

Peterborough City Council

Audit Results Report - ISA (UK and Ireland) 260
for the year ended 31 March 2016

September 2016

Ernst & Young LLP



Building a better
working world

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

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 from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. We, as appointed auditor, take no responsibility to any third party.

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

1. Executive summary

The National Audit Office’s Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Below are the results and conclusions on the significant areas of the audit process.

<p>Status of the audit</p>	<p>We are currently concluding our audit of the financial statements of Peterborough City Council for the year ended 2015/16. Subject to satisfactory completion of the outstanding matters below, we will issue an audit opinion in the form which appears at Appendix D.</p> <p>The following areas of our work programme remain to be completed as of the date of this report:</p> <ul style="list-style-type: none"> • completion of our audit testing in a small number of areas, of which the finance team are aware. We will update the audit committee if there are any issues to report upon the conclusion of these areas; • receipt of a response from the Pension Fund auditor on the results of their work programme under the IAS19 protocol; • completion of final manager and partner review procedures; • completion of subsequent events review; • receipt of the signed management representation letter and revised financial statements. <p>We have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Authority’s financial statements.</p> <p>We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.</p> <p>We have yet to perform the procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts (WGA) submission, as the deadline for completion is the 21 October 2016.</p> <p>Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office. We therefore may issue the audit certificate at a later date to the audit opinion.</p>
<p>Audit differences</p>	<p>There are no unadjusted audit differences, at the time of writing.</p> <p>There are two corrected audit differences, to bring to your attention. These are detailed at Appendix A.</p> <p>Our audit identified a small number of other minor amendments to disclosures which our team have highlighted to management for amendment. These have been corrected during the course of our work and are not detailed in this report.</p>

Scope and materiality	<p>In our audit plan, presented at the Audit Committee meeting on 29 June, we communicated that our audit procedures would be performed using a materiality of £9.7 million. We have reassessed this based on the actual results for the financial year and there has been a small change to the materiality level we have applied; we have revised our materiality level to £10 million. The basis of our assessment is 2% of gross operating expenditure, which has remained consistent with your previous auditors.</p> <p>The threshold for reporting uncorrected audit differences which impact the financial statements has changed from £250k to £500k.</p> <p>We carried out our work in accordance with our Audit Plan.</p>
Significant audit risks	<p>We identified the following significant audit risks during the planning phase of our audit, and reported these to you in our audit plan:</p> <ul style="list-style-type: none">• Risk of fraud in revenue recognition• Risk of management override• Property, Plant and Equipment valuation• Private Finance Initiative• Minimum Revenue Provision (MRP) methodology change• Assessment of the Group boundary <p>The 'addressing audit risks' section of this report sets out how we have gained audit assurance over those issues.</p>
Other reporting issues	<p>At the time of writing, we have no other matters we wish to report.</p>
Control observations	<p>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.</p>

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Janet Dawson

Partner
For and on behalf of Ernst & Young LLP

2. Responsibilities and purpose of our work

The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- Report on an exception basis on the Annual Governance Statement;
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- Discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

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 are specified by the National Audit Office.

3. Financial statements audit

Addressing audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>Risk of management override</p> <p>As identified in ISA (UK and Ireland) 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.</p>	<ul style="list-style-type: none"> • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • Reviewed accounting estimates for evidence of management bias; • Evaluated the business rationale for any significant unusual transactions; and • Reviewed capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised 	<ul style="list-style-type: none"> • We selected a number of journals to review based on our risk assessment. We have agreed these to other areas of our audit work or other supporting evidence. We have no concerns to raise, at the time of writing. • Our review of estimates has not identified evidence of management bias. • We have not identified any unusual business transactions. • We have reviewed capital expenditure on property plant and equipment and found no issues with the classification as capital expenditure.
<p>Risk of fraud in revenue recognition</p> <p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of incorrect recognition, and also management override.</p>	<ul style="list-style-type: none"> • Reviewed and tested revenue and expenditure recognition policies; • Developed a testing strategy to test material revenue and expenditure; and • Reviewed and tested revenue cut-off at the period end date. 	<ul style="list-style-type: none"> • We have tested revenue recognition and cut off as part of income and expenditure testing and have not identified any issues with classification or recognition of expenditure.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p>Property, Plant and Equipment valuation</p> <p>The Council' previous auditor raised two issues in their annual audit letter relating to PPE valuations, re:</p> <ul style="list-style-type: none"> ▶ Lack of reconciliation of Gross Internal Area (GIA) documentation. However, their work in this area concluded that the amounts on the valuation certificates were appropriate and no adjustments were required to the accounts as a result of this matter. 	<p>We have obtained an understanding of and evaluated key controls over the valuation of PPE.</p> <p>Where asset valuations are undertaken in-year we have:</p> <ul style="list-style-type: none"> ▶ agreed the source data used by your valuer to supporting records; ▶ assessed the work of your valuer; and ▶ agreed the outputs to your fixed asset register and statements. <p>Where the Council proposes significant changes to valuation bases we will have evaluated the rationale.</p> <p>Where assets are not revalued in-year, we have reviewed the Council's impairment assessment and consideration of whether the carrying value of these assets remain appropriate.</p>	<p>Valuations work is still being concluded – there are some outstanding queries to resolve on DRC valuations.</p> <p>We will update the audit committee at the meeting on 22 September.</p>
<ul style="list-style-type: none"> ▶ Accounting for schools' non-current assets. Your previous auditor identified matters in relation to 5 schools with a total netbook value of £9.5m. It is the Authority's view that legal ownership should reside with, and is in the process of transferring to, the governing bodies of the schools, who have substantive control over these assets. Therefore, the Authority does not have control over the assets and has not included these assets in the balance sheet. The Council's previous auditor was satisfied with the conclusions made by the Council not to recognise these assets but requested disclosure of this matter, including the net book value of the non-current assets of £9.5m, in a note to the accounts. 	<p>We have discussed the latest position with the finance team, and understand that these schools are still in the process of transferring to the governing bodies.</p> <p>It is likely that we will take the same view as your previous auditor and would require the Council to make a similar disclosure this year, if the position has not been resolved by the date of our audit opinion.</p>	<p>The Code of Practice confirmed that accounting for schools should be based upon an assessment of the control of the asset. From discussion with officers in clarifying the Council approach and identifying what the accounting policy was it was confirmed that control had been the underlying principle in assessing whether to include school assets on the balance sheet. In the case of voluntary aside and voluntary controlled schools the Council has taken a consistent view that the arrangements in place mean that the governing body has substantive control and therefore such assets should be off balance sheet.</p> <p>The decision to exclude the assets from the balance sheet is in line with the Code and consistent with the Council's approach for this category of assets.</p>

		<p>However, although these assets have been correctly excluded from the balance sheet there has been no progress in completing the legal transfer to the governing bodies of the schools.</p>
<p>Private Finance initiative</p> <p>The Council recognises on its Balance Sheet a PFI liability for a PFI agreement with IIC BY Education (Peterborough Schools) Limited which the Council signed in 2006 for the delivery of new and improved facilities and services for three secondary schools in Peterborough. The contractor will maintain these three schools and provide them with a range of other services such as caretaking, cleaning and catering for 30 years. One of the three schools has transferred to Academy status therefore the associated assets are not recognised on the Council's Balance Sheet. The value of the two schools which are recognised on the Council's Balance Sheet is £25.1m</p> <p>The PFI liability is recognised at the same time as the PFI assets are recognised. It is measured initially at the same amount as the fair value of the PFI assets and is subsequently measured as a finance lease liability in accordance with IAS 17.</p> <p>The accounting entries are based on a complex range of assumptions via a PFI accounting model.</p>	<p>We have:</p> <ul style="list-style-type: none"> ▶ Obtained an understanding of and evaluated key controls over the valuation of the PFI liability. ▶ Ensured the PFI model has been brought forward correctly from the previous year, and have engaged relevant experts to review the model against an EY model to ensure the client model is still working as expected. ▶ Ensured the PFI accounting model has been updated for any service or other agreed variations. <p>Agreed outputs of the model to the accounts, including balances and disclosures for Assets, Liabilities, and Expenditure.</p>	<p>We populated our EY Parallel Model with assumptions from the Operator Model, and identified some differences between the Operator model and the EY Parallel Model.</p> <p>The Council's Operator Model calculations are in accordance with the CIPFA Code requirements for a service concession.</p> <p>We have not reported these differences as errors.</p>
<p>Minimum Revenue Provision (MRP) methodology change</p> <p>In common with many other local authority bodies in 2015/16 Peterborough City Council has reviewed the basis on which they calculate the required "prudent" MRP amount. The change is proposed to assist with funding the budget gap which has been identified by the Council.</p>	<p>We have:</p> <ul style="list-style-type: none"> ▶ reviewed the approach put forward by the Council ▶ evaluated the various recalculations and discussed our findings with the finance team resulting in a number of minor changes in the calculation approach ▶ concluded that the overall approach is reasonable and 	<p>A small number of non-material issues were identified and discussed. We identified one issue to bring to your attention:</p> <ul style="list-style-type: none"> ▶ The in-year borrowing summaries show corrections for previous years that are credit amounts for overstated capital creditors. In the early years these are

<p>The Council is currently applying MRP at a rate of 4% which is the previously accepted methodology for the capital expenditure incurred prior to 1 April 2008 which was funded by borrowing, and for supported borrowing undertaken from 2008/09 to 2010/11. The key element of the Council's revised approach is to link the MRP calculation to the weighted average life of these assets. In addition, the annuity basis is to be applied to unsupported borrowing post 2008.</p> <p>The MRP adjustment is material and we consider that there are risks around:</p> <ul style="list-style-type: none"> ▶ Whether the weighted average life of the assets has been correctly calculated; ▶ The treatment of Adjustment A ; and ▶ Whether the revised calculation of MRP is correct. 	<p>complies with the statutory guidance from DCLG</p> <ul style="list-style-type: none"> ▶ agreed the quoted set aside amount of £6.136m funded from a combination of applied capital receipts and revenue charges <p>The revised approach is for:</p> <ul style="list-style-type: none"> ▶ Pre 2008 supported borrowing to be fully repaid over a 46 year period on an annuity basis. The time period being based on an assessment of the weighted useful life of PCC assets and significantly less than the existing approach ▶ For 2007/08 and 2008/09 borrowing currently being repaid on equal instalments to be moved to annuity basis for the remaining useful life of the assets ▶ To move the calculation of MRP on the PFI scheme to an annuity based on the asset life rather than the contract period ▶ Amending the MRP policy to allow the use of capital receipts to fund the gross amount to be set aside each year with the residual amount being funded from revenue ▶ No backdating to take place with the above changes effective from 1.4.2015 	<p>quite small, however in 2013/14 these amounted to £557k and in 2014/15 to £897k. The Council has accounted for these by adjusting fully in that year by using an asset life of 1 and reducing the MRP charge by the full amount. This is contrary to the more usual approach of mirroring the asset life for the borrowing used in the previous year to adjust the net MRP to what it would have been if the correct borrowing amount had been shown initially. The impact of this approach is to effectively capitalise revenue expenditure in the last 2 years of in excess of £1m. We have agreed with the finance team how to deal with such a position going forward and agreed that although technically the mirroring should be applied to all overstatements there were practical concerns of small value adjustments.</p> <p>Therefore, we have concluded our work in this area and are satisfied that the calculated amount of MRP for 2015/16 of £6,135,921 is fairly stated.</p>
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<p>Assessment of the Group boundary</p> <p>Peterborough City Council has a number of joint arrangements which may necessitate the preparation of group accounts.</p> <p>The Council will need to identify and consider all of its relationships with its subsidiaries and other partners and assess the nature of these arrangements to determine whether they create functional bodies and other group entities which now fall within the group boundary and therefore require consolidating into the Council's</p>	<p>We reviewed the Council's work on:</p> <ul style="list-style-type: none"> ▶ assessing where overall control lies with regard to the operation and delivery of services of the potential group bodies; and ▶ ensuring that appropriate consolidation procedures are applied to those bodies that lie within the group boundary. 	<p>We agree with the Council's conclusion that it does not need to prepare Group consolidated accounts for 2015/16.</p>
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Financial Statements. Group accounts have not previously been prepared by the Council.

The review will need to consider the new accounting practices introduced in the 2014/15 CIPFA Code of Practice.

There is a risk that associated group boundary changes may go undetected, and that the required disclosures are not made in accordance with the new standards.

We also identified the following other audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Other Risks	Audit procedures performed	Assurance gained and issues arising
<p>New Financial system</p> <p>On 1 November 2015 the Council changed its financial system from Oracle to Agresso. The transactions and balances from the first seven months of the year were transferred from Oracle to Agresso in a data migration exercise, with the remaining five months transactions being processed in the new system.</p> <p>The risk is that the data has not been transferred correctly and the year end accounts could be misstated.</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> ▶ reviewing Internal Audit work on the data migration process ▶ reviewing the checks and reconciliations performed by the Finance department and IT department, ▶ reperforming any of these checks as necessary, and ▶ carrying out any additional testing necessary. 	<p>Our review has not revealed any matters to bring to your attention.</p>
<p>Better Care Fund</p> <p>The Better Care Fund (BCF) is a major policy initiative between local authorities, clinical commissioning groups (CCGs) and NHS providers with a primary aim of driving closer integration and improving outcomes for patients, service users and carers. From 1 April 2015 the BCF has been set up as a pooled budget between local government and NHS partners using powers available under pre-existing legislation. The partners use the pooled fund to jointly commission or deliver health and social care services at a local level.</p> <p>Local BCF arrangements may be complex and varied, involving a number of different commissioning, governance and accounting arrangements that raise risks of misunderstanding, inconsistencies and confusion between the partners. There are also structural, cultural and regulatory differences between local government and the NHS, and it is important that these are understood and considered by all of the partners in the operation of the pool.</p> <p>In addition, the Council is party to a number of other pooled budget arrangements. Proper disclosure of the nature of all of these arrangements is important together with the accounting and disclosure implications arising from them in the Council's accounts</p>	<p>We have engaged with management to ensure that their plans for financial statements production are clear.</p> <p>We looked at the accounting treatment for the Better Care Fund and other pooled budgets, and reviewed the disclosures made under IFRS11 and 12 relating to the arrangements.</p>	<p>This work is currently being completed – we will update the audit committee at the meeting on 22 September.</p>

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to you oversight of the Council's financial reporting process, including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest

At the time of writing, we have no matters we wish to report.

Control themes and observations

It is the responsibility of the 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 the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

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

We have reviewed the Annual Governance Statement and can confirm that it is not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

Request for written representations

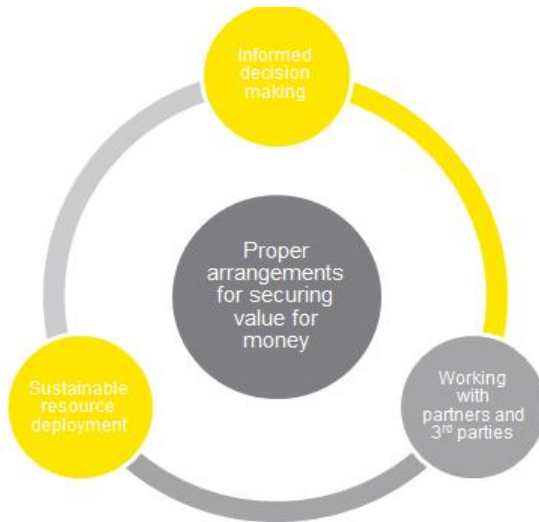
We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix E.

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 are specified by the National Audit Office.

There has been a national delay in the WGA completion process, and we have only recently received the Group Audit Instruction; therefore we are yet to conclude our work in this area. We will report any matters that arise to the Audit Committee. The deadline for audit completion is 21 October 2016.

4. Value for money



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

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

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

Overall conclusion

We identified a significant risk in relation to these arrangements regarding sustainable resource deployment.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements

We therefore expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.

Significant risks for our Value for Money conclusion

The table below presents the findings of our work in response to the risk areas in our audit plan.

VFM risk identified within our audit plan	<p>Councils are funded by grants from central government and locally raised revenue from council tax and business rates or from fees, charges, or other revenue generating activities. Since 2010/11 funding for Councils from central government has reduced by 37 per cent in real terms, and further reductions for the period 2016-17 to 2019-20 are likely.</p> <p>The Council is taking action to address longer term financial resilience issues identified in the Medium Term Financial Strategy. The budget for 2016/17 is balanced; however, there are still some gaps to cover in subsequent years: £4 million in 2017/18, £24 million in 2018/19 and £31 million in 2019/20.</p> <p>Achieving the 2016/17 budget will be reliant on savings plans of £24m being realised. £5 million savings are planned in each year as a result of changing the methodology of calculating Minimum Revenue Provision (MRP).</p>
Impacts arrangements for:	Deploying resources in a sustainable manner
Key findings	<p>We reviewed the Council's 2016/17 budget and the medium term forecast, assessing the extent of the savings plans in place. This took into account the Council's historic record.</p> <p>In 2015/16 the Council continued its track record of achieving its annual budget, delivering a surplus of £1m, along with approximately £25m of savings, and it has established a Grant Equalisation reserve with a balance of £12m, created to defer the impact of funding reductions. The general fund balance stands at £6m as at 31 March 2016, and total earmarked reserves at £30m.</p> <p>The 2016/17 budget is balanced, through the use of efficiencies and income plans. Although it is still relatively early in the financial year, we assessed these as reasonably-based taking into account the Council's track record of delivering savings over the recent financial periods. While incrementally savings can become harder to achieve over time, the Council's performance in delivering its plans gives confidence that it can continue to do so.</p> <p>We also reviewed the key assumptions in the budget and MTFS, which adequately took into account the economic environment at that time for business rate projections, and the forecast for reduced central government funding and the potential four-year settlement.</p> <p>The budget gap for 2017/18 is £4m, 2018/19 £24m and 2019/20 £31m. Compared to a gross expenditure of approximately £520m per annum, and historic performance of closing the gap we judge this to be a manageable budget gap.</p> <p>Therefore, based on the known information as at the end of the financial year, we assess the Council to have adequate arrangements.</p>

Appendix A – Corrected audit differences

The following corrected differences, which are greater than £5million, have been identified during the course of our audit and warrant communicating to you.

These items have been corrected by management within the revised financial statements.

Balance sheet and Statement of comprehensive income and expenditure

Item of account	Balance sheet (Decrease) / Increase £000	Comprehensive income and expenditure statement (Decrease) / Increase £000
Mis-classification of income within childrens' services on the face of the CIES (also impacts on note 15). The correction was to decrease both income and expenditure with a nil impact overall on the CIES:		
Cultural & Related Expenditure		(82)
Education & Children's Services Expenditure		(7,585)
Education & Children's Services Income		(7,667)
Cumulative effect of unadjusted differences		0

Disclosures

Disclosure	Description of difference
Note 15: Resource Allocation note Errors in grossing up of income in the resource allocation note.	Fees, charges and other service income to be decreased by £13,097k, Government Grants to be increased by £5,512k and Other Service Expenses to be decreased by £7,585k

Appendix B – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 6 June 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. 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 confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 22 September 2016.

We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 6 June 2016.

Appendix C – Auditor Fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £	Variation comments
Total Audit Fee – Code work – Note 1	TBC	108,533	
Certification of claims and returns – work not yet completed - Note 2	TBC	13,619	

Note 1 - Audit Fee – Code work. We need to review our costs once we have completed the outstanding procedures before reporting formally agreeing the final fee with you within our Annual Audit Letter. We expect this additional fee to be no more than 10% of the scale fee.

We have undertaken a review of the Council's approach to the Minimum Revenue Provision. This additional work has an additional fee of £2,856 and is currently subject to approval by Public Sector Audit Appointments Ltd (PSAA). This will be included within the overall additional fee.

Note 2 – We have not commenced our work in this area. Our certification of the Housing Benefit claim will be completed to the 30 November 2016 deadline, and the final fee concluded at that time. We will report the results of our work and the final fee with you in our Annual Audit Letter.

We confirm we are planning to undertake no non-audit work outside of the PSAA's requirements.

Appendix D – Draft audit report

Independent auditor's report to the members of Peterborough City Council

Opinion on the Authority's financial statements

We have audited the financial statements of Peterborough City Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- Related notes 1 to 47,
- Collection Fund and the related notes 1 to 5, and
- Statement of Accounting Policies

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 13, the Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2015/16 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Peterborough City Council as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2015/16 for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects

Conclusion on Peterborough City Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

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

Auditor's responsibilities

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2015, as to whether Peterborough City Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the whether Peterborough City Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

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

Conclusion

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, Peterborough City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of Peterborough City Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Janet Dawson

for and on behalf of Ernst & Young LLP, Appointed Auditor

Luton

2X September 2016

Appendix E – Management representation letter

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Peterborough City Council (“the Council”) for the year ended 31 March 2016. 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 financial position of Peterborough City Council as of 31 March 2016 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16

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 the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the 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 Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has 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 2015/16, that are free from material misstatement, whether due to fraud or error.

5. *[When there are unadjusted audit differences in the current year or we determine that the current year effects of correcting prior year differences are significant.]* 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 financial statements taken as a whole. **We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement].**

[When there are no unadjusted audit differences in either the current year or in the prior year or there are no unadjusted audit differences in the current year and we determine that the current year effects of correcting prior year differences are not significant to the current year.] There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

[The following representation is included when management believes that certain of the identified items, even though immaterial, are not differences.] We do not agree that items *[specify items in question]* constitute differences because *[specify reasons for disagreement]*.

B. Fraud

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. *[When management is aware of the occurrence of fraud or suspected fraud, or has received allegations of fraud.]* We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by “whistle-blowers”), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

[When management is not aware of the occurrence of a fraud or suspected fraud and has not received any allegations of fraud.] We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council’s internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by “whistleblowers”) which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

C. Compliance with Laws and Regulations

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

D. 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 are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and committees *[add the full title of the relevant committees]* (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the *[period]* to the most recent meeting on the following date: *[list date]*.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the 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 period ended, as well as related balances due to or from such parties at the *[period]* end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. 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 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 litigation and claims, both actual and contingent, and have disclosed in Note [X] to the financial statements all guarantees that we have given to third parties.
4. The claim by [name of claimant] have been settled for the total sum of XXX which has been properly accrued in the financial statements. No other claims in connection with litigation have been or are expected to be received.

F. Subsequent Events

1. Other than..... described in Note [X] to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

Yours faithfully,

Chief Financial Officer

Chair of the Audit Committee

Appendix F – Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committee. These are detailed here:

Required communication	Reference
<p>Planning and audit approach</p> <p>Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Plan
<p>Significant findings from the audit</p> <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or in aggregate, that indicated there could be doubt about Peterborough City Council's ability to continue as a going concern for the 12 months from the date of our report.
<p>Misstatements</p> <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Audit Results Report
<p>Fraud</p> <ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	We have made enquiries of management and the Audit Committee. We have not become aware of any fraud or illegal acts during our audit.
<p>Related parties</p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	We have no matters we wish to report regarding related parties.

Required communication	Reference
<p>External confirmations</p> <ul style="list-style-type: none"> ▶ Management’s refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	We have received all requested confirmations, apart from three investment confirmations which are expected imminently.
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have not identified any material instances of non-compliance with laws and regulations.
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY’s objectivity and independence</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Plan and Audit Results Report
<p>Significant deficiencies in internal controls identified during the audit</p>	Annual Audit Letter/Audit Results Report
<p>Group audits</p> <ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team’s planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team’s evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor’s work ▶ Any limitations on the group audit, for example, where the group engagement team’s access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	Audit Plan Audit Results Report
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	Audit Plan Audit Results Report Annual Audit Letter if considered necessary
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	Certification Report

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