AUDIT COMMITTEE

WEDNESDAY 31 AUGUST 2022
6.00 PM

Council Chamber - Town Hall

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

AGENDA

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Committee Members:
Councillors: Ali (Vice Chairman), Haseeb, Brooks (Chair), Allen, N Sandford, Nawaz, Rangzeb and Perkins
Substitutes: Councillors: Burbage, Jones and Hogg
Further information about this meeting can be obtained from Daniel Kalley on telephone 01733 296334 or by email – daniel.kalley@peterborough.gov.uk

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

Cabinet Member(s) responsible:	Cllr Coles - Cabinet Member for Finance and Corporate Governance	
Contact Officer(s):	Cecilie Booth - Director of Corporate Resources	Tel. 384564

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

R E C O M M E N D A T I O N S	
FROM: Cecilie Booth - Interim Director of Corporate Resources	**Deadline date:** 31 August 2022

It is recommended that Audit Committee:

1. Receive and approve the "Audit Results Report - (ISA260) for the year ended 31 March 2021" from Ernst & Young (EY), the Council's external auditors.
2. Receive and note that the Council have opted to delay the signing of the 2020/21 Statement of accounts for the outcome of the CIPFA consultation process and any adaptations to the Code of Practice that result relating to Infrastructure Assets.
3. To delegate to the Chairman to approve further changes if needed.

1. ORIGIN OF REPORT

1.1 This report is submitted to Audit Committee following a referral from the S151 Finance Officer.

2. PURPOSE AND REASON FOR REPORT

2.1 The purpose of this report is for Audit Committee to:

- Receive and note "Audit Results Report - (ISA260) for the year ended 31 March 2021" from Ernst & Young (EY) on behalf of the Council.
- Receive and note that the Council have opted to delay the signing of the 2020/21 Statement of accounts for the outcome of the CIPFA consultation process and any adaptations to the Code of Practice that result relating to Infrastructure Assets
- To delegate to the Chairman to approve further changes to the Statement of Accounts and the Going Concern judgement if needed.

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

2.2.1.19 To review the annual statement of accounts, specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.

2.2.1.20 To consider the external auditors report to those charged with governance on issues arising from the audit of the accounts.

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	**NO**	If yes, date for Cabinet meeting	n/a

4. BACKGROUND AND KEY ISSUES

Statement of Accounts 2020/21

4.1 The production of a timely Statement of Accounts, which is free from material error, is a key test of the robustness of financial processes and underpins the financial standing of an organisation. The Council has achieved this through the publication of the draft Statement of Accounts ahead of the statutory deadline, and also through the completion of a successful external audit process.

4.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) set out the accounting practices in the 2020/21 Code of Practice (the Code) and are followed in the preparation of the 2020/21 Statement of Accounts.

4.3 Legislation requires the Council to consider and approve its Accounts at a meeting of either full Council or a Committee of the Council. The Council's Constitution delegates this matter to the Audit Committee.

4.4 This is in accordance with the Committees Terms of Reference – 2.2.1.19 to review the annual statement of accounts, specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

4.5 The Accounts must be signed and certified by 31 July 2021 by the Council's Section 151 Officer / Chief Finance Officer (Director of Corporate Resources), in accordance with the Accounts and Audit Regulations 2015. The Council's Section 151 officer has responsibility for certifying that the Accounts present fairly, the financial position of the Council at 31 March 2021.

4.6 The draft Statement of Accounts was shared with the chair of the Audit Committee and Cabinet member for Finance prior to publication on the Council's Website on 31 July 2021. This published draft has subsequently been the subject of external audit by EY.

4.7 Once the audit has concluded, the Council's Section 151 officer must recertify the accounts and the Audit Committee is required to approve the Accounts no later than 30 September 2021 following, and in the knowledge of, the audit findings (Appendix 1) unless

4.8 The external audit of the draft statement of accounts for the year ended 31 March 2021 has not yet been completed by our external auditors, EY LLP, due to the audit being rescheduled. This situation is allowed for by Regulation 10, paragraph (2a) of the Accounts and Audit Regulations 2015. (See attached link: https://www.legislation.gov.uk/uksi/2015/234/regulation/10/made). This notification explains, as per paragraph (2a), that EY LLP are not yet able to publish our audited 2020/21 final statement of accounts in line with deadline of 30th September 2021, as per paragraph (1). The Governance & Assurance Committee will consider the results of the 2020/21 audit, after which we will publish the final audited accounts.

4.9 The lateness of the signing of the 2020/21 Accounts is not due to the adjustments noted in the Draft ISA260 or the performance of the Council's finance team as the Council is one of many Councils that are still waiting for the 2020/21 accounts to be signed off. The main reason is that each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects that requires more resources which are not readily available. Plus the changes in the wider environment in which both organisations have been working under including the recovery from COVID-19.

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

4.11 There are no concerns regarding completing the outstanding items which are under the control of the Council and EY.

4.12 There are a number of sections within the Statement of Accounts as follows:

a) Narrative Report – provides a fair, balanced and understandable guide

b) Statement of Responsibilities - sets out the responsibilities of the Council and the chief financial officer in respect of the Statement of Accounts

c) Comprehensive Income and Expenditure Statement - shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation

d) Movement in Reserves Statement - this statement shows the movement in the year on the different reserves held by the Council

e) Balance Sheet - shows the value of the assets and liabilities recognised by the Council as at 31 March 2021

f) Cash Flow Statement - summarises the inflows and outflows of cash, and cash equivalents, arising from transactions with third parties for both revenue and capital purposes in 2020/21.

g) Notes to the Financial Statements - the various statements are supported by technical notes

h) The Collection Fund & Notes - shows the transactions of the Council in relation to Council Tax and Non-Domestic Rates

i) Statement of Accounting Policies - outlines the accounting policies adopted by the Council.

j) Group Accounts – shows the impact of eliminating the transactions relating to the Council's subsidiary Peterborough Ltd from the Council's accounts

k) Annual Governance Statement - identifies the systems that the Council has in place to ensure that its business is conducted in accordance with the law and proper standards and that public money is safeguarded. This statement is an item on this meeting agenda and therefore subject to change, consequently it will be included in the audited accounts, published by 30 September 2021, following its approval.

2020/21 Report to Those Charged with Governance

4.13 The External Auditors have a statutory requirement to report to members under the Audit Commission's Code of Audit Practice and International Standard of Auditing (UK and Ireland) (ISA(UK&I) 260 – "Communication of audit matters with those charged with governance". The report is known as the ISA260 or 'Audit Results Report'.

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

4.15 There are a number of sections within the report as follows:

1) **Executive Summary** – provides a summary of the Audit and includes an overview of one new risk area (Infrastructure Assets) that have been identified since the September 2021.

2) **Understanding Financial Statements** - provides some commentary on the key components of net expenditure.

3) **Areas of Audit Focus** - Notes the risks identified in the Audit Plan, the audit procedures performed in relation to them and the results of the audit work performed. There are a mix of types of risks identified, from the general risks such as fraud and management override of controls which any organisation would face and are not specific to the Council, and as such are audited for all councils, and those more specific to the Council, such as PFI and MRP accounting. During the course of the audit, two new risks relating to the Empower Loan and Infrastructure Assets have been added.

4) **Audit Report** – this is a draft copy of the Independent Auditors' Report to the Members of Peterborough City Council which is included in the Statement of Accounts and will be signed following the completion of the audit.

5) **Audit Differences** – this section notes that EY found some misstatements during the audit which have been corrected. The only unadjusted difference relates to the MRP charge of the Empower Loan which is discussed further in 4.16.

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

7) **Other Reporting Issues** - The NAO's Whole of Government Accounts (WGA) team issued Group Audit Instructions (GAI) in respect of the 2020/21 WGA process on 28 July 2022. In a change to the process for 2020/21, HM Treasury have elected to raise the threshold for local government entities to £2 billion. As the Council fall below the testing threshold set by the NAO for detailed procedures on the consolidation return, EY therefore do not expect to have any issues to report.

8) **Assessment of Control Environment** - EY report that they only test internal controls to the extent necessary for them to complete their audit and that they have identified four areas where improvements could be made. Two of these improvements relate to the Land and Buildings Valuations provided by Norfolk Property Services – Peterborough Limited (NPS). Including the specialist valuation of the Energy for Waste Plant which is discussed further in section 4.16 of this report.

9) **Data Analytics -** explains the use of data analytics tools to improve the audit.

10) **Independence -** confirmation that there are no changes in EYs assessment of their independence. Includes information on Audit fees.

11) **Appendices**

- Appendix A - Significant Risk Findings – Valuations of Property Plant and Equipment and Investment Properties
- Appendix B - Audit Approach Update
- Appendix C - Summary of Communications during 2020/21
- Appendix D - Required Communications with the Audit Committee
- Appendix E - Outstanding Matters
- Appendix F - Draft Request for a Management Representation Letter

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

Management Response to Audit Findings

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

EY Report - Summary of Points Raised	Management Comment
MRP Charge on Empower Loan - There is one uncorrected misstatement identified as part of our audit that is greater than our reporting threshold. As a result of our audit procedures in relation to the Empower Loan we identified that the Council had not followed their 2020/2021 minimum revenue provision (MRP) policy and did not apply MRP on the value of the loan which was impaired in 2019/2020. The existing policy indicates MRP should be charged on "the outstanding loan amount" as the loan was impaired in 2019/2020. The outstanding loan amount is the amount not expected to be recovered via capital receipt or the exercise of security. This impairment value was £2.645 million. The current policy requires this to be charged over the next MTFS periods (3 years). No charge has been made in 2020/2021. We therefore believe that MRP has been understated by £0.882 million (£2.645 million / 3 years). We have discussed this finding with Management and as the Empower Loan impairment was identified after the 31 March 2021, as part of the 2019/2020 audit, Management have applied the MRP for the impairment prospectively as part of their 2021/2022 MRP policy. We have considered this reasonable as the impact is immaterial but we still request that this uncorrected misstatement be considered and approved by the Audit Committee and provided within the Letter of Representation.	• Management agreed with EY to adjust the MRP Charge in 2021/22 to reflect the impairment charge on the Empower Loan which has been done. The MRP element is guidance only, and does not prescribe what should occur in the event of the post balance sheet event.
Valuations of Property Plant and Equipment and Investment Properties - We have also set out at Appendix A an extensive list of findings from our review of the asset valuation methodology, assumptions and supporting information made available from the Council and its	• Management has been working closely with NPS to address the issues with the 2020/21 valuations that both EY and the Council have raised and can confirm that NPS have amended their valuations processes.

external valuer, Norfolk Property Services – Peterborough Limited (NPS). We believe there are significant control deficiencies in the Council's approach to the valuation of its property, plant and equipment assets.	• Please also note notice has also been given to the NPS contract and an alternative valuer is being procured for the 2022/23 valuations.
Infrastructure Assets - An issue has been raised via the NAO's Local Government Technical Group that some local authorities are not writing out the gross cost and accumulated depreciation on highways infrastructure assets when a major part/component has been replaced or decommissioned in line with the requirements of the Code of Audit Practice. This matter is currently under consideration by CIPFA. Currently, we have insufficient evidence to support an unqualified audit opinion in respect of Infrastructure Assets. This situation would currently lead us to modify our audit report. The Council may opt to delay the authorisation of the 2020/2021 financial statements for the outcome of the CIPFA consultation process and any adaptations to the Code of Practice that result, as this may change the reporting requirements and hence the need for additional appropriate audit evidence.	Management can confirm that the Council has opted to delay the signing of the 2020/21 SoA until the conclusion of the CIPFA Infrastructure Assets consultation process have been decided.

4.17 The Interim Director of Corporate Resources, as Chief Finance Officer (S151), is required to make representations on behalf of the Council in a number of areas in relation to the preparation of the Statement of Accounts. EY require this letter to be signed by the Chair of the Audit Committee. The draft letter is attached in Appendix F for review by Audit Committee.

5. CONSULTATION

5.1 Between 2 August 2021 and 14 September 2021, the Council's accounts have been subject to a statutory period for the exercise of public rights, where any person may inspect and take copies of the accounts and certain related documents. During this period Peterborough City Council electors have been able to ask the external auditor questions on the accounts, and are able to object to the accounts.

5.2 Weekly update meetings have been held with council finance officers and EY, where the key findings of the audit to date have been discussed in detail. A final clearance meeting is expected to occur with EY and the Council's S151 Officer. The draft ISA260 report was discussed with the council's finance team.

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

6. ANTICIPATED OUTCOMES OR IMPACT

6.1 To receive and note the "Peterborough City Council - Audit Results Report" (ISA260) from EY on behalf of the Council.

7. REASON FOR THE RECOMMENDATION

7.1 Paragraph 2.2.19 of the Constitution requires the Audit Committee to "review the annual statement of accounts, specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.”

7.2 It is a statutory requirement under the Accounts and Audit Regulations 2015.

8. ALTERNATIVE OPTIONS CONSIDERED

8.1 The Statement of Accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom in compliance with the Accounts and Audit Regulations 2015. The only alternative option would be non-compliance with statute which is rejected.

9. IMPLICATIONS

Financial Implications

9.1 See main report.

Legal Implications

9.2 None.

Equalities Implications

9.3 None.

10. BACKGROUND DOCUMENTS
Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

10.1 The Accounts & Audit Regulations 2015
Council Constitution

11. APPENDICES

12.1
- Appendix 1 – Draft Peterborough City Council - Audit Results Report (ISA260)

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Peterborough City Council
Audit Results Report

Year ended 31 March 2021

22 August 2022

Building a better working world

Audit Committee
Peterborough City Council

22 August 2022

Dear Audit Committee Members:

2020/2021 Audit Results Report

Ahead of the forthcoming meeting of the Audit Committee, we are pleased to attach our Audit Results Report, summarising the status of our audit of the Council's financial statements for financial year ended 31 March 2021. Our audit is substantially completed. We have not finalised the basis of our statutory audit report as the following matters are still subject to consultation with our professional practice team:

- The appropriateness of the Council's going concern assessment and disclosures, reflecting the period twelve months from the date the 2020/2021 accounts are authorised for issue. The Council's finance team have updated their management assessment and disclosures to reflect the latest position of the 2022/2023 and 2023/2024 budget exercise and current cash flow and borrowing forecasts. We engaged specialists in our corporate finance team to review the robustness of the Council's budget setting exercise and savings proposals to support our assessment of the Council's going concern disclosure, determination of any material risks and uncertainties to the continuity of service provision and inform our ongoing commentary on the Council's financial sustainability.
- Our reporting by exception where we have identified significant weaknesses in the Council's value for money arrangements for the financial year ended 31 March 2021. We expect to report by exception on significant weaknesses in the Council's arrangements for financial sustainability reflecting the ongoing material uncertainties and risks in the Council's financial position in this period. This is prior to the outcome and actions arising from independent reviews commissioned by Department for Levelling up, Housing and Communities (DLUHC), undertaken by CIPFA, into the Council's financial position and governance arrangements following the Council's request for exceptional financial support and conditional capitalisation directions. In addition, we will report by exception on significant weaknesses in the Council's governance arrangements with Empower Community Management LLP during the 2020/2021 financial year which has exposed the Council to financial loss. We are still awaiting the Council's updated group boundary assessment following the significant events that have occurred in relation to ECSP1 for our review, including with EY specialist financial reporting support.
- An issue has been raised via the NAO's Local Government Technical Group that some local authorities are not writing out the gross cost and accumulated depreciation on highways infrastructure assets when a major part/component has been replaced or decommissioned in line with the requirements of the Code of Audit Practice. This matter is currently under consideration by CIPFA. Currently, we have insufficient evidence to support an unqualified audit opinion in respect of Infrastructure Assets. This situation would currently lead us to modify our audit report. Following discussions with us and having sought external stakeholder advice, the Council have opted to delay the authorisation of the 2020/2021 financial statements for the outcome of the CIPFA consultation process and any adaptations to the Code of Practice that result, as this may change the reporting requirements and hence the need for additional appropriate audit evidence.

continued

As the Council has opted to delay the authorisation of the 2020/21 financial statements to take account of CIPFA and any statutory provisions implemented to resolve the accounting issue for infrastructure assets, I will not be issuing the 2020/2021 audit report on behalf of EY as I will have left EY on 9 September 2022. The Key Audit Partner will now be Janet Dawson. I will be working with Janet before I leave EY to ensure a seamless and effective handover.

However the Audit Committee should note that Janet will need to undertake sufficient and appropriate quality review procedures on all the work performed to date on the 2020/2021 audit, including reaching final conclusions on all the critical judgements set out in this report, whether these have either been concluded so far or are to be finalised. This process may result in further audit queries and revisiting whether we need to modify any other aspect of audit report when we conclude. This process will take time and Janet will liaise with the Council's management and this Audit Committee before we conclude on any significant changes to our audit approach and conclusions. In addition, working with our quality support team, before we conclude our 2020/2021 audit, we will be taking the steps necessary to address the actions we have agreed to take following the external quality review inspection of the Council's 2019/2020 external audit by the Financial Reporting Council.

In view of these outstanding matters and the change of Key Audit Partner, before the Council's 2020/2021 financial statements are authorised for issue, we propose to provide an update to the Audit Committee members on the final statutory audit report following the conclusion of our remaining professional practice consultations, audit and quality review procedures.

We currently expect to issue our Auditor's Annual Report before the end of 2022. This will summarise the conclusions of our audit and also include our commentary on the Council's value for money arrangements for the 2020/2021 financial year. We will bring our commentary on the Council's financial position up-to-date in this report. This follows our review of the Council's 2022/2023 budget exercise and the outcome of our review and professional practice consultations on the appropriateness of the Council's going concern. We will consider whether or not we need to use our statutory audit powers under the Local Audit and Accountability Act 2014 If we continue to have concerns on the Council's arrangements to secure its financial resilience.

Our report also includes findings and recommendations on page 17 associated with the Council needing to revisit the appropriateness of its Minimum Revenue Provision policy and ensure the risks and scenarios of any changes to its policy are reflected in the 2022/2023 budget and medium term financial plan. We have also set out at Appendix A an extensive list of findings from our review of the asset valuation methodology, assumptions and supporting information made available from the Council and its external valuer, Norfolk Property Services – Peterborough Limited (NPS). We believe there are significant control deficiencies in the Council's approach to the valuation of its property, plant and equipment assets.

continued

Our audit is designed to express an opinion on the 2020/2021 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Peterborough City Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. We have also included our findings in respect of our work on the Council's Value for Money arrangements.

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

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on the 31 August 2022.

Yours faithfully

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

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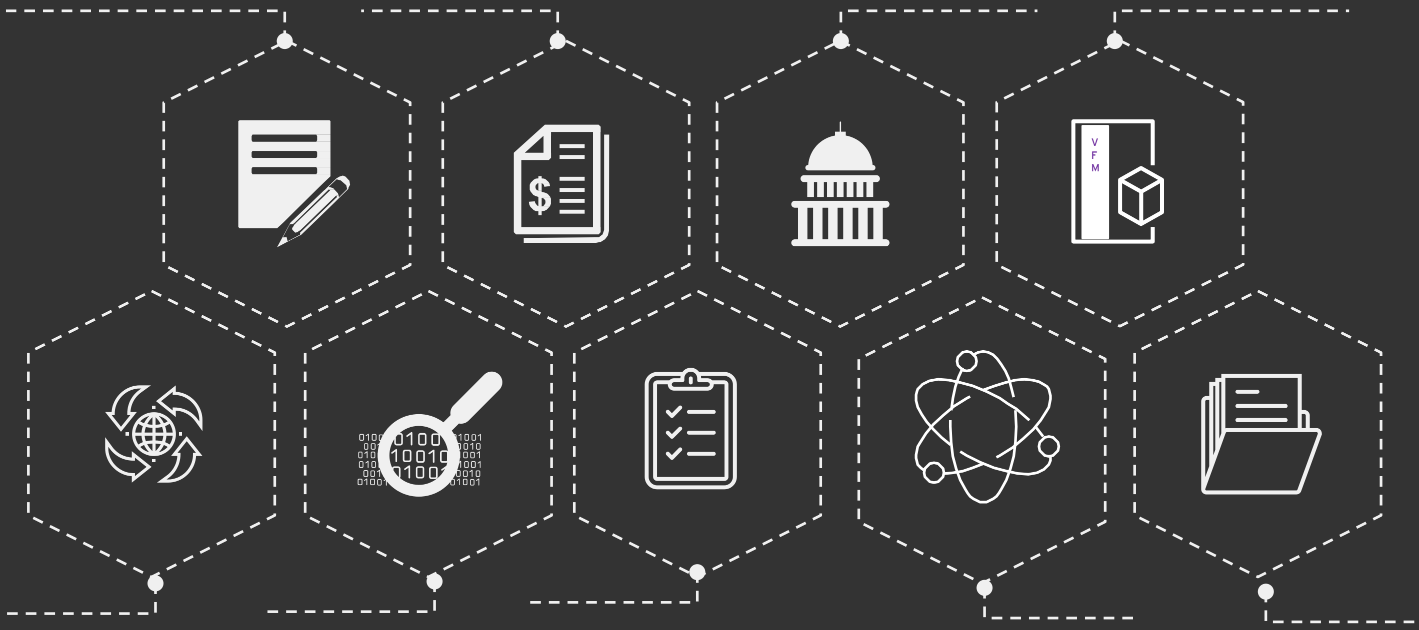

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/).The Statement of responsibilities serves as the formal terms of engagement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

01 Executive Summary

Executive Summary

Scope update

In our Audit Plan dated the 2 September 2021, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, there has been one significant change in the scope of our audit:

- Infrastructure Assets: An issue has been raised via the NAO's Local Government Technical Group that some local authorities are not writing out the gross cost and accumulated depreciation on highways infrastructure assets when a major part/component has been replaced or decommissioned in line with the requirements of the Code of Audit Practice. This matter is currently under consideration by CIPFA. We have insufficient evidence to support an unqualified audit opinion in respect of Infrastructure Assets. This situation could lead us to modify our audit report. We have discussed this issue with the senior management and following consultation, internally and with CIPFA, the Council wishes to await the outcome of the CIPFA consultation process and any adaptations to the Code of Practice that result. This is likely to change the reporting requirements and require the need for additional appropriate audit evidence. Given that as at 31 March 2021 the Council holds £347.127 million of gross book and £187.936 million of net book infrastructure assets we have allocated this as a significant audit risk.

- The delay caused by the infrastructure asset issue above means that the audit will not be completed before Neil Harris leaves EY in September 2022. This will mean that another Audit Partner, Janet Dawson, will be required to conclude the audit. Janet will be required to perform a review of the audit procedures to ensure she is comfortable signing the audit report. Officers were made aware of this issue when considering the infrastructure item above.

Changes to reporting timescales

As a result of Covid-19, new regulations, the Accounts and Audit (Amendment) Regulations 2021 No 263, have been published and came into force on 31 March 2021. This announced a change to publication date for final, approved financial statements from 31 July to 30 September 2021 for all relevant authorities.

Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

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 Council'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

- Agreed IPE to scanned documents or other system screenshots.

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 2021 and have performed the procedures outlined in our Audit Plan.

The outstanding work at the date of this report relates to:

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

<u>Closing Procedures:</u>

- Receipt and review of the final version of the financial statements;
- Completion of subsequent events and post balance sheet events review;
- Receipt of the signed management representation letter; and
- Final Manager, Engagement Partner and Quality Review Partner reviews.

Details of each outstanding item, actions required to resolve and responsibility is included in Appendix E.

Subject to satisfactory completion of the outstanding items above, particularly the issue in relation to infrastructure assets and going concern, we expect to issue an unqualified opinion on the Council's financial statements. Should we intend to issue any modified audit report, this will be subject to a professional practice consultation. We will communicate this to management and the Audit Committee before the 2020/2021 financial statements are authorised for issue. Until our audit work is complete, further amendments may arise. We expect to issue the audit certificate after we issue the audit opinion, once the WGA submission has been completed and the infrastructure asset issue has been resolved.

Executive Summary

Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

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

Status of the audit – Value for Money

In the Audit Plan dated 2 September, we reported that we had identified two Value for Money (VFM) significant weaknesses in relation to:

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

We have now completed our risk assessment and have not identified any additional risk of significant weakness against the three reporting criteria we are required to consider under the NAO's 2020 Code. We have revisited our assessment on completion of the audit of the financial statements and are satisfied that these two significant weaknesses remain appropriate.

As a result, we have completed our planned VFM procedures and expect to have two matters to report by exception in the auditor's report. This will be subject to consultation with our professional practice team. We plan to issue the VFM commentary by the end of September 2022 as part of issuing the Auditor's Annual Report.

Executive Summary

Audit differences

Uncorrected differences

At the date of this report there is one unadjusted audit difference arising from our audit, in relation to an understatement of minimum revenue provision (MRP) resulting from the prior period impairment of the Empower loan asset. This has resulted in an overstatement of the general fund balance of £0.882 million. However, as the prior period impairment was identified after 31 March 2021 the Council have applied the MRP charges in 2021/22. See Section 3 of this report for further information.

Corrected differences

During the audit we have identified a significant number of audit differences in the draft financial statements which management has chosen to adjust. We have judged that the following adjustments warrant flagging to the Audit Committee in this report.

- **Pension Liability** – Reduction in the pension fund liability of £7.293 million as a result of revised pension asset values from the Cambridgeshire Pension Fund.
- **Long-term Debtors (Empower Loan)** – Reclassification of the Empower loan asset from long-term debtor to short-term debtor of £20.4 million.
- **Income and Expenditure (Shares in Higher Education Property Company)** – Reclassification of the accounting entries to remove the incorrect grossing up of income and expenditure to the value of £1.87 million.
- **Creditors** – We have identified four audit adjustments as a result of our audit procedures in relation to creditors, we have summarised these separately in Section 3 of this report.
- **Property, Plant and Equipment and Investment Property** – Due to the number of audit adjustments identified on PPE and investment property we have summarised these separately in Section 3 of this report.

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

- **Going Concern** – Revision of the going concern disclosures following the updated financial position in the Council's 2022/2023 Medium Term Financial Plan.
- **Collection Fund (Council Tax Receivable)** – We identified a transposition error in the collection fund statement where the council tax receivable had been disclosed as £109.333 million instead of £101.933 million.
- **Post Balance Sheet Events** – The Council added a disclosure note for the non-adjusting post balance sheet event in relation to bringing the solar panel portfolio in-house.
- **Leases** – Errors were identified in the leases workbook which required the Council to update the working paper and revise the leases disclosure in the accounts.

Further detail of the audit differences can be found in Section 3 of this report.

Executive Summary

Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial report of Peterborough City Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

Management Override: Misstatements due to fraud or error

- *We have completed our work in this area and have no matters to report.*

Misstatements due to fraud or error: The incorrect capitalisation of revenue expenditure and REFCUS

- *We have completed our work in this area and have no matters to report.*

Misstatements due to fraud or error: The incorrect application of MRP accounting

- *We have completed our work in this area and have one audit difference and one other matter to report.*
- *Please see Section 3 of this report for further information.*

Misstatements due to fraud or error: Inappropriate use of capital receipts

- *We have completed our work in this area and have no matters to report.*

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

- *We have completed our work in this area and have identified a significant number of audit differences and matters to report.*
- *Please see Section 3 of this report for further information.*

Significant Risk: Valuation of property, Valuation of other Land and Buildings and Investment Properties

- *We have completed our work in this area and have identified a significant number of audit differences and matters to report.*
- *Please see Section 3 of this report for further information.*

Significant Risk: Accounting for Covid-19 related Government grants

- *We have completed our work in this area and have no matters to report.*

Significant Risk: Accounting for Empower loan

- *We have completed the majority of our work in this area and have identified one audit difference in relation to the classification of the loan.*
- *We are currently awaiting the Council's updated group boundary assessment given the Empower events that have occurred up to the reporting date.*
- *Please see Section 3 of this report for further information.*

Executive Summary

Areas of audit focus (continued)

Significant Risk: Going Concern

- *We are currently concluding our procedures in this area. We have matters to report in relation to going concern.*
- *Please see Section 3 of this report for further information.*

***Significant Risk: Accounting for* Derecognition of Infrastructure Assets upon Subsequent Expenditure / Replacement**

- *We are yet to complete our work in this area as set out on page 2 of this report.*
- *Please see Section 3 of this report for further information.*

Inherent Risk: Pension Liability Valuation & Pensions Assets

- *We have identified one corrected audit difference as a result of our audit procedures.*
- *Please see Section 3 of this report for further information.*

Inherent Risk: Accounting for Private Finance Initiative (PFI) Liabilities

- *We have completed our work in this area and have no matters to report.*

Inherent Risk: Group Accounting

- *We are currently concluding our procedures in this area. We have identified audit adjustments in relation to the group accounting.*
- *Please see Section 3 of this report for further information.*

Inherent Risk: Business Rates Appeals Provision

- *We have completed our work in this area and have no matters to report.*

Inherent Risk: Other Bad Debt Provisions

- *We have completed our work in this area and have no matters to report.*

We request that you review these and other matters set out in this report to ensure:

- There are no residual further considerations or matters that could impact these issues
- You concur with the resolution of the issue
- There are no further significant issues you are aware of to be considered before the financial report is finalised

There are no matters, other than those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee or Management.

Executive Summary

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

The NAO's Whole of Government Accounts (WGA) team issued Group Audit Instructions (GAI) in respect of the 2020-21 WGA process on 28 July 2022. In a change to the process for 2020/2021, HM Treasury have elected to raise the threshold for local government entities to £2 billion, aligning it with the central government threshold. As group auditor, the NAO WGA team will need to consider the revised HM Treasury thresholds alongside HM Treasury's developing analytical review controls to determine whether they require, for their purposes, any assurances from auditors of components who are below the HM Treasury thresholds. Where additional work is required the NAO WGA team will contact the relevant component auditor(s) regarding the scope and timing of this work. We will not therefore be able to issue our Audit Certificate alongside our Audit Opinion.

As the Council would fall below the testing threshold set by the NAO for detailed procedures on the consolidation return, we therefore do not expect to have any issues to report.

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Control observations

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

However, we have identified some control findings which we would like to bring to your attention, please see Section 6 of this report for further information.

Independence

Please refer to Section 8 for our update on Independence. There are no relationships from 1 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

02 Areas of Audit Focus

Areas of Audit Focus

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the audit procedures performed and conclusions formed for each risk.

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.

As part of our work to identify fraud risks during the planning stages, we identified those areas of the accounts that involve management estimates and judgements as the key areas at risk of manipulation.

These are set out on the following pages.

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 to date did not identify any instances of management override. We do expect to perform some additional audit procedures on the appropriateness and authorisation of a sample of journal entries before we conclude the audit.

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 Council 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 2020/2021 the Council has incurred £56.8 million capital expenditure (of which REFCUS represented £9.9 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

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

Significant Risk

What is the risk?

The Council is under significant financial pressure to achieve budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way to achieve these targets. We consider the risk applies to application and calculation of the minimum revenue provision.

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

Over recent years, the Council's approach to MRP has been subject to media attention as well as scrutiny by Department for Levelling Up, Housing and Communities (DLUHC). 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;
- Testing of MRP in relation to the Empower loan; and
- Engaging our EY MRP technical specialist to review the Council's MRP policy and disclosure (if required).

What are our conclusions?

Our mandatory procedures identified the following issues with the application of the MRP accounting.

Please see the following slide for further details.

Significant risk

MRP Accounting: What are our conclusions?

Our mandatory procedures identified the following issues with the application of the MRP accounting.

- Our re-performance of the MRP calculation concludes that MRP is understated in 2020/2021 by approximately £0.882 million. This is in relation to the Empower impairment from 2019/2020. The existing policy indicates MRP should be charged on "the outstanding loan amount" as the loan was impaired in 2019/2020. The outstanding loan amount is the amount not expected to be recovered via capital receipt or the exercise of security. This is approximately £2.645 million. The current policy requires this to be charged over the next MTFS periods (3 years). No charge has been made in 2020/2021. We have discussed this finding with Management and as the Empower Loan impairment was identified after the 31 March 2021, as part of the 2019/2020 audit, Management have applied the MRP for the impairment prospectively as part of their 2021/2022 MRP policy. We have considered this reasonable as the impact is immaterial but we have still included in section 3 of this report for Audit Committee consideration.
- The Council changed its policy from 2021/2022 but this cannot be applied retrospectively. The new policy charges MRP on "the outstanding loan amount" over the MTFS period or the life of the asset whichever is the longer. The new policy can only be applied to the remaining unfinanced "outstanding loan amount" at the point the new policy is approved. A new MRP policy must only be applied prospectively from the point the policy is approved (approval can be obtained at any time).
- Our review of the MRP policy and disclosure did not identify any other material audit issues in the current period. However, the Department for Levelling Up, Housing and Communities (DLUHC) has issued a consultation on proposed changes to regulations covering the requirement to make a prudent Minimum Revenue Provision (MRP). DLUHC has identified the use of two practices which in the government's view are "not permitted under the Prudential Framework". Consequently, DLUHC is looking to tighten the regulations to remove any scope for authorities to apply these practices.

The two areas of concern noted in the consultation are:

1. Inappropriate exclusion of a portion of debt (or CFR) from MRP determinations. We are aware that many local authorities do not set aside MRP in relation to certain assets (typically capital loans and equity investments). This has become typical custom and practice but represents a departure from the Statutory Guidance on MRP.

2. Using capital receipts in place of charge to the revenue account (the MRP). The DLUHC updated guidance confirms the changes made should be accounted for prospectively, although it should be noted that had the changes been applied retrospectively the Council would have had an understatement of £45.7 million in its MRP, reflecting capital receipts historically used to fund MRP since the Council adopted their current strategy in 2015/2016 financial year.

As a result of the proposed guidance we recommend that the Council:

1. Ends the practice of reducing MRP charges by the value of capital receipts applied in-year.
2. Amends its MRP policy to introduce MRP charges on capital loans in line with DLUHC's Statutory Guidance.

Significant risk

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

Significant Risk

29

What is the risk?

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

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

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

What 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.

The Council's opening balance in relation to deferred capital receipts is trivial as this had been run down without any capital receipts deferred remaining. In 2020/2021 the Council has added £1.165 million from the sale of the football ground.

In relation to the use of capital receipts the Council has received £7.449 million in the period of which £1.165 million relates to the deferred capital receipt referenced above. This leave £6.284 million, all of which has been used to repay MRP.

We have considered the use of capital receipts to repay MRP in the slide above and recommend that the Council ends the practice of reducing MRP charges by the value of capital receipts applied in-year.

Significant risk

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

Significant Risk

What is the risk?

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

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

As the Council's DRC asset base is significant (£254 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 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 Council'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 2020/2021 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?

We have identified audit adjustments and control weaknesses as part of our procedures on the valuation of property, plant and equipment assets under depreciated replacement cost model.

We have consolidated these findings with those identified as part of the work performed on the valuation of non-DRC property, plant and equipment assets and investment property (next slide).

Please see Appendix A for further details.

Note that the audit adjustments in relation to property, plant and equipment are also documented in Section 3 of this report.

Significant risk

Valuation of other Land and Buildings and Investment Properties

Significant Risk

31

What is the risk?

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

Material judgemental inputs and estimation techniques are required to calculate the year-end PPE balances held in the balance sheet. Our review of the 2020/2021 draft statement of accounts has identified that the Council and its valuer has reported a material uncertainty in the valuation of retail and office sector assets. This is because they determine there is still an absence of relevant/sufficient market evidence on which to base judgements.

The fair value of Property, Plant and Equipment (PPE) (approximately £99 million) and Investment Properties (IP) (£25.6 million) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

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

What judgements are we focused on?

We have identified a specific risk of misstatements 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 Council'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 2020/2021 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?

We have identified audit adjustments and control weaknesses as part of our procedures on the valuation of non-DRC property, plant and equipment assets and investment property.

We have consolidated these findings with those identified as part of the work performed on the valuation of property, plant and equipment assets under depreciated replacement cost model (previous slide).

Please see Appendix A for further details.

Note that the audit adjustments in relation to other land and buildings and investment properties are also documented in Section 3 of this report.

Significant risk

Accounting for Covid-19 related Government Grants

What is the risk?

The Council has received a significant level of government funding in relation to Covid-19. In 2020/2021, this consists of non-ringfenced Covid-19 response grants, amounting to £34.5 million and non-ringfenced funding totalling £20.1 million.

In addition, the Government announced further financial support to Councils in July 2020 to partially reimburse Councils for lost income (eligible lost sales, fees and charges income) resulting from Covid-19. For the year 2020/2021 this claim was forecast to be approximately £6.0 million.

Whilst there is no change in the CIPFA Code or Accounting Standard (IFRS 15) in respect of accounting for government grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment within the 2020/2021 statements.

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What judgements are we focused on?

We have identified a specific risk of misstatements that could affect the income and expenditure accounts and the balance sheet.

We consider the risk applies to the classification of Covid-19 related government grants in the comprehensive income and expenditure statement and any unspent grants in the balance sheet.

What did we do?

Our approach focused on:

- Sample testing Covid-19 Government Grant income to ensure that they have been correctly classified as specific or non-specific in nature;
- Sample testing Covid-19 Government Grant income to ensure that they have been correctly classified in the financial statements based on any restrictions imposed by the funding body;
- Reviewing the instructions and conditions of each Covid-19 grant that we were testing to corroborate the Council's assessment of whether they were acting as an Agent or Principal in disbursing the grants; and
- Comparing the Council's assessment of whether they were acting as 'agent' or 'principal' for each Covid grant to other Council's assessment to determine whether Peterborough City Council were an outlier in their treatment of any particular grant.

What are our conclusions?

Our sample testing of Covid-19 grant funding did not identify any grants that were incorrectly classified as specific or non-specific in nature, or any grants where the incorrect accounting treatment was applied.

Following audit challenge to date, our work has not identified any grants where Peterborough City Council's assessment of their role as 'agent' or 'principal' was inconsistent with other Councils. We are however addressing queries from our quality review processes to demonstrate in our audit work and documentation that we have applied appropriate professional scepticism on:

- Accounting for any grant where the Council bears the responsibility for any clawback;
- Risks and incentives associated with any deferred income;
- How eligible expenditure has been disbursed and met the conditions set out in the grant award; and
- Grants received in advance, and the extent to which any restrictions were in place and conditions were met.

Significant risk

Accounting for Empower Loan

What is the risk?

In 2019/2020 we reviewed the recoverability of the Council's £23 million loan to Empower Community Management LLP, taking account of conditions and events that took place before and after the balance sheet date. We agreed that it was appropriate for the Council to make a post balance event adjustment disclosure and impair the loan by £2.646 million.

Since the approval of the 2019/2020 statement of accounts the Council has decided to bring the solar panel assets and asset management arrangements in-house. We therefore expect the Council to obtain an up-to-date valuation of the assets as soon as practicable in order that the Council can determine whether there are any indicators of impairment and the basis on which the solar panel assets are recognised for financial reporting and asset management purposes. The Council will need to obtain this information to consider whether an adjusting or non-adjusting event is required and make appropriate disclosures and accounting judgements in the 2020/2021 financial statements.

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

33

What judgements are we focused on?

We have identified a specific risk of misstatements that could affect the balance sheet.

We consider the risk applies to the valuation of the Empower loan in the balance sheet.

What did we do?

Our approach focused on:

- Reviewing the governance arrangements and committee decisions made by the Council in relation to the Empower loan;
- Reviewing the external advise received by the Council to support the accounting treatment proposed.
- Assessing whether an adjusting or non-adjusting event has taken place which requires disclosure in the statement of accounts; and
- Engaging with our EY technical accounting specialist to confirm that the loan has been accounted for in line with the Code of Practice and accounting standards.

What are our conclusions?

No issues identified with the governance arrangements of the Cabinet decision to take the Empower solar panel portfolio in-house in 2021/2022. As the Council expects to realise the loan within 12 months after the reporting period – we agreed with management that it should be reclassified as short-term debtor instead of long-term debtor. We also raised an issue in relation to MRP, please see the MRP significant risk slide for further details.

The Council has added an events after the balance sheet note which correctly reflects the facts and circumstances with the Empower loan and decisions to bring management arrangements in-house.

We have asked the Council to obtain a new formal valuation of the solar panel asset portfolio as this will be required for the 2021/2022 statement of accounts and to include either as an adjusting or non-adjusting post balance sheet event the 2020/2021 accounts. A further impairment review should be undertaken at that stage.

We are currently awaiting the Council's updated group boundary assessment given the Empower events that have occurred up to the reporting date to conclude whether the Council has sufficient control and ability to vary benefits such that its interest in ECSP1 should be consolidated in the Council's 2020/2021 group accounts, including the valuation of solar panel asset portfolio.

Significant risk

Going Concern

What is the risk?

Our 2019/2020 statutory audit report concluded a material uncertainty in relation to the Council's ability to continue as a going concern associated with the continuity of service provision for the period of at least 12 months from the date of the authorised 2019/2020 financial statements.

The Council flagged the following in the draft 2020/2021 statement of accounts:

There are material uncertainties on the current levels of service provision as set out in Phase Two of the Medium Term Financial Strategy (MTFS) which estimates a budget gap of £26.8 million for 2022/2023 rising to £28.9 million in 2023/2024. Without additional funding from Government for the future years there remains a risk that the Council may not be able to set a balanced budget for the 2022/2023 financial year. Based on the information available at the time of publishing this document these uncertainties cast doubt over the Council's ability to continue operating the level of services currently provided beyond the next 12 months.

What judgements are we focused on?

We have identified a specific risk of misstatement that could affect the disclosures in the statement of accounts and the Council's ability to continue as a going concern.

We consider the risk applies to the Council's ability to continue with the current provision of services over the next 12 months.

What did we do?

Our approach focused on:

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

What are our conclusions?

There is a presumption that the Council will continue as a going concern. However, the current and future uncertainty over government funding and other sources of Council revenue as a result of Covid-19, increases the need for the Council 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.

Please see the following slide for our findings and conclusions.

Significant risk

Going Concern: What are our conclusions?

Findings and conclusions

Officers have carried out an assessment of the impact of Covid-19 on the Council'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.

The Council has been in ongoing discussions with the DLUHC in respect of its challenging financial environment since October 2020. In February 2021 the Council received conditional approval for Exceptional Financial Support (EFS) in the form of a £20 million Capitalisation Direction for use in 2021/22. In November 2021 CIPFA, commissioned by DLUHC, released a report detailing their financial assurance review of the Council. The report concluded that the financial challenges facing the Council are significant and urgent.

At Council held on 8 December 2021, the Medium-Term Financial Strategy (MTFS) 2022/23-2024/25 Phase One was approved, outlining a budget gap of £17.8 million in 2022/23, rising to £20.5 million at the end of 2024/25. Following the CIPFA report and a change in Chief Executive the Council approached their phase two MTFS with a more focused approach. This was preparing a tactical budget for 2022/23, which goes as far as possible to getting the appropriate balance between the Council's overriding objectives. This resulted in the Council setting a balanced budget based upon the delivery of a challenging savings programme. The Council recognises that these require focus to ensure delivery, whilst at the same time the Council is required to identify opportunities to deliver financial sustainability over the short, medium and longer term.

The financial operating context for the Council remains highly challenging with new uncertainties, such as Adult Social Care and funding reforms, and from risks creating additional pressures such as the exposure to inflation risk. The Council has identified a budget gap of £9.5 million in 2023/2024. Although the Council still has some way to go, the MTFS outlines the first MTFS 2023-2026 update, and the next steps being taken as part of the delivery of the Improvement Plan (agreed by Council in December 2021) which will lead to a future sustainable Council.

At the end of 2021/2022 revenue reserves balances were £60.5 million, but once accounting for commitments, ringfenced/risk reserves and the general fund, only £20.3 million of Innovation Delivery Fund is available for investment in programmes to drive the change required to become sustainable. Our analysis concludes that the Council will currently have sufficient reserves at the end of the going concern period. However, if the forecast budget gaps continue and worst-case scenarios materialise then reserves could be depleted by 31 March 2026.

The Council's cash flow modelling through to September 2023 demonstrates that it is able to work within its capital financing requirement. It has cash and short term investment balances of £30.8 million at 31 March 2022 and the ability for additional short term borrowing of up to £118 million.

We have reviewed the revised going concern disclosure and are satisfied that it adequately reflects the Council's assessment and informs the reader of the current position of the Council's finances. We are now completing our internal consultation with our Professional Practice Directorate on our audit work and assessment of the Council's going concern disclosure. We are considering whether a Material Uncertainty exists which would require reporting in our audit opinion. Our opinion is not modified in respect of this matter.

Significant risk

Derecognition of Infrastructure Assets upon Subsequent Expenditure / Replacement

New Risk

What is the risk?

An issue has been identified in recent months via the NAO's Local Government Technical Group that some local authorities are not writing out the gross cost and accumulated depreciation on infrastructure assets when a major part / component has been replaced or decommissioned. This matter is currently under consideration by CIPFA.

Asset registers do not tend to record infrastructure capital expenditure with sufficient detail and geographical specifics to enable identification of prior cost of replaced parts/components and related accumulated depreciation. So, it is challenging to identify the cost and accumulated depreciation balances that need to be derecognised.

If parts/components have not been derecognised when replaced or decommissioned:

- For assets that have been fully depreciated, the gross cost of the asset and accumulated depreciation will be overstated in the Property, Plant and Equipment note to the Balance Sheet. This will be a matching error, so will not impact on the Net Book Value (NBV) reported in the Balance Sheet.
- For assets replaced or decommissioned ahead of their useful economic life (UEL), i.e., the asset is not fully depreciated and has a positive Net Book Value at year end, the error will also impact the Balance Sheet, where asset values will be overstated.

What judgements are we focused on?

We have identified a significant risk of misstatement that could affect the Balance Sheet.

We consider the risk applies to the completeness and existence of infrastructure assets within the Council's Balance Sheet.

What did we do?

Our approach focused on:

- Reviewed Management's approach to derecognising infrastructure assets against the CIPFA Code of Practice requirements;
- Reviewed the asset register for the level of detail held to enable the correct accounting treatment;
- Testing any in-year derecognition to ensure there is a process in place for identifying replacement assets, and derecognising the previously recognised asset; and
- Undertook existence testing of Infrastructure Assets at the Balance Sheet date.

What are our conclusions?

Based on our initial discussions with the Council we do not believe there is sufficient appropriate evidence that the opening Infrastructure Asset balance is materially correct (Gross Book Value and Accumulated Depreciation) under the reporting requirements of the CIPFA Code of Practice, as there is insufficient evidence to conclude that the Code requirements were properly adhered to for the period from 2010/2011.

This would lead us to issue a 'limitation of scope' modified audit report. The limitation of scope would be in relation to the opening Infrastructure Asset balance at the 1 April 2020, for the reasons set out above.

However, CIPFA are currently consulting on a Code of Practice adaptation in respect of Infrastructure Asset accounting, given the nature and impact of the current Code reporting requirements. It is expected that any Code adaptation would not become extant until late in 2022, but could be retrospectively applicable to the 2020/2021 financial year.

The Council has expressed a wish to wait for the outcome of the CIPFA Code consultation and any adaptations to said Code, as this may address the issue leading to the 'limitation of scope' modified audit report.

Areas of Audit Focus

Other Areas of Audit Focus – Pension Liability Valuation and Pension Assets

The Council makes extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Cambridgeshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2021 this totals £322 million.

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

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. 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 Council's financial statements in relation to IAS19.

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

Our findings on each of these items are set out in the following slides.

Areas of Audit Focus

Other Areas of Audit Focus - Pension Liability Valuation & Pension Assets (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 Council's financial statements in relation to IAS19.	No issues have been identified with our audit procedures performed.
Fair value of fund assets	The Council 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 £7.293 million. The Council has decided to adjust for this difference and obtained a revised IAS 19 report from the actuary to support the adjustment. See Section 3 for further information.
McCloud	A consultation was launched in summer 2020 covering a proposed remedy for the issues raised by the McCloud case covering the LGPS. The consultation closed in October 2020. The Government published their response to the LGPS consultation in May 2021. The response to the LGPS consultation does not require the actuaries to make updates to their estimates in respect of McCloud, as these estimates already allow for the key variables confirmed by the statement (most notably which members are eligible for rectification).	We confirmed that the Council's liability adequately accounted for the impact of McCloud in previous periods.

Areas of Audit Focus

Other areas of audit focus

Pensions area	What we did	What we have concluded
ISA540 - Estimates	During the audit period we were notified of an issue across all Local Government audits within the sector. This is in relation to the impact of the new auditing standard on accounting estimates (ISA540) on planned procedures. We planned to take an audit approach to this estimate based on procedures to evaluate Management's process. The new auditing standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. Neither we, nor PWC as Consulting Actuaries commissioned by the NAO for all local government sector audits, are able to access the detailed models of the actuaries in order to evidence these requirements. Therefore, we have been required to modify our planned approach and undertake alternate procedures to create an Auditor estimate, in order to gain sufficient appropriate assurance. Our EY Pensions team were able to create a point estimate range based on their experience and understanding of defined benefit pension schemes. They collected key data for the admitted body, such as contributions, age profiles, membership data, from which they have created what they would expect an IAS19 liability to be. The outcome from this analysis was a difference between the actuary and EY Pensions Consulting of less than 1%, which was within our acceptable range. This provided us with corroborative assurance that the input control for the Council's actuarial model was working appropriately.	There were no issues to note in relation to the Council's actuarial model inputs.

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 Council has a material PFI arrangement for three secondary schools in Peterborough. PFI accounting is a complex area. We undertook a detailed review of the arrangements in 2018/19 and concluded that the accounting disclosures were materially correct. However, given the complexities involved and size of the liabilities we have identified the PFI accounting as an inherent risk.

In 2020/2021 the Council reported future PFI repayments totalling £154.0 million in the financial statements.

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

We consider the risk applies to the valuation of PFI liabilities in the balance sheet.

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.

Areas of Audit Focus

Other Areas of Audit Focus – Group Accounting

Our audit testing did not identify any issues with the group scoping. We did identify some issues with the consolidation of the group accounts which required the Council to reperform their consolidation, update their working papers and make some minor amendments to the figures in the group accounts.

In July 2018 the Council incorporated Peterborough Limited, a local authority trading company (LATCo), with the Council as the sole owner. Activity increased in the company in 2019/2020 to a level that is considered material.

Peterborough Live has continued to grow and group accounts are still required in 2020/2021. We note that Azets have been engaged as the auditors of Peterborough Live for 2020/2021.

We identify this as an inherent risk due to the growth on Peterborough Live and the fact that there are new, non-EY, auditors engaged for the 2020/2021 audit of Peterborough Live.

Our approach focused on:

- Reviewing the group assessment prepared by the Council, 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 component auditor of 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 Council's group accounts.

Areas of Audit Focus

Other Areas of Audit Focus – Business Rates Appeals Provision

Our audit testing did not identify any issues with the Council's calculation of the business rate appeals provision.

The calculation of the NNDR Appeals Provision is estimate based. Statistics compiled by the Department for Levelling Up, Housing and Communities (DLUHC), reveal that councils are forecasting net additions to appeal provisions totalling £927 million this financial year, and £1.2 billion next year. The reason behind the forecast increase is that, due to the impact of Covid-19, businesses are likely to seek reductions based on a decrease in rental prices on which rateable values are based.

In light of this we consider there to be a risk of misstatement of the Council's NNDR appeals provision.

Our approach focused on:

- Reviewing the assumptions made by the Council in their NNDR appeals provision calculation; and
- Assessing the reasonableness of any local adjustments made by the Council on the NNDR appeals provision.

Other Areas of Audit Focus – Other Bad Debt Provisions

Our audit testing did not identify any issues with the Council's calculation of the other bad debt provisions.

As a result of the impact of Covid-19, there may be increased uncertainty around the recoverability of receivables. The provision for these bad debts is an estimate, and calculation requires management judgement. We would expect the Council to revisit their provision for bad debt calculation in light of Covid-19 and assess the appropriateness of this estimation technique. Given that there might be some subjectivity to the recoverability of debtors the Council will need to consider the level of any provision for bad debts. In 2019/2020 we considered this with respect to NHS receivables but in 2020/2021 we have extended this to include other trade receivables, Council Tax and Business Rate receivables.

We have therefore raised as an inherent risk in our audit strategy.

Our approach focused on:

- Reviewing the calculation of the bad debt provision for reasonableness and accuracy; and
- Considering the recoverability of debts in testing a sample of trade receivables, Council Tax receivables and Business Rate receivables.

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

During the audit we have identified a significant number of audit differences in the draft financial statements which management has chosen to adjust. We have judged that the following adjustments warrant flagging to the Audit Committee in this report.

- **Pension Liability** – Reduction in the pension fund liability as a result of revised pension asset values from the Cambridgeshire Pension Fund. This resulted in a reduction of the pension fund liability on the balance sheet of £7.293 million. This reduces the Council's liability in the balance sheet but there is no 2020/2021 general fund impact resulting from this audit adjustment.
- **Long-term Debtors (Empower Loan)** – Reclassification of the Empower loan asset from long-term debtor to short-term debtor on the basis that the financial instrument will materialise in the 2021/2022 financial period. Impairment of the loan of £2.646 million and reclassification from short-term debtors to long-term debtors. This is a reclassification adjustment and there is no 2020/2021 general fund impact resulting from this audit adjustment.
- **Income and Expenditure (Shares in Higher Education Property Company)** – Reclassification of the accounting entries to remove the incorrect grossing up of income and expenditure to the value of £1.87 million. This is a reclassification adjustment between income and expenditure and the net impact in the comprehensive income and expenditure statement is £0, there is no 2020/2021 general fund impact resulting from this audit adjustment.
- **Creditors (Business Rates)** – We identified an overstatement of the creditor figure due to an incorrect calculation of the Business Ratepayer overpayments and prepayments. Creditors was overstated by £1.916 million. There is no 2020/2021 general fund impact resulting from this audit adjustment.
- **Creditors (Dedicated Schools Grant)** – We identified an overstatement of the creditor figure due to the unspent dedicated schools grant incorrectly appearing in creditors when it should be included in the schools balances reserve. Creditors was overstated by £3.263 million. There is no 2020/2021 general fund impact resulting from this audit adjustment.
- **Creditors (Brought-Forward DFE Grant)** – We identified an understatement of the creditor figure due to an incorrect brought-forward debit balance relating to DFE grant which had not been reversed in 2020/2021. Creditors was understated by £1.611 million. There is no 2020/2021 general fund impact resulting from this audit adjustment.
- **Creditors (Receipt in Advance)** – We identified an overstatement of the creditor figure (and debtor figure) due to an incorrect receipt in advance where the receipt had not been received as at 31 March 2021. Creditors was overstated by £1.100 million. There is no 2020/2021 general fund impact resulting from this audit adjustment.
- **Property, Plant and Equipment and Investment Property** – Due to the number of audit adjustments identified on PPE and investment property was have summarised these on a separate slide.

We are still in the process of concluding our audit procedures on the 2020/2021 engagement. If further material audit adjustments are identified we will ensure that these are brought to the attention of the Audit Committee.

Audit Differences

Summary of adjusted differences (continued)

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

- **Going Concern** – The impact of Covid-19 has substantial implications for the Council's finances. We therefore had to assess the work performed by the Council to ensure there was an adequate disclosure, with a supporting assessment, on the Council'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.
- **Collection Fund (Council Tax Receivable)** – We identified a transposition error in the collection fund statement where the council tax receivable had been disclosed as £109.333 million instead of £101.933 million. This lead to some other amendments of the total figures in the collection fund but did the figures used to calculate the precepting amounts were correct.
- **Post Balance Sheet Events** – The Council has added a disclosure note to cover the non-adjusting post balance sheet event in relation to bringing the solar panel portfolio in-house.
- **Leases** – Errors were identified in the leases workbook which required the Council to update the working paper and revise the leases disclosure in the statement of accounts.

We are still in the process of concluding our audit procedures on the 2020/2021 engagement. If further material audit adjustments are identified we will ensure that these are brought to the attention of the Audit Committee.

Audit Differences

Summary of adjusted differences (continued)

During the audit we have identified a significant number of audit differences in the draft financial statements in relation to property, plant and equipment and investment property which management has chosen to adjust. For further details of the errors and control weaknesses identified please see Appendix A. We have judged that the following accounting adjustments warrant flagging to the Audit Committee in this report.

- Four assets that had been disposed of during the year were not removed from the fixed asset register. The total value of the assets was £21.659 million, resulting in the overstatement of PPE of £21.659 million.
- Reclassification of the newly acquired 62-68 Bridge Street asset from investment property to PPE as the asset was not purchased for the sole purpose of investment returns. This resulted in the understatement of PPE and the overstatement of investment property by £4.164 million. We also challenged the valuation of the property and the Council commissioned a separate valuation which has resulted in a valuation of £2.890 million as at 31 March 2021. The Council have recognised an impairment of £1.274 million on property, plant and equipment.
- Community centres were incorrectly valued using EUV methodology and should have been valued on a DRC valuation methodology. There were 16 community centre requiring revaluation resulting in the understatement of PPE of £4.134 million.
- Correction between land/building element of asset (SIMs site) incorrectly grossed to the revaluation reserve and expenditure respectively - £0.964 million. This is a reclassification adjustment with £0 impact on the net PPE balance.
- The Council owns 396 hectares of Community Related Asset (CRA) land which historically has not been held on the balance sheet. This land was inherited from the former Peterborough Development Corporation in 1988 and attracts covenants on sale payable on Homes England. As a result of our work, £1.306 million has been recognised on the balance sheet relating to 44.9 hectares. The Council has also added a narrative disclosure to the statement of accounts explaining the CRA land. This resulted in the understatement of PPE of £1.306 million.
- Incorrect revaluation recorded to the fixed asset register for asset E0688 (Sycamore Avenue Recreation Ground). The asset should have been recorded as £0.782 million instead of £0.078 million). This resulted in the understatement of PPE of £0.704 million.
- Misappropriation in the PPE disclosure note between reversal of impairment and downward revaluation of £0.443 million. This is a reclassification adjustment with £0 impact on the net PPE balance.
- The aggregate of other adjustments identified in relation to PPE is £2.134 million. This resulted in the understatement of PPE of £2.134 million.
- The aggregate of other adjustments identified in relation to investment property is £0.367 million. This resulted in the understatement of investment property of £0.367 million.

Audit Differences

Summary of unadjusted differences

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

- As a result of our audit procedures in relation to the Empower Loan we identified that the Council had not followed their 2020/2021 minimum revenue provision (MRP) policy and did not apply MRP on the value of the loan which was impaired in 2019/2020. The existing policy indicates MRP should be charged on "the outstanding loan amount" as the loan was impaired in 2019/2020. The outstanding loan amount is the amount not expected to be recovered via capital receipt or the exercise of security. This impairment value was £2.645 million. The current policy requires this to be charged over the next MTFS periods (3 years). No charge has been made in 2020/2021. We therefore believe that MRP has been understated by £0.882 million (£2.645 million / 3 years).

We have discussed this finding with Management and as the Empower Loan impairment was identified after the 31 March 2021, as part of the 2019/2020 audit, Management have applied the MRP for the impairment prospectively as part of their 2021/2022 MRP policy.

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

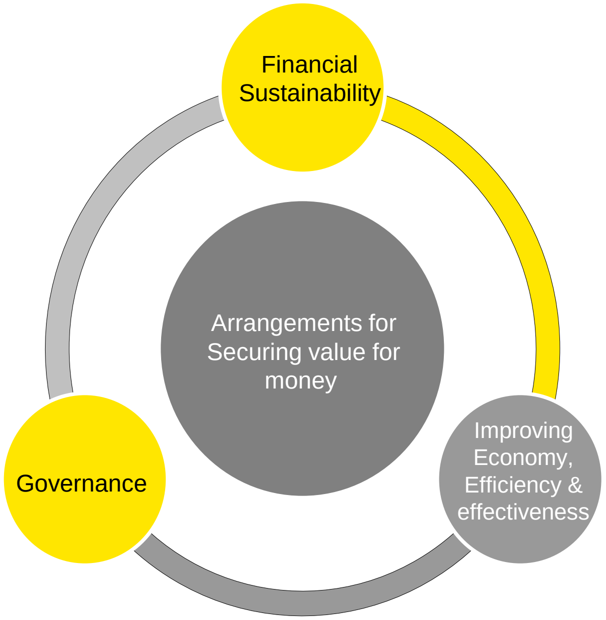
04 Value for Money

Value for money

The Council's responsibilities for value for money (VFM)

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

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the Cipfa code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.



Risk assessment

In our Audit Plan dated 2 September 2021 we confirmed that we had identified the two following areas of significant weakness in our initial value for money risk assessment:

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

We can now confirm that we have concluded our detailed VFM planning and risk assessment, including revisiting as a result of audit findings, and that we have not identify any additional significant weaknesses in the Council’s arrangements against the three reporting criteria we are required to consider under the NAO’s 2020 Code.

Status of our VFM work

We are in the process of concluding our value for money procedures but have provided commentary on the two significant weaknesses in the following slide. We are required to complete our mandatory internal consultation on the implications of our findings on our audit report.

We will formally issue the value for money commentary within our Auditor’s Annual Report, which we plan to issue by the end of September2022.

Value for Money

Responding to a risk of significant weakness in VFM arrangements

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?
We reported an adverse value for money opinion in 2019/2020. This was to recognise that the structural financial resilience pressures and concerns facing the Council before and after the Covid-19 pandemic have a significant and pervasive impact on the Council's ability to secure adequate arrangements for Value for Money in its use of resources. In October 2020 the Council approached MHCLG to enable the further exploration of alternatives to issuing a Section 114 notice. The Council has been engaged in regular discussions with MHCLG in respect of the Council's finances. In February 2021 the Council received conditional confirmation for a Capitalisation Direction of up to £4.8 million in 2020/2021 and approval in principle a Capitalisation Direction of up to £20.0 million in 2021/2022. This exceptional support has enabled the Council to prepare a balanced budget for 2021/2022. The Council continues to report significant gaps in the budget over the period of the Medium Term Financial Strategy which have still not been addressed. The cumulative unmitigated budget gap to 2023/2024 is £55.7 million and this also includes the successful delivery of £17.9 million of savings up to that period and some savings which are still subject to finalisation. It also includes the conditional capitalisation direction approved by MHCLG. Whilst the Council is taking action to identify ways to bridge the gaps, there remains a significant risk to its financial sustainability.	**Reporting Criteria – Financial Sustainability:** how the Council plans and manages its resources to ensure it can continue to deliver its services	Our approach focused on: Phase 1 – Financial Resilience Concerns (August to November 2021): • Robust review of the Council's Medium Term Financial Strategy and the concerns raised by the Chief Financial Officer, including correspondence with MHCLG on the conditional capitalisation direction; • Developing an understanding of how the Council identifies its budget gaps and risk mitigations; • Consideration of exercising our statutory powers at this point and if appropriate issuing a statutory written recommendation under section 24 (schedule 7) of the Local Audit and Accountability Act 2014. Phase 2 – Council's Response to Financial Resilience Concerns (September 2021 to November 2021): • Developing an understanding of how the Council quantifies and quality assures its savings plans; • Reviewing the extent to which the Council is addressing the future budget gaps identified within its Medium Term Financial Strategy, including the robustness of assumptions and judgements associated with savings and transformation plans. • Consideration of exercising our statutory powers at this point and if appropriate issuing a statutory written recommendation under section 24 (schedule 7) of the Local Audit and Accountability Act 2014. For both of these areas, we have utilised specialist support to work with the audit team in reviewing, challenging and exercising appropriate professional scepticism on the savings and transformation plans.

Value for Money

Findings relating to the Council's arrangements in the 2020/2021 financial year

Please note that these findings relate to the arrangements in place during the 2020/2021 period. For further information on the Council's current financial position please see our conclusion in relation to going concern in section 2 of this report.

Phase 1 Conclusion: Our resilience indicator assessment identified two areas of high risk to Peterborough City Council's financial resilience. These are the savings requirement needed to bridge the budget gap and the reserve levels that the Council has available to deal with this gap if left unmitigated. Both of these items place an immediate risk to the Council's financial resilience.

Our base case financial modelling (Scenario 1), presented a position that was broadly consistent with the position provided in Peterborough City Council's Medium-Term financial strategy. This suggests that the Council had made appropriate considerations of financial risk over their MTFS period.

Overall, Peterborough City Council's financial resilience is a high risk to their ability to provide value for money over the medium-term, with the forecast budget gap and related financial uncertainty making it difficult for the Council to make meaningful and sustainable decisions that provide value for money.

Phase 2 Conclusion: Our analysis of the Council's savings and efficiency programme found that for the latest development of the 2021/2022 savings plan, the Council exhibits good practice in the design principles of its savings plan, with key documentation evidenced to support thorough savings development and thematic and directorate breakdowns consistent with their outturn and budgeted position. However, it should be noted that there is a significant gap when comparing the programme to the total financial challenge.

The Council has comprehensive governance processes established for developing, monitoring and reporting against savings proposals. Evidence was provided that these processes are regularly conducted and receive the appropriate level of political and strategic oversight. However, a governance risk does exist given the size of the future gap, with more effective governance needed to bridge the gap.

It is also noted that the Council has made significant progress in strengthening this monitoring process, through using the Rapid Implementation Team (RIT) to regularly monitor progress against savings plans and report to the Corporate Management Team (CMT). It is however recommended that this reporting is reinstated in the Budgetary Control Reports.

The current budget gap presents the Council with significant savings targets to be achieved over the medium-term. Based on both past performance against savings plans and the scale of the gap, the current financial gap poses a significant risk to the Council's financial resilience. The Council is facing a significant financial challenge in the upcoming financial year and achievable plans for meeting that gap have currently not been developed within the Council's MTFS.

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

Please note that we have added additional analysis at Appendix H. This analysis provides additional commentary on the work we performed with specialist support during the course of the audit to review the Council's financial sustainability.

Responding to a risk of significant weakness in VFM arrangements

What is the risk of significant weakness?	What arrangements did this impact?	What did we do?
In 2019/2020 we sought to understand the Council's £23.4 million debtor associated with a loan to Empower Community Management LLP. The loan related to the construction of solar panels for residential properties, which was first recognised in the 2014/2015 financial statements. The Council's draft 2019/2020 financial statements had recognised the £23.4 million loan as an unimpaired short-term debtor. On 11 March 2021 the Empower team informed the Council they were unable to make the full repayment of the last quarter's loan instalment and requested the loan be reprofiled to accommodate this shortfall. As a result of the default, EY requested a revaluation of the loan considering the new information in order that a post balance event may be included in the 2019/2020 accounts. The Council was advised they could use their weighted average cost of capital to calculate the fair value of the loan. This returned a loan value of £20.379 million. The Council used this valuation in their final 2019/2020 statement of accounts.	**Reporting Criteria – Governance:** how the body ensures that it makes informed decisions and properly manages its risks	Our approach focused on: • Advice sought by the Council to support its decision making for the renegotiation of the loan; • The decisions made by the Council in the Committee meetings where the Empower loan was discussed; • Considering the advice received by our EY specialists on the aggressive refinancing of the loan; • Consideration of the Council's decision making for any similar financing arrangements, for example the redevelopment of the Hilton Hotel; and • Consideration of exercising our statutory powers at this point and if appropriate issuing a statutory written recommendation under section 24 (schedule 7) of the Local Audit and Accountability Act 2014.

Findings

As part of our enquiries, we became aware that in October 2020, the Council, with the support of legal and specialist corporate finance advisors, renegotiated the terms of the loan. The loan repayment profile within the Heads of Terms, agreed by both parties, was underpinned by an aggressive financial model. This was discussed by the Council, its advisors and Empower, and assurances were given by Empower that this was achievable and realistic despite its aggressiveness in comparison to other market solar portfolios.

In March 2021 Empower Community Management LLP defaulted on the loan. The Council sought advice from its advisors Deloitte and Pinsent Mason and to serve notice of repayment for the loan. Teneo Restructuring Ltd were appointed jointly by the Council and ECSP1 to provide insolvency advice. Deloitte assessed the Fair Value 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 Council considered advice from their treasury advisor Link and utilised a report from Teneo Restructuring Ltd which considered various options, recommending one which would maximise the return to the Council.

Responding to a risk of significant weakness in VFM arrangements

Findings (continued)

This considered the value of the loan calculated from the underlying Net Present Value (NPV) of the forecast cash flows at the Council's weighted average cost of capital of 2.1%. This is because the Council's recommendation to Cabinet was to bring the operation in-house and therefore was a more appropriate approach for estimating the carrying value of the loan at 31 March 2020. This value was calculated by Deloitte at £20.400 million and resulted in the Council recognising an impairment of £2.646 million in the 2019/2020 financial statements.

Whilst the Council had taken the appropriate steps to seek specialist legal, professional and commercial advice on the events that took place with the financing of the loan during 2020/2021; adjusting and reporting these circumstances in the 2019/2020 statement of accounts and in decision making papers to Cabinet on 21 June 2021, nevertheless we believe there were significant weaknesses in the governance arrangements with Empower Community Management LLP during the 2020/2021 financial year which has exposed the Council to financial loss. Our specialist work determined that the re-financing of the loan after the balance sheet had aggressive assumptions on debt/equity ratios, which we note the Council also recognised in its decision making papers.

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We have flagged an unadjusted audit difference in relation to the accounting of minimum revenue provision (MRP) for the Empower Loan. We have also flagged issues with the appropriateness of the MRP policy for capital loans. See Sections 2 and 3 for further information.

We have performed a review of the governance arrangements leading to the £15 million loan facility agreement from the Council to Fletton Quays Hotel Limited. The agreement is for the construction of a nine-storey, 160-bedroom hotel (Hilton Garden Inn) including meeting rooms, fitness centre, riverside restaurant and rooftop bar. The Council performed due diligence checks, reputational and background checks on the parties involved. The Council also obtained viability and feasibility reports from specialists on the construction of another hotel in Peterborough. The Council also engaged with legal specialists to oversee the contract development. We did not identify any weaknesses in the governance of setting up the financing arrangement with Fletton Quays Hotel Limited.

Recommendation(s)

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

We have also made a recommendation in relation to the Council's minimum revenue provision policy. See Section 2 for further information.

05 Other reporting issues

Other reporting issues

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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 Narrative Report 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 Narrative Report 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.

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.

The NAO's Whole of Government Accounts (WGA) team issued Group Audit Instructions (GAI) in respect of the 2020-21 WGA process on 28 July 2022. In a change to the process for 2020/2021, HM Treasury have elected to raise the threshold for local government entities to £2 billion, aligning it with the central government threshold. As group auditor, the NAO WGA team will need to consider the revised HM Treasury thresholds alongside HM Treasury's developing analytical review controls to determine whether they require, for their purposes, any assurances from auditors of components who are below the HM Treasury thresholds. Where additional work is required the NAO WGA team will contact the relevant component auditor(s) regarding the scope and timing of this work.

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

As the Council would fall below the testing threshold set by the NAO for detailed procedures on the consolidation return, we therefore do not expect to have any issues to report.

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 Council 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 Council, 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 Council has taken all the appropriate steps to openly disclose and report its financial resilience concerns to DLUHC, taxpayers and other key external stakeholders. This applies to the conditions existing before and during Covid-19 when the Council 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 Council's unaudited 2020/2021 financial statements. The Council has formally notified and continue ongoing dialogue with DLUHC on their financial condition and concerns which includes exploring all options on securing a viable Council now and in the future. The Council have followed the spirit and intent of the CIPFA guidance on section 114 reporting.

The Council has updated the going concern disclosures and assessments to reflect the outcome of the Council's 2022/2023 budget setting exercise and respond to the improvement actions required from the CIPFA reviews, commissioned by DLUHC, into the Council's financial sustainability and governance arrangements. We remain concerned about the Council's financial condition and the impact on future budgets and service provision for the taxpayers of Peterborough. We engaged our EY corporate financial specialists to review the robustness of the Council's 2022/2023 budget, and these findings are presented separately to the 31 August 2022 Audit Committee. We have completed our review of the Council's updated going concern assessment and disclosures, and are now in consultation with our professional practice team if we need to modify our audit report and also exercise any of our statutory audit powers should we have any significant concerns on the appropriateness of the Council's disclosures and ongoing arrangements to secure its financial sustainability. We will confirm our final audit reporting at the conclusion of the 2020/2021 audit and in our Auditor's Annual Report which we expect to finalise by the end of September 2022.

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 Council's financial reporting process. They include the following:

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

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

06 Assessment of Control Environment

Assessment of Control Environment

Financial controls

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

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

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

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

We have identified three control findings which we would like to bring to your attention:

1. As part of our audit procedures performed in relation to the valuation of property plant and equipment and investment property we identified a significant number of weaknesses and deficiencies in controls. Please see Appendix A for further information.

Recommendation: We recommend that the Council work with the property valuer to address the findings from our audit; ensure that the scoping of the work is clear, that the valuations follow the RICS red book valuation principles and guidance, especially when pertaining to specialist properties.

Recommendation: We recommend that the Council engage with specialist RICS qualified plant and machinery valuers for the energy for waste asset and also for the solar panel portfolio which will be coming on to the Council's balance sheet in 2021/2022 financial year.

2. As part of our audit procedures performed in relation to payroll we have identified that although the schools perform their own payroll reconciliations the Council do not perform any regular reconciliations of schools payroll.

Recommendation: We recommend that the Council revisit their controls covering the reconciliation of schools payroll and introduce regular, or at a minimum annual, reconciliation of school payroll expenditure between the schools payroll system and the Council's general ledger system.

3. As part of our audit procedures performed in relation to debtors we identified credit balances of £1.785 million of unallocated cash (1,568 transactions) and £1.048 million of cash adjustments. We would not expect this level of unallocated cash in the debtors population.

Recommendation: We recommend that the Council regularly review their unallocated cash and cash adjustment credit items on a regular basis and ensure that this is cleared down to a trivial level before the year-end and preparation of the 2021/2022 financial statements.

07 Data Analytics

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 2020/2021, our use of these analysers in the Council'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

Relationships, services and related threats and safeguards

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

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

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

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit Committee on 31 August 2022.

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

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Services provided by Ernst & Young

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

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

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

Other communications

EY Transparency Report 2021

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 2021:

EY UK 2021 Transparency Report | EY UK

Independence

Services provided by Ernst & Young

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for the DLUHC.

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

	Planned Fee 2020/2021	Final Fee 2019/2020
	£	£
Scale Fee – Code work	83.570	83,570
Changes in work required to address professional and regulatory requirements and scope associated with risk	96,250	(Note 2)
Revised Proposed Scale Fee (see Note 1)	**179,820**	**(Note 2)**
Additional work:		
2019/2020 Final PSAA approved scale fee variation	-	91,979
2020/2021 Additional Procedures required in response to the additional risks identified in this report in respect of: • Empower Loan Accounting, including engagement with EY specialist; • Accounting for Covid-19 related Government Grant income; • Business Rates Appeals Provision; • Other Bad Debt Provisions; • Liaising with non-EY group auditor; • Increased responsibilities under ISA540 – accounting estimates; • Audit adjustments and control weaknesses identified during the audit, particularly on asset valuations; • Changes to the NAO Code for Value for Money Arrangements; • National issue in relation to infrastructure assets; • Engagement with EY specialists in relation to PPE valuations, pensions, MRP and going concern; and • Value for Money significant weaknesses procedures, including use of corporate finance specialists.	Estimated £115,000 (Note 3)	
Total fees (excluding VAT)	**294,820 (estimated)**	**175,549**

Note 1: For 2019/2020 and 2020/2021, we have proposed an increase to the scale fee to reflect the increased level of audit work required which has been impacted by a range of factors, as detailed in our 2019/2020 Audit Plan. Our proposed increase has been discussed with management and is currently with PSAA for determination. Note that PSAA have approved a 25% increase for recurring fees in 2020/2021.

Note 2: PSAA approved the 2019/2020 additional audit fees on 18 March 2022. We submitted an additional audit fee of £129,701 (£77,000 for changes in work required to address professional and regulatory requirements and scope associated with risk and £52,701 for additional audit procedures required as reported within the 2019/2020 Audit Results Report). PSAA approved £91,979 of this additional audit fee.

Note 3: We have estimated the potential additional fees for the purposes of this report. We will determine the final additional audit fees in relation to the 2020/2021 engagement on completion of the audit. We will discuss all additional fees with management before submission to PSAA for determination. We will report these to the Audit Committee via our Auditor's Annual Report.

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.

Fees (continued)

We do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity. For an organisation such as Peterborough City Council the extent of audit procedures now required mean it will take approximately 3,000 hours to complete a quality audit. The 2020/2021 audit procedures have to-date taken us 3,800 hours. A commercial benchmark for this size of external audit would be in the region of £418,000. Your scale fee is £83,570 and our current estimate is a final fee of approximately £294,820.

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.

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

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

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

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

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

Appendix A

Fees (continued)

Summary of key factors (cont'd)

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

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

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

Next steps

We provided PSAA with the breakdown of our audit procedures, skill mix and time requirements that supports our fee variation proposals for the 2019/2020 audit. PSAA approved the 2019/2020 additional audit fees on 18 March 2022. We submitted an additional audit fee of £129,701 (£77,000 for changes in work required to address professional and regulatory requirements and scope associated with risk and £52,701 for additional audit procedures required as reported within the 2019/2020 Audit Results Report). PSAA approved £91,979 of this additional audit fee.
We will continue to follow a similar set of principles to discuss with management our proposed fee variations for the 2020/2021 audit and thereafter provide our supporting information and explanations for PSAA to determine. We will report to the Audit Committee our proposed variation to the 2020/2021 audit in our Auditor's Annual Report which we plan to issue in September 2022.

09 Appendices

Significant risk findings – valuations of property plant and equipment and investment properties

What are our conclusions?

Our mandatory procedures identified the following issues in relation to property, plant and equipment and investment property valuations.

Our EY Real Estates specialist noted that the Norfolk Property Services – Peterborough Limited (NPS) valuer report did not include the disclosures required by the RICS Valuation Standards for valuations undertaken for financial reporting purposes. These include confirmation of the percentage of the firm's fee income which is derived from the instruction (in 5% bands) and the length of time the firm and the current signatory have been responsible for the valuation instruction.

In relation to Energy from Waste facility, the valuer relied upon a valuation previously performed by the previous Council valuer (Wilks, Head and Eve). When EY received the analysis performed by the valuer the excel file was still in the previous valuer format and editing, i.e. the valuer had not assembled their own valuation data platform and workings. This situation was compounded by the fact the previous valuer analysis was very limited in scope and depth. We recommend that a specialist valuer is engaged for the 2021/2022 Energy for Waste Facility valuation.

NPS did not allocate costs to the specialised building and plant and machinery. In accordance with RICS Red Book principles, we would expect NPS to have reported under the appropriate asset categories and corresponding allocation to Fair Value, bearing in mind the valuation was for accounting purposes.

We also note that no valuation commentary/report was provided, and which would normally be expected to include:

- Summary of principal assets being valued, including construction history, process type, capacity, historical & projected utilisation
- Summary of other assets, e.g. shared assets, infrastructure
- Valuation Date & basis of value
- Description and outline mathematics of valuation approach & methodology adopted, whilst quoting and observing valuation standards and disclosure of supporting valuation data sources and their application
- Explanation of key valuation inputs – e.g. asset age, valuation life, depreciation type and residual value at the end of the asset life
- Overview of information relied on to perform the valuation
- Summary of key assumptions & limitations

EY were only able to understand the key assumptions through calls and additional information requests which is a time consuming and ineffective way to review a valuation.

In summary, we would recommend that the valuers follow RICS red book valuation principles and guidance pertaining to specialist properties such as this one and in particular regarding the valuation of specialised buildings, dedicated machinery & equipment and the corresponding plant and machinery assets. In the event that the valuer lacks sufficient experience in this regard, they should engage with a RICS qualified plant and machinery valuer.

Significant risk findings – valuations of property plant and equipment and investment properties (continued)

What are our conclusions?

- Reclassification of 62-68 Bridge Street (former TK Maxx) from investment property to PPE as not held solely for capital appreciation or income - £4.164 million balance sheet reclassification. We challenged the valuation of the property and the Council commissioned a separate valuation which has resulted in a valuation of £2.890 million as at 31 March 2021. The Council have recognised an impairment of £1.274 million on property, plant and equipment.
- The following disposals were omitted from the FAR and SoA:

  1. Omitted to dispose of Hampton Lakes Primary School which converted to academy status on completion in 2020/2021 - £7.190 million;
  2. Omitted to dispose of Phoenix Special School which converted to academy status on 01/06/2020 - £9.815 million;
  3. Omitted to dispose of The Future Business Centre asset which formed part of Peterborough Football Stadium - £4.298 million;
  4. Omitted to dispose the site of Thomas Deacon Academy which converted to academy status in 2008 - £0.355 million

  TOTAL = £21.659 million (credit to PPE)
- 16 Community Centres were inappropriately valued under an EUV basis, requiring an active commercial market, which is not considered to exist for such assets. Applying discounted rental values & investment yields under an EUV approach will typically result in a value which is significantly below what it would cost to replace the service potential for the Council, especially for newer buildings. NPS were instructed to revalue these assets following a DRC approach. As a result property, plant and equipment was understated by £4.134 million.
- Land at Dodson House land double counted - £0.342 million overstated – credit to PPE.
- NPS revised valuations following audit procedures – net £0.954 million overstated – credit to PPE.
- Various issues identified as a result of our investment property valuation testing. Eleven property values amended – net £0.367 million understated – debit to IP. We also identified that investment property contracts have not been reviewed in the past 10 years.
- The Council owns 396 hectares of Community Related Asset (CRA) land which historically has not been held on the balance sheet. This land was inherited from the former Peterborough Development Corporation in 1988 and attracts covenants on sale payable on Homes England. As a result of our work, £1.306 million has been recognised on the balance sheet relating to 44.9 hectares. The Council has also added a narrative disclosure to the statement of accounts explaining the CRA land. This resulted in the understatement of PPE of £1.306 million.

Appendix A – continued

Significant risk findings – valuations of property plant and equipment and investment properties (continued)

What are our conclusions?

- Incorrect revaluation recorded to FAR for asset E0688 (Sycamore Avenue Recreation Ground) (£0.782 million instead of £0.078 million) – Credit PPE £0.704 million
- Misappropriation between reversal of impairment and downward revaluation (£0.443 million) – impacts Note 17 and the MIRS – Nil net impact on PPE
- SIMS Site - correction between land/building element of asset incorrectly grossed to revaluation reserve and CIES respectively - £0.964 million. Ultimately nets off via MiRS but £0.964 million credit to expenditure
- Several assets acquired in 2019/2020 did not have an economic useful life (EUL) entered on the fixed asset register (FAR). This issue was identified by the Council and a manual entry of £1.082 million was required to correctly update the year-end depreciation figure for these assets as the asset register had calculated a £0 depreciation charge.
- Assets not revalued in 2020/2021 work - £3.2 million of assets last revalued in 2015/2016 or 2014/2015. This falls outside the 5-year rolling cycle and the Council should ensure they are revalued in 2021/2022.
- Our expectation would be for the Council to challenge the market review prepared by their valuers and to develop an estimation for any potential impact upon non-revalued assets; responding to these estimations accordingly. I.e., if this market review indicates a material movement, to engage their valuers in revaluing an additional set of properties.
- The revaluation method adopted for £45.4 million of assets revalued in previous years (not in 2020/2021) could not be identified. This is because the revaluation method column in the FAR is blank. It is understood this data was lost as a result of an update to the database. This demonstrates a lack of control over the asset register.
- Asset useful lives have not been disclosed in the statement of accounts which is a requirement of the CIPFA Code of Practice.

Audit approach update

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

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

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

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

Appendix C

Summary of communications

Date	Nature	Summary
11 August 2021	Meeting	The Audit Team met with the Council to discuss the audit strategy and likely audit risk.
13 September 2021	Report	The Audit Partner meet with the Audit Committee and senior members of the management team to present the Audit Plan. Our report included confirmation of independence.
Various	Meetings	Regular calls held by the Audit Manager with the Finance Team to discuss any emerging issues throughout the audit process throughout September to November.
29 November 2021	Meeting	The Audit Partner met with the Audit Committee and senior members of the management team and provided an update on the progress and status of the audit.
3 December 2021	Meeting	The Audit Team met with the Senior Officers to discuss the audit progress and emerging issues.
21 December 2021	Meeting	The Audit Partner met with the Chief Executive to discuss the position of the Council's Medium Term Financial Plan before her retirement.
18 January 2022	Meeting	The Audit Partner and Audit Manager held a call with the new Chief Financial Officer to discuss the audit findings, focusing on PPE, and agree the timeline for audit conclusion.
25 February 2022	Meeting	The Audit Manager and the EY Strategies and Transactions Team met to discuss the closing stages of the value for money work, focusing on the developments in the phase two Medium Term Financial Plan.
28 February 2022	Meeting	The Audit Manager met with the Senior Officers to discuss the audit progress and emerging issues.
1 March 2022	Meeting	The Audit Partner and Audit Manager held a call with Senior Officers to discuss the approach to the final going concern disclosures and the outstanding audit requests.
7 March 2022	Meeting	The Audit Partner and Audit Manager held an introduction call with the new Chair of the Audit Committee
17 March 2022	Report	The Audit Partner and Audit Manager met with the Audit Committee to discuss the conclusion of the audit and the emerging issues in the Audit Results Report.

Appendix C – continued

Summary of communications (continued)

Date	Nature	Summary
21 March 2022	Meeting	The Audit Partner met with the Audit Committee and senior members of the management team and provided an update on the progress and status of the audit.
30 March 2022	Meeting	The Audit Partner met with the Audit Committee and senior members of the management team and provided an update on the progress and status of the audit and discuss audit findings.
15 June 2022	Meeting	The Audit Partner and Audit Manager provided a briefing and training session for Audit Committee members.
20 June 2022	Meeting	The Audit Partner met with the Audit Committee and senior members of the management team and provided an update on the progress and status of the audit.
25 July 2022	Meeting	The Audit Partner met with the Audit Committee and senior members of the management team and provided an update on the progress and status of the audit.
3 August 2022	Meeting	The Audit Partner and Audit Manager held a call with Senior Officers to discuss the approach to the emerging infrastructure asset issue.
12 August 2022	Meeting	The Audit Partner and Audit Manager held a call with Senior Officers and CIPFA to discuss the approach to the emerging infrastructure asset issue.
17 August 2022	Meeting	The Audit Partner and Audit Manager held a call with Senior Officers to discuss the approach to the emerging infrastructure asset issue.
31 August 2022	Meeting/Report	The Audit Partner and Audit Manager met with the Audit Committee and senior members of the management team to discuss the Audit Results Report (ISA260).

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.

Appendix D

Required communications with the Audit Committee

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

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Plan – 2 September 2021 presented to the Audit Committee on 13 September 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan – 2 September 2021 presented to the Audit Committee on 13 September 2021
Significant findings from the audit	▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process	Audit Results Report - presented to the Audit Committee on 31 August 2022

Appendix D – continued

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Major Local Audits	For the audits of financial statements of major local audits 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 – 2 September 2021 presented to the Audit Committee on 13 September 2021 Audit Results Report - presented to the Audit Committee on 31 August 2022

Appendix D – continued

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	Our conclusion in relation to going concern is currently outstanding as set out in Section 1 of this report. This is pending receipt of updated going concern disclosure note, management assessment and our professional practice consultations.
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 - presented to the Audit Committee on 31 August 2022
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 - presented to the Audit Committee on 31 August 2022
Fraud	▸ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ Unless all of those charged with governance are involved in managing the Council any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▸ Any other matters related to fraud, relevant to Audit Committee responsibility.	Audit Results Report - presented to the Audit Committee on 31 August 2022

Appendix D – continued

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Related parties	Significant matters arising during the audit in connection with the Council'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 Council	Audit Results Report - presented to the Audit Committee on 31 August 2022
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.	Audit Plan – 2 September 2021 presented to the Audit Committee on 13 September 2021 Audit Results Report - presented to the Audit Committee on 31 August 2022
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

Appendix D – continued

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Consideration of laws and regulations	▸ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▸ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of	Audit Results Report - presented to the Audit Committee on 31 August 2022
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Audit Results Report - presented to the Audit Committee on 31 August 2022
Written representations we are requesting from management and/or those charged with governance	▸ Written representations we are requesting from management and/or those charged with governance	Audit Results Report - presented to the Audit Committee on 31 August 2022
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	▸ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report - presented to the Audit Committee on 31 August 2022
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report - presented to the Audit Committee on 31 August 2022
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 – 2 September 2021 presented to the Audit Committee on 13 September 2021 Audit Results Report - presented to the Audit Committee on 31 August 2022

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Appendix E

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Going concern consultation	EY internal consultation on the Council's revised going concern disclosure and the impact on our audit report	EY and management
Value for money reporting	EY internal consultation on the impact on our audit report of the value for money significant weaknesses work and any proposed modifications to our auditor report.	EY
Infrastructure assets	EY to review the appropriateness of the Council's revised accounting and disclosures on infrastructure assets once a final resolution has been confirmed to the CIPFA Code of Practice for financial reporting and any other statutory provisions.	EY and management
Updated group boundary assessment	EY awaiting the Council's updated group boundary assessment in relation to Empower given the events that have occurred up to the reporting date, and our review of this with specialist financial reporting support in EY	EY and management
New Engagement Partner review and associated quality review processes	Given the Council's decision to wait for a CIPFA resolution to the infrastructure asset issue, the audit will not be completed before Neil Harris leaves EY. Janet Dawson will replace Neil and will be required to perform a full review of the file.	EY
Additional audit quality procedures	Additional evidence required in relation to journals and Covid-19 grants testing.	EY and management
Receipt of management representation letter	Management to prepare and provide us with their representation letter for the 2020/2021 audit	Management
Subsequent events procedures	Extension of some audit procedures like review of minutes and testing for unrecorded liabilities and provisions up to the date of our auditor's report	EY and management
Checks to the final amended set of accounts	EY to receive final set of accounts with all audit adjustments, and review it for consistency with our schedule of misstatements	EY and management
Final Manager, Engagement Partner and Quality Review Partner reviews	All areas of the audit are required to have full review by the appropriate member of the audit team	EY
Whole of government accounts procedures	NAO assurance statement to be submitted and need to wait for any specific instructions from NAO for sampled components. Note that the completion of this work is not required for the release of our audit report, but is required for our audit certificate and closure of the audit.	EY

Until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge or we may not agree on final detailed disclosures in the Council's financial statements.

Appendix F – Draft Request for a Management Representation Letter

Request for a Management Representation Letter

[To be prepared on the entity's letterhead]

31 August 2022

Neil Harris
Partner

Ernst & Young
400 Capability Green
Luton
Bedfordshire
LU1 3LU

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 2021. 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 2021 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and for the Council, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

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 2020/21.

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 2020/21. 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 2020/21 that are free from material misstatement, whether due to fraud or error.

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].

6. We confirm the Group and Council does not have securities (debt or equity) listed on a recognised exchange.

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;

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Appendix F – Draft Request for a Management Representation Letter (continued)

Request for a Management Representation Letter

- 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 31 August 2022.
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 2021 year-end. These transactions have been appropriately accounted for and disclosed in the consolidated and Council financial statements.
5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
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 unauthorised 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

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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 41 to the consolidated and council financial statements all guarantees that we have given to third parties.

E. Going Concern

1. Note 45 to the consolidated and parent entity 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.

F. Subsequent Events

1. Other than those described in Note 47 to the consolidated and Council financial statements, there have been no events, including events related to the COVID-19 pandemic or events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, subsequent to year-end which require adjustment of or disclosure in the consolidated and Council financial statements or notes thereto.

G. 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.

H. 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.

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Appendix F – Draft Request for a Management Representation Letter (continued)

Request for a Management Representation Letter

I. Reserves

1. We have properly recorded or disclosed in the consolidated and Council financial statements the useable and unusable reserves.

J. Use of the Work of a Specialists

1. We agree with the findings of the specialists that we engaged to evaluate the property, plant and equipment and investment property valuations, the pension liability valuation and financial instrument 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.

K. Estimates

- Minimum Revenue Provision
- Pensions Liability
- Private Finance Initiative
- Property, Plant and Equipment and Investment Properties – valuations, impairments and depreciation
- Provision for Impairment of Receivables
- Financial Instruments

1. We confirm that the significant judgments made in making the above accounting estimates have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the above accounting estimates.
3. We confirm that the significant assumptions used in making the above accounting estimate appropriately reflect our intent and ability to carry out our statutory services on behalf of the entity.
4. We confirm that the disclosures made in the consolidated and parent entity financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
5. We confirm that appropriate specialised skills or expertise has been applied in making the above estimates.
6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and parent entity financial statements, including due to the COVID-19 pandemic.

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L. 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.

Yours faithfully,

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(Chief Financial Officer/Finance Director)

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(Chairman of the Audit Committee)

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Appendix G

Implementation of IFRS 16 Leases

In previous reports to the Audit Committee, we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

IFRS 16 does not come into effect for the Council until 1 April 2022. However, officers should be acting now to assess the Council's leasing positions and secure the required information to ensure the Councill will be fully compliance with the 2022/2023 Code. The following table summarises some key areas officers should be progressing.

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IFRS 16 theme	Summary of key measures
Data collection	Management should: ▸ Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors. ▸ Classify all such leases into low value; short-term; peppercorn; portfolio and individual leases ▸ Identify, collect, log and check all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.
Policy Choices	The Council needs to agree on certain policy choices. In particular: ▸ Whether to adopt a portfolio approach ▸ What low value threshold to set and agree with auditors ▸ Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components ▸ What is managements policy in relation to discount rates to be used?
Code adaptations for the public sector	Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).
Transitional accounting arrangements	Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the Council is lessee. However, there can be implications for some finance leases where the Council is lessee; and potentially for sub-leases, where the Council is a lessor, that were operating leases under the old standard.
Ongoing accounting arrangements	Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.
Remeasurements and modifications	Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.

Appendix H

Value for Money Additional Analysis – Financial Sustainability

Please note that these findings relate to the arrangements in place during the 2020/2021 period. For further information on the Council's current financial position please see our conclusion in relation to going concern in section 2 of this report.

Key Findings – MTFS Position

Medium Term Financial Forecast

Summary

Over the Medium-Term Financial Strategy period, Peterborough City Council are presenting a budget gap of £55.7m. Our scenario based modelling, suggests that this position is consistent with the financial modelling for Scenario 1, where a forecast budget gap of £56.9m is presented. Peterborough City Council's MTFS position is therefore broadly consistent with our base-case scenario modelling conditions, suggesting that Peterborough City Council have made appropriate considerations of financial risk over their MTFS period.

Scenario's 2 and 3, present a more challenging position for the Council's financial resilience, with a forecast budget gap of between £70.8m to £71.6m. presented across these scenarios. For Scenario 2, this reflects a position where further service demand pressures result in an even more challenging budget requirement over the period, exacerbated by making currently budgeted for savings unachievable. For Scenario 3, this reflects a combination of service expenditure pressures and a flattened profile for the funding position increasing the budget gap over the MTFS period.

Budget Gap	2021/22 Budget Position	2022/23 Forecast Position	2023/24 Forecast Position	Total
Peterborough City Council	0	26,793	28,910	55,703
Scenario 1 Position	0	26,303	30,621	56,925
Scenario 2 Position	444	30,108	39,104	70,750
Scenario 3 Position	444	30,414	39,604	71,557

Source: The Medium Term Financial Strategy 2021/22 to 2023/24 - Phase Two

Source: EY Financial Resilience Model

Budget Requirement

It is forecast that both service and non-service expenditure pressures will result in an increased budget requirement for the Council over the Medium-Term Financial Strategy period. Such pressures compound service pressures that had already been included in previous iterations of the Council's Medium-Term Financial Strategy, and consequently place a risk on the Council's financial resilience over the medium term. As demonstrated below significant risk exists across the modelled economic scenarios with the total pressures between forecast scenarios forecast to be between £27.2m and £39.9m.

Budget Requirement £'000	2021/22 Budget Position	2022/23 Forecast Position	2023/24 Forecast Position	Total Impact
Scenario 1 Position	340,114	349,714	357,720	27,207
Scenario 2 Position	340,114	353,792	366,308	39,872
Scenario 3 Position	340,114	351,840	362,143	33,755

Source: EY Financial Resilience Model

Funding and Reserve Position

Included within the Councils funding position for 2021/22 are one-off funding measures that are temporarily allowing the Council to reach a balanced budget position. Despite forecast increases in the rates receipts for Business Rates and Council Tax, the Councils funding position is therefore forecast to worsen across the MTFS period, contributing to the budget gap created from the increased budget requirement. As demonstrated below, should economic conditions worsen as portrayed in Scenario 3, this decline in the funding position will be more stark, with the increases for tax receipts reducing in line with the wider economic performance.

Funding Position £'000	2021/22 Budget Position	2022/23 Forecast Position	2023/24 Forecast Position	Total Impact
Scenario 1 Position	(340,114)	(323,411)	(327,099)	29,718
Scenario 2 Position	(339,670)	(323,019)	(326,775)	30,878
Scenario 3 Position	(339,670)	(320,761)	(322,110)	37,801

Source: EY Financial Resilience Model

Appendix H – continued

Value for Money Additional Analysis – Financial Sustainability

Key Findings – MTFS Position

Medium Term Financial Forecast

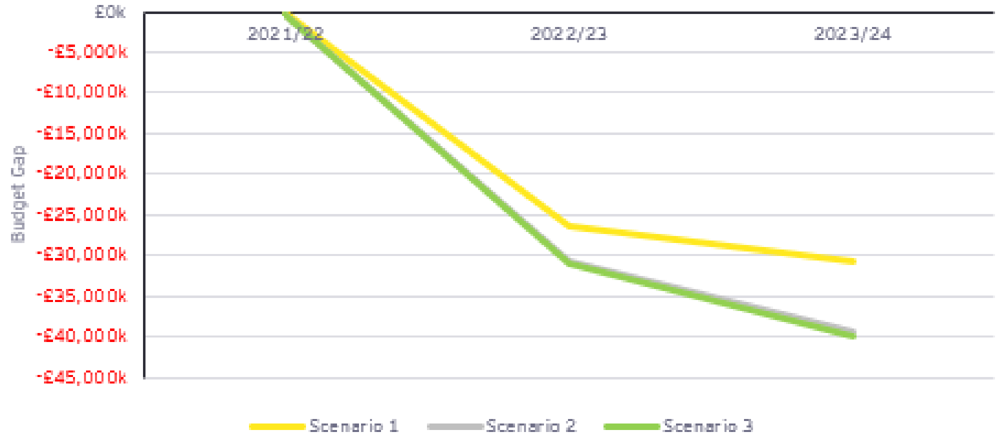
As displayed in Figure 4, with the Council's funding position not keeping pace with increases in the budget requirement over the period, the Council face recurring budget gaps between 2021/22 to 2023/24.

If left unmitigated, these budget gaps will result in significant drawdown's from the Council's reserve position over the MTFS period. As displayed in Figure 5, without additional identified savings or further Government financial support, the Council's reserve position will be depleted during the 2022/23 financial year and the Council will risk having to issue a Section 114 notice.

Peterborough City Council's financial resilience over the Medium-Term is not only risked by the challenges they face to their budget requirement over the period, but is also currently highly dependent on temporary one-off funding measures to present a balanced budget. Uncertainty over future funding arrangements mean these increases are currently forecast to result in an increasing budget gap over the MTFS period, that poses a risk to the Council's financial resilience and makes it difficult for the Council to undertake strategic financial planning, inhibiting their ability to achieve best value with public resources.

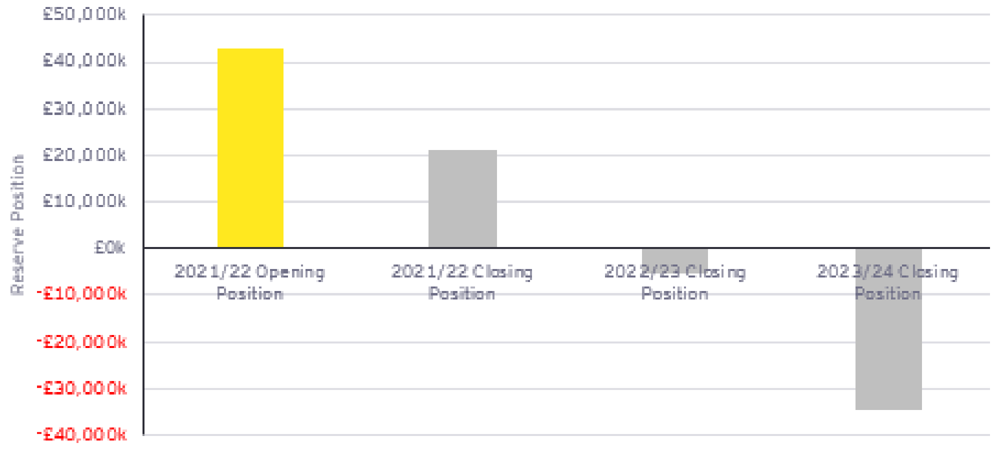
The Council does not have the financial reserves available to offset these challenges and will therefore be required to find additional savings to help balance their budget over the MTFS period. As modelled in Scenario's 2 and 3, further economic uncertainty or demand challenges will increase this challenge and have the potential to further threaten Peterborough City Council's financial resilience in the medium term.

Fig. 4 - Medium Term Budget Gap 2021/22 - 2024/25



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*

Value for Money Additional Analysis – Financial Sustainability

Medium-Term Financial Strategy

Budget Requirement

Over the MTFS period, Peterborough City Council are likely to face an increased budget requirement as demographic challenges result in increased demand for key council services, which place increasing pressure on the budget requirement over the MTFS period.

The budget requirement is forecast to increase by **5.2%** between 2021/22 and 2023/24 under Scenario 1, with the overall increase in the budget requirement resulting in an additional cumulative challenge of **£27.2m** for Peterborough City Council. The largest of these challenges is forecast to be increased service expenditure for Adult Social Care services during the period, with annual costs forecast to increase by **£7.4m** between 2021/22 and 2023/24, reflecting increased demand pressures from aging populations with more complex needs as well as market sustainability challenges. Further pressures are also forecast for Children's Social Care where costs are forecast to increase by **£2.0m** over the MTFS period, largely reflecting challenges that could occur on placement costs. Our forecasts have incorporated the forecasts for increased capital financing costs that occur from the Capitalisation Direction, which increase by **£4.9m** over the period.

Under Scenarios 2 &3, the cumulative impact of the increased budget requirement is between **£33.8m** and **£39.9m**, reflecting an increase of between **6.5%-7.7%**. Under Scenario 2, the pressures of increased demand are larger resulting in significant increases in the budget requirement in this scenario, this position reflects the potential for service costs to increase by further than currently forecast within Peterborough's MTFS position. Scenario 3 demonstrates a similar position, where the economic downturn places further demand pressures on services, however not to the same extent forecast in Scenario 2.

Budget Requirement £'000	2021/22 Budget Position	2022/23 Forecast Position	2023/24 Forecast Position	Total Impact
Scenario 1 Position	340,114	349,714	357,720	27,207
Scenario 2 Position	340,114	353,792	366,308	39,872
Scenario 3 Position	340,114	351,840	362,143	33,755

Source: EY Financial Resilience Model

Key Findings

- Under all three scenarios it is forecast that the budget requirement will increase compared with the 2021/22 budget position, placing significant pressure on the financial resilience of Peterborough City Council.
- These pressures are forecast to be most severe for Council services which help those most vulnerable in society, with Adult Social Care and Children's Social Care services both forecast to face significant increases in expenditure over the MTFS period.
- Under Scenario's 2 and 3, it is forecast that increased demand could result in currently budgeted for savings becoming unachievable as a result of changing demand for services combined with increased corporate capacity pressures making proposals unachievable.
- Under Scenario 3, pressures are also forecast to continue across key income streams for the Council, in particular Parking Services associated with reduced footfall into the City Centre.
- Service expenditure pressures are likely to be influenced by the extent of the economic recovery, and the extent to which demographic challenges for the Council translate into increased service pressures, with increased costs forecast for Scenarios 2 and 3 where this is the case.

Risk Rating

- Under the base-case scenario the forecast budget requirement is deemed to reflect a High risk to the Council's financial resilience, with the budget requirement forecast to increase by 5.2% under Scenario 1.

High

Value for Money Additional Analysis – Financial Sustainability

Medium-Term Financial Strategy

Funding Position

In 2021/22 Peterborough City Council's funding position is being supported by one-off funding measures such as the C-19 Response Fund funding (£6.4m) and the Local Council Tax Support Grant (£1.6m). Furthermore, the funding position within 2021/22 is heavily reliant on the Capitalisation Direction (£13.7m), which is currently allowing the Council to achieve a balanced budget in 2021/22. Assuming that this funding does not continue into the following financial year of the MTFS, the Council will face a cumulative challenge of £29.5m on its funding position within our Scenario 1 forecast.

In Scenario 1, this reduction in funding is partially offset by increases in tax receipts for Council Tax and Business Rates, which are expected to increase as a result of uplifts in Council Tax bills, increases in the Council tax base, and business rate growth.

In Scenario 2, we assume that one of the impacts of increased pressure on key services will be a reduced corporate capacity to deliver savings, with unachieved savings reflected in the funding position, resulting in a cumulative impact on the funding position of £30.9m.

For Scenario 3, the impact of a worsened economic position is reflected in the funding position by dampened increases in Council Tax and Business Rate growth, resulting in the cumulative impact on the funding position worsening in this scenario with a financial challenge of £37.8m forecast.

Funding Position £'000	2021/22 Budget Position	2022/23 Forecast Position	2023/24 Forecast Position	Total Impact
Scenario 1 Position	(340,114)	(323,411)	(327,099)	29,718
Scenario 2 Position	(339,670)	(323,019)	(326,775)	30,878
Scenario 3 Position	(339,670)	(320,761)	(322,110)	37,801

Source: EY Financial Resilience Model

Key Findings

- The main challenge on Peterborough City Council's funding position over the MTFS period is the reliance on one-off funding measures to achieve a balanced budget in 2021/22. Without these measures continuing beyond 2021/22, the Council faces cumulative challenge within its funding position of £29.7m.
- As demonstrated in Scenario 3, this position has the potential to worsen if a worsened economic position results in less optimistic increases in Council Tax and Business Rate growth, which could increase the challenge to £37.8m.
- The consequence of which is that the Council will face a budget gap between 2022/23 to 2023/24. Under Scenario 1 this gap is forecast to be £56.9m, which has the potential to increase to either £70.8m in Scenario 2 or £71.6m in Scenario 3.
- The Councils useable reserve position is not adequate in meeting these challenges if left unmitigated, with the Councils reserve position being depleted within 2022/23 if additional funding or cost saving measures are not found.

Risk Rating

- Under the base-case scenario an average financial challenge of 8.0% of the budget requirement is forecast for each year of the MTFS period. The Councils useable reserve position is not adequate in dealing with this challenge, and the financial challenge the Council faces therefore represents a high challenge to its financial resilience.

High

Appendix H – continued

Value for Money Additional Analysis – Financial Sustainability

Medium-Term Financial Strategy

Scenario 1

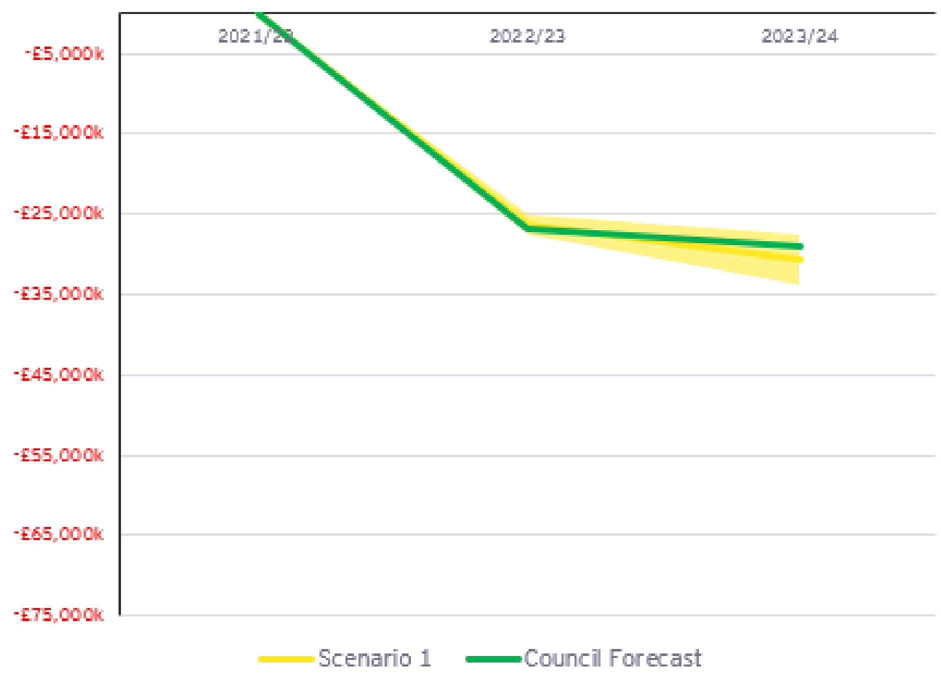
Scenario 1 provides a view of our base case scenario and utilises forecast central and average forecasts for service demand pressures and key funding elements to provide a forecast position of a Council's medium-term budgetary position.

	MTFS Period		
Funding Model	**2021/22**	**2022/23**	**2023/24**
Education Services	110,342	110,136	109,926
Highways and transport services	3,663	3,790	3,919
Children's Social Care	49,764	50,767	51,790
Adult Social Care	62,193	65,723	69,637
Public Health	11,285	11,519	11,763
Housing services (GFRA only)	8,872	9,467	10,131
Cultural and related services	5,133	5,226	5,324
Environmental And Regulatory Services	15,538	15,831	16,197
Planning and development services	4,354	4,478	4,652
Central Services	6,946	7,122	7,334
Total Other Services	0	0	0
Total Service Position	**278,090**	**284,059**	**290,674**
Non-Service Expenditure	**62,024**	**65,655**	**67,046**
Interest and investment income	1,099	1,121	1,143
Grants	189,673	167,983	167,983
Revenue Support Grant	10,471	10,471	10,471
Retained Income from Rate Retention Scheme	50,566	51,160	51,650
Collection fund surplus/deficit - Business Rates	(20,205)	0	0
Collection Fund Surplus/Deficits for Council Tax	0	0	0
Council Tax	88,305	91,887	95,852
Unachieved Savings	0	0	0
Appropriations from Reserves	20,205	789	0
Budget Gap	**0**	**26,303**	**30,621**
Peterborough City Council's MTFS Position	**-**	**26,793**	**28,910**

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 budget gap of £56.9m compared with the position of £55.7m presented in the MTFS. This demonstrates that the position presented by Peterborough City Council in its MTFS is consistent with our base case scenario, showing that the Council have applied appropriate consideration to its budgetary position over the MTFS period.

Fig. 7 - Scenario 1 - MTFS Impact



Source: The Medium Term Financial Strategy 2021/22 to 2023/24 - Phase Two

Source: EY Financial Resilience Model

Value for Money Additional Analysis – Financial Sustainability

Medium-Term Financial Strategy

Scenario 2

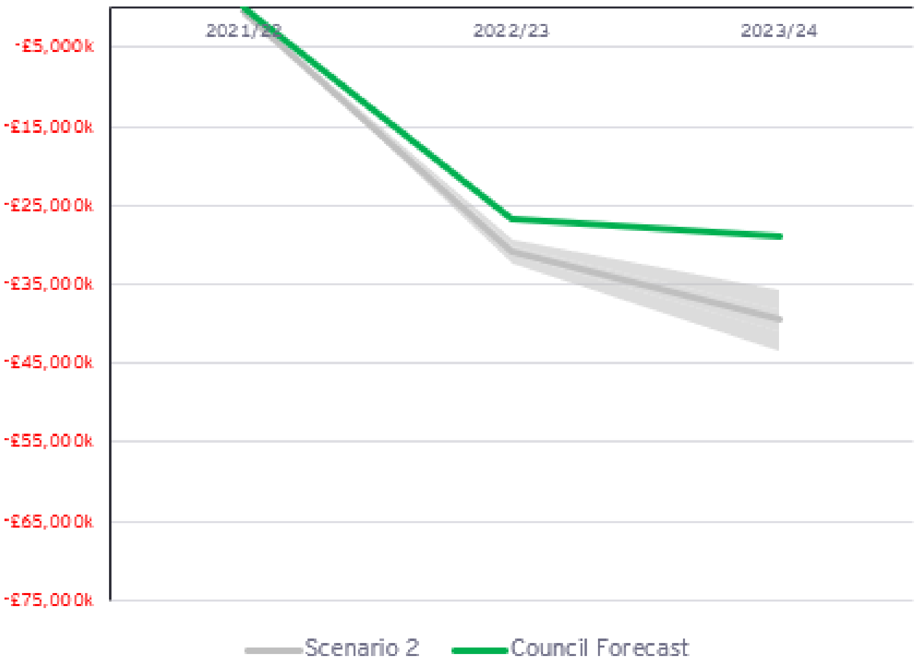
Scenario 2 presents a position where increased demand for services and further inflationary pressures place increased pressure on service expenditure as well as resulting in the non achievement of budgeted savings.

	MTFS Period		
Funding Model	2021/22	2022/23	2023/24
Education Services	110,342	110,084	109,820
Highways and transport services	3,663	3,808	3,957
Children's Social Care	49,764	51,587	53,475
Adult Social Care	62,193	68,672	75,887
Public Health	11,285	11,575	11,879
Housing services (GFRA only)	8,872	9,593	10,408
Cultural and related services	5,133	5,252	5,376
Environmental And Regulatory Services	15,538	15,909	16,356
Planning and development services	4,354	4,500	4,697
Central Services	6,946	7,157	7,406
Total Other Services	0	0	0
Total Service Position	278,090	288,137	299,262
Non-Service Expenditure	62,024	65,655	67,046
Interest and investment income	1,099	1,121	1,143
Grants	189,673	167,983	167,983
Revenue Support Grant	10,471	10,471	10,471
Retained Income from Rate Retention Scheme	50,566	51,101	51,541
Collection fund surplus/deficit - Business Rates	(20,205)	0	0
Collection Fund Surplus/Deficits for Council Tax	0	0	0
Council Tax	88,305	91,887	95,852
Unachieved Savings	(444)	(333)	(215)
Appropriations from Reserves	20,205	789	0
Budget Gap	444	30,773	39,533
Peterborough City Council's MTFS Position		26,793	28,910

Source: EY Financial Resilience Model

Under the conditions of Scenario 2, the Council would face a budget gap of £70.8m over the MTFS period. As demonstrated below, this position reflects a significantly more challenging position than currently forecast within Peterborough City Council's MTFS. This position illustrates how if demand challenges are more severe across Peterborough's service expenditure position, the budget gap could intensify across the MTFS period. The financial challenges are forecast to be most severe for Adult Social Care and Children's Social Care.

Fig. 8 - Scenario 2 - MTFP Impact



Source: The Medium Term Financial Strategy 2021/22 to 2023/24 - Phase Two
Source: EY Financial Resilience Model

Value for Money Additional Analysis – Financial Sustainability

Medium-Term Financial Strategy

Scenario 3

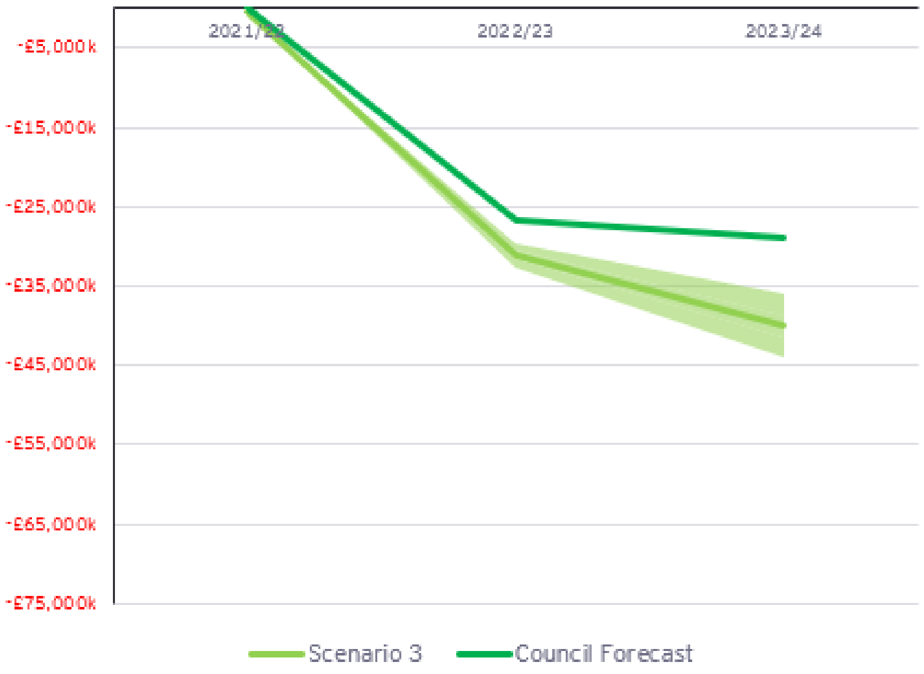
Scenario 3 presents a position where both the national and local economy recover at a slower rate than currently forecast and as a result provide increased pressure on both service expenditure and the Councils funding position.

	MTFS Period		
Funding Model	**2021/22**	**2022/23**	**2023/24**
Education Services	110,342	110,239	110,135
Highways and transport services	3,663	3,552	3,442
Children's Social Care	49,764	50,866	51,991
Adult Social Care	62,193	67,663	73,677
Public Health	11,285	11,410	11,543
Housing services (GFRA only)	8,872	9,543	10,305
Cultural and related services	5,133	5,229	5,328
Environmental And Regulatory Services	15,538	16,079	16,687
Planning and development services	4,354	4,529	4,752
Central Services	6,946	7,075	7,237
Total Other Services	0	0	0
Total Service Position	278,090	286,185	295,097
Non-Service Expenditure	62,024	65,655	67,046
Interest and investment income	1,099	1,044	992
Grants	189,673	167,983	167,983
Revenue Support Grant	10,471	10,471	10,471
Retained Income from Rate Retention Scheme	50,566	50,863	51,106
Collection fund surplus/deficit - Business Rates	(20,205)	0	0
Collection Fund Surplus/Deficits for Council Tax	0	0	0
Council Tax	88,305	89,943	91,773
Unachieved Savings	(444)	(333)	(215)
Appropriations from Reserves	20,205	789	0
Budget Gap	444	31,079	40,033
Peterborough City Council's MTFS Position		26,793	28,910

Source: EY Financial Resilience Model

Under the conditions of Scenario 3, the Council would face a budget gap of £71.6m over the MTFS period. This position is driven by the impacts of further economic recession, which will result in a combined effect of further demand pressures within the Councils service expenditure position, but also reduced increases across Business Rates and Council Tax, meaning that the Councils funding position falls further behind the budget requirement over the period.

Fig. 9 - Scenario 3 - MTFP Impact



Source: The Medium Term Financial Strategy 2021/22 to 2023/24 - Phase Two
Source: EY Financial Resilience Model

Value for Money Additional Analysis – Financial Sustainability

Key Findings – Financial Resilience Efficiency Review

Executive Summary

- Our analysis of Peterborough City Council's savings and efficiency programme found that for the latest development of the 2021/22 savings plan, the Council exhibits good practice in the design principles of its savings plan, with key documentation evidenced to support thorough savings development and thematic and directorate breakdowns consistent with their outturn and budgeted position. However, it should be noted that there is a significant gap when comparing the programme to the total financial challenge, making this a medium.
- The Council have comprehensive governance processes established for developing, monitoring and reporting against savings proposals. Evidence was provided that these processes are regularly conducted and receive the appropriate level of political and strategic oversight. However, a governance risk does exist given the size of the future gap, with more effective governance needed to bridge the gap.
- It is also noted that the Council have made significant progress in strengthening this monitoring process, through using the Rapid Implementation Team (RIT) to regularly monitor progress against savings plans and report to the Corporate Management Team (CMT). It is however recommended that this reporting is reinstated in the Budgetary Control Reports.
- The current budget gap presents the Council with significant savings targets to be achieved over the medium-term. Based on both past performance against savings plans and the scale of the gap, the current financial gap poses a significant risk to the Council's financial resilience. The council are facing a significant financial challenge in the upcoming financial year and achievable plans for meeting that gap have current not been developed within the Council's MTFS.

Introduction

To enhance the Value for Money evaluation, EY have conducted additional financial resilience assessments to help review the extent to which financial resilience challenges are appropriately responded to by Peterborough City Council, this review is completed through evaluating the deliverability of the Council's savings plan.

The report considers the savings position presented included within *Medium Term Financial Strategy 2021/22 to 2023/24 – Phase Two* and the *Budget 2021-22 Tracker* as at 6th October 20221. The review is intended to assess Peterborough City Council's response to financial resilience challenges at this moment in time, while it is noted that efficiency development and achievement is ongoing, both within year and over the Medium-Term Financial Strategy (MTFS) period.

To assess Peterborough City Council's response to financial resilience challenges, this report seeks to;

- Evaluate the quality of the savings plans; the underpinning activity or non-financial evidence, the financial quantification and delivery plan, milestones and dependencies.
- Evaluate the overarching deliverability of the Saving Programme; scale of cashable and non-cashable savings, programme balance and key risks.
- Evaluate the overarching governance and programme management of the Council's savings plan.

Risk Area	Risk Rating
Savings Plan - Design Review	
Savings Plan - Governance Review	
Savings Plan - Achievability Review	

Value for Money Additional Analysis – Financial Sustainability

Savings Plan - Design

Key Findings

- 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. However, it should be noted that there is a significant gap when comparing the programme to the total financial challenge, a point covered fully in the achievability section.
- For savings presented in 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, meaning that the saving proposals do not present a significant to the Council's financial resilience in the current year.
- Based on the current composition of directorate budgets, the current directorate allocation of saving proposals does not pose a significant risk to the Council's financial resilience, however there are specific risks associated with saving proposals that require close monitoring.
- The current thematic breakdown of saving proposals appears reasonable based on past performance and known financial pressures associated with the pandemic.

Risk Assessment

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

Key

High Risk -

Medium Risk -

Low Risk -

Introduction

In the Medium Term Financial Strategy 2021/22 to 2023/24 – Phase Two, Peterborough City Council have identified a further **£7.1m** savings for the 2021/22 financial year, with this amount decreasing over the MTFS period. As demonstrated in the table below, despite these savings the Council faces a substantial budget gap over the MTFS period, which in the absence of further government support will result in substantial savings needing to be made which are far in excess of the current savings plan.

Figure 1: Peterborough City Council Financial Position

Financial Position	2021/22 £'000	2022/23 £'000	2023/24 £'000	Total £'000
Allocated Savings	(7,099)	(5,985)	(4,086)	(17,170)
Remaining Budget Gap	-	26,793	28,910	55,703

Source: The Medium Term Financial Strategy 2021/22 to 2023/24 - Phase Two

In the 2021/22 financial year, the Council are presenting a balanced budget position, however this is largely a result of the capitalisation direction that they have been granted. Over the remainder of the MTFS period, the remaining budget gap is far in excess of current savings proposals, demonstrating that there is significant further action required to close the budget gap, which poses a risk to the Council's financial resilience in this period.

To review the action taken by Peterborough City Council to date, the design principles of the additional savings identified within the Medium Term Financial Strategy 2021/22 to 203/24 – Phase Two have been reviewed. The analysis conducted seeks to establish whether the design of the current plan raises any issues of significant concern through reviewing, key documentation related to the plan, the directorate allocation of proposals, and a thematic breakdown of proposals.

Value for Money Additional Analysis – Financial Sustainability

Savings Plan - Governance

Key Findings

- The governance process for Peterborough City Council's savings programme is consistent with expected good governance processes.
- The level of future savings required however represents a governance risk in the current development of the savings plan and is a risk to financial resilience in the medium term.
- The Council demonstrates robust and comprehensive process for developing savings proposals, which are subject to a sufficient level of scrutiny and challenge before being included in budget proposals.
- The Council demonstrates that they have a comprehensive process for monitoring the in-year delivery of saving plans with comprehensive scrutiny provided by the Rapid Implementation Team.
- The Council demonstrates regular monitoring process on the achievement savings through the fortnightly meetings of the Rapid Implementation Team, however should look to reflect the position monitored at this forum within the Budgetary Control Report.

Risk Assessment

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

Key

High Risk -

Medium Risk -

Low Risk -

Introduction

It is important that the Council has appropriate governance arrangements in place for the savings programme, with the strength of such governance being a vital indicator of future delivery. It is important the savings plan has been operationalised throughout the Council, with sufficient corporate/strategic oversight over the delivery of projects within the programme.

To assess the extent to which appropriate governance arrangements exist within Peterborough City Council, key documentation has been reviewed to assess the development, monitoring and reporting processes associated with the delivery of savings proposals throughout the council.

Section 1: Savings Plan Development

When developing saving proposals, it is important that a clear process exists for developing operational ideas into evidenced, approved and actionable budget adjustments, that have been subject to the appropriate level of corporate governance and scrutiny.

We have been provided within the outline process for savings proposal development from the Budget Planning and Reporting Manager, which is demonstrated overleaf in Figure 8. This process evidences the below elements of good practice, indicating that Peterborough City Council have a clear process for the development of savings proposals.

- ✓ Initiative development by service professionals and budget managers
- ✓ Business case development
- ✓ Financial viability assessment by the Head of Finance
- ✓ Corporate assessment of proposals via the Budget CMT
- ✓ Political oversight of proposals via the Cabinet Policy Forum
- ✓ Central oversight of savings proposals through the Financial Sustainability Working Group
- ✓ Separate processes based on materiality thresholds

Value for Money Additional Analysis – Financial Sustainability

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 9.5% of the directorate budget position.
- Whist the Council have delivered significant savings amounts over the last five financial years, they have found it difficult to achieve planned savings in full. The current budget gap would require significantly more savings than the Council has previously achieved and it would therefore appear a difficult challenge for the Council over short-term time horizons.

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 £55.7m over the MTFS period. There is current uncertainty around the Council will fund this gap, and in the absence of sufficient reserves requires the Council to make substantial savings. This value reflects 9.5% of the budget requirement over the MTFS period, with the budget gap being 14.4% of the budget requirement in 2023/24.

Figure 13: Peterborough City Council's Estimated Budget Gap

Financial Year	Budget Gap £'000	Budget Requirement £'000	Portion of Budget Requirement (%)
2021/22	-	187,255	0.0%
2022/23	26,973	195,260	13.7%
2023/24	28,910	201,181	14.4%
Total	55,703	583,696	9.5%

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 budget gap therefore poses a significant challenge to the Council's financial resilience, requiring them to make substantial savings over the MTFS period.

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.

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