculation of the Empower expected credit loss impairment (judgemental)	Credit: Balance Sheet – Long-Term Debtors			(605,000)		
	Debit: CIES – Financing & Investment Income & Expenditure	605,000				
	Debit: Balance Sheet – Capital Adjustment Account					605,000
	Credit: MiRS – Adjustments between accounting basis & funding basis under regulations					(605,000)
Incorrect impairment of £0.867 million has been made to the land element of an asset demolished in 2019/20 (factual)	Debit: Balance Sheet – Property Plant and Equipment			867,481		
	Credit: Balance Sheet – Revaluation Reserve					(367,681)
	Credit: CIES – Net Cost of Services Expenditure	(499,800)				
McCloud Consultation Ruling - Revised IAS 19 Report (judgemental)	Debit: Balance Sheet – Pension Reserve					129,000
	Credit – Balance Sheet – Long Term Creditors (Pension Liability)				(129,000)	
	Debit: CIES – Net Cost of Services Expenditure	129,000				
	Credit: MiRS – Adjustments between accounting basis & funding basis under regulations					(129,000)
IAS 19 - Updated Asset/Investment Figures (judgemental)	Debit: Balance Sheet – Pension Reserve					2,560,000
	Credit – Balance Sheet – Long Term Creditors (Pension Liability)				(2,560,000)	
	Debit: CIES - Actuarial (Gains)/Losses on Pension Asset/Liabilities	2,560,000				
	Credit: MiRS – Adjustments between accounting basis & funding basis under regulations					(2,560,000)
TOTAL		2,794,200	0	262,481	(2,689,000)	(367,681)

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