

Peterborough City Council  
Audit results report

Year ended 31 March 2017

Private and Confidential

13 September 2017



Dear Audit Committee Members

We have substantially completed our audit of Peterborough City Council (the Council) for the year ended 31 March 2017.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 3.

The statutory deadline for 2016/17 is 30 September 2017. The Council is aiming to approve the financial statements on 25 September 2017. We confirm that we also expect to issue our audit opinion on or shortly after this date. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit Committee, other members of the Council, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We look forward to discussing with you any aspects of this report or any other issues arising from our work.

Yours faithfully

Suresh Patel  
Executive Director

For and on behalf of Ernst & Young LLP

United Kingdom

# Contents

01 Executive Summary

02 Areas of Audit Focus

03 Audit Report

04 Audit Differences



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://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 (updated February 2017)" 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, other members of the Council 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, other members of the Council 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, other members of the Council 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 obtaining our written consent.



# 01 Executive Summary



# Executive Summary

## Overview of the audit

### Scope and materiality

In our Audit Plan presented to the Audit Committee at the 27 March 2017 meeting, we gave you an overview of how we intended to carry out our responsibilities as your auditor. We carried out our audit in accordance with this plan. There have been no changes in our planned audit strategy.

We planned our procedures using a materiality of £9.929 million. We reassessed this using the actual results for the financial year, which increased this amount to £10.458 million. The threshold for reporting audit differences has increased from £0.496 million to £0.520 million. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross expenditure.

We also identified areas where misstatement at a lower level than materiality might influence the reader and developed a specific audit strategy for them. They include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits. As these disclosures are considered to be of interest to users of the accounts we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are correctly disclosed. In particular we have confirmed the figures for senior officer remuneration in full.
- Related party transactions. The accounting standard requires us to consider the disclosure from the point of materiality to either side of the transaction. We have therefore considered the nature of the relationship in applying materiality.
- Councillors' allowances. As these disclosures are considered to be of interest to users of the accounts we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are correctly disclosed.

### Status of the audit

We have substantially completed our audit of Peterborough City Council's financial statements for the year ended 31 March 2017 and have performed the procedures outlined in our Audit plan. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- Clearance of sample testing on Capital Grants and s106 receipts & clearance of outstanding queries on schools payroll

Final procedures:

- Review of the final version of the financial statements;
- Completion of subsequent events review;
- Completion of Final Review Procedures;
- Receipt of the signed management representation letter; and
- Completion of Procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts (WGA) submission

We expect to issue the audit certificate at the same time as the audit opinion.

We plan to complete the WGA work in September once we are in receipt of a final version of accounts. Until this is completed we will not be in a position to issue the audit certificate. This has no impact on our ability to issue the opinion on the financial statement, but we aim to complete the work prior to the committee on 25 September so that we can issue the certificate at the same time.

At the time of writing this report we have identified no unadjusted audit differences in the draft financial statements which management has chosen not to adjust.

We identified a small number of minor disclosure adjustments which have been corrected by management in the revised financial statements subject to approval.



# Executive Summary

## Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of Peterborough City Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

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

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

## Control observations

During the completion of our audit 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 and which is unknown to you.

## Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We requested amendment to include the Head of Internal Audit opinion, and to refer to any significant findings that Internal Audit had raised, along with action being taken. This is now included in the final version. We have no other matters to report as a result of this work.

We have no other matters to report.

## Value for money

We considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties.

In our Audit Plan we identified no significant VFM risks. However we did review the financial resilience of the Council and the robustness of the medium term financial plans and assumptions, and concluded that arrangements are appropriate.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.





# 02 Areas of Audit Focus



## Areas of Audit Focus

# Audit issues and approach: Risk of Fraud in Revenue and Expenditure Recognition

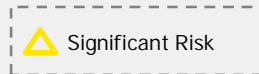
### Revenue Recognition

#### What are our conclusions?

Our testing has not identified any material misstatements from revenue and expenditure recognition. Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.

#### What is the risk?

**Risk of fraud in revenue recognition**  
Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue. In this 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 manipulating expenditure recognition. The Council has historically performed well in relation to their outturn position for the year. In 2016/17 the Council underspent by £1.3 million. These areas have also been considered as being linked to the risk of fraud in management override of controls (see below).



#### What did we do?

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

- Reviewing the appropriateness of revenue and expenditure recognition accounting policies and testing that they had been applied correctly during our detailed testing;
- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements (refer to details included in the management override of control section below);
- Reviewing accounting estimates (e.g. IAS 19 liability, valuation of property plant and equipment (PPE) and provisions) for evidence of management bias (see relevant sections below);
- Sample testing additions to PPE to ensure that they have been correctly classified as capital and included at the correct value to identify any revenue items that have been inappropriately capitalised;
- Testing a sample of liabilities based on our established testing threshold for reasonableness;
- Performing cut-off testing of transactions both before and after year-end to ensure that they were accounted for in the correct year based on our established testing threshold;
- Considering the completeness of liabilities included in the financial statements; and
- Evaluating the business rationale for any significant unusual transactions.





## Audit issues and approach: Management Override of Controls

### Management override

#### What are our conclusions?

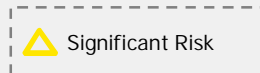
We have not identified any material weaknesses in controls or evidence of material management override. We have not identified any instances of inappropriate judgements being applied. We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

#### What is the risk?

**Risk of management override**  
As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and to prepare fraudulent financial statements by overriding controls that otherwise seem to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

We have assessed journal amendments, accounting estimates and unusual transactions as the area's most open to manipulation.

Linking to our risk of fraud in revenue and expenditure recognition above we have considered the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's capital programme. We have also considered the completeness of liabilities and valuation of estimated liabilities for any management bias.



#### What did we do?

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

- Gaining an understanding of the oversight given by those charged with governance of management's processes and controls in respect of fraud;
- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We obtained a full list of journals posted to the general ledger during the year and using our data analytics tool confirmed the completeness of the population and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation;
- Reviewing accounting estimates (e.g. IAS 19 liability, valuation of PPE and provisions) for evidence of management bias (see relevant sections below);
- Considering the results of our work on revenue and expenditure recognition as set out above, specifically considering any instances of management bias; and
- Evaluating the business rationale for any significant unusual transactions.



# Audit issues and approach: Management Override of Controls



### Further details on procedures / work performed

In undertaking our work on management override of controls we have considered the balances included in the Council's financial statements that are the most susceptible to judgement or estimation techniques. The key estimates are considered to be:

- The valuation of Property, Plant and Equipment – due to the significance of this on the financial statements we have included this as a higher inherent risk in our audit strategy and include a separate section to report on this below.
- Valuation of pension liabilities - due to the significance of this on the financial statements we have included this as a higher inherent risk in our audit strategy and include a separate section to report on this below.

Specifically in relation to other estimates:

- The provisions balance in the financial statements is £5.8 million at 31 March 2017 the largest being the business rates appeal provision at £4.6m. We challenged management on the reasonableness of their approach for calculating this provision. We had no issues from our audit work on provisions;
- Creditor accruals- our work on creditor accruals identified no matters to bring to your attention;
- Private Finance Initiative (PFI) – the Council's PFI liability at 31 March 2017 is £187.6 million relating to three secondary schools. There are no new PFI schemes in the year and our work on existing schemes involved a comparison to the model and a review of movement from last year. No issues were noted.

We evaluated the remainder of the Council's estimates, including bad debt provision and depreciation, as low risk of material misstatement. No issues were noted in our work in these areas.



## Areas of Audit Focus

### Other audit issues arising



#### Accounting for Property, Plant and Equipment

The fair value of Property, Plant and Equipment (PPE) represent a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

The Council engages an external expert valuer who applies a number of complex assumptions. Annually, PPE are assessed to identify whether there is any indication of impairment (i.e. a reduction in their carrying value).

As the Council's asset base is significant, and the outputs from the valuer are subjective, there is a risk that the fair value of PPE may be under or overstated or the associated accounting entries incorrectly posted. 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.

This risk relates to assets that are revalued, being 'Other land and Buildings' and 'Surplus assets'. Vehicles, plant and equipment, infrastructure assets and community assets are held at cost.

Our approach has focused on:

- Considering the work performed by the Council's valuer, Wilks, Head and Eve (WHE), including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Reviewing and sample testing the key asset information provided by the Council to WHE in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- Considering the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code. We have also considered whether any specific changes to assets (which would impact its value) have been communicated to the valuer;
- Reviewing the desktop review performed by management over assets not subject to valuation in 2016/17 to confirm that the remaining asset base is not materially misstated;
- Considering external evidence of asset values via reference to the NAO commissioned Local Government Gerald Eve report. Specifically we have considered if this indicates any material variances to the asset valuations performed by WHE and the desktop review by management;
- Considering changes to useful economic lives as a result of the most recent valuation;
- Considering whether asset categories held at cost have been assessed for impairment and are materially correct; and
- Testing that the accounting entries have been correctly processed in the financial statements, including the treatment of impairments.

We have not identified any material issues in the valuations based on our work.



# Areas of Audit Focus



## Pension Valuations and Disclosures

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme (LGPS) administered by Cambridgeshire County Council.

The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2017 this totalled £272.287 million (£239.364 million at 31 March 2016).

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, BDO, 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) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments 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.

We have concluded our work including review and consideration of the formal IAS 19 protocol reporting from the Cambridgeshire Pension Fund auditor.

No material issues have been identified in completing our work. Assumptions used by the actuary and adopted by the Council are considered to be generally acceptable.

The sensitivities surrounding these assumptions have been correctly disclosed in Note 7 to the financial statements, and in the accounting policies note.

24



## Group Structure

The Council has a number of joint arrangements which may necessitate the preparation of group accounts in the future.

As with the prior year, the Council has identified and considered all of its relationships with its subsidiaries and other partners and assessed the nature of these arrangements to determine whether they create functional bodies and other entities which could fall within the group boundary and therefore require consolidating into the Council's Financial Statements. These partnership arrangements are disclosed in note 14 to the accounts. Group accounts have not previously been prepared by the Council.

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.

Our approach focussed on the reasonableness of the Council's assessment by reviewing the Council's determination of where overall control lies with regard to the operation and delivery of services of the potential group bodies.

We were satisfied with the reasonableness of the Council's evaluation which concluded that it did not need to consolidate any of its arrangements.



## Areas of Audit Focus



### Financial statements presentation – Expenditure and funding analysis and Comprehensive income and expenditure statement

The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) changed the way the financial statements are presented. The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates and reflects the Council's internal financial reporting structure.

This change has required a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives has required audit review which was performed in April 2017.

Our audit approach focused on:

- ▶ Reviewing the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the Code;
- ▶ Reviewing the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported; and
- ▶ Agreement of restated comparative figures back to the Council's segmental analysis and supporting working papers.

We proposed some minor disclosure amendments that management have agreed to make in the financial statements. In particular we highlighted that the EFA, is not a Primary Statement (consistent with the Code Guidance notes). Management have updated the narrative to the EFA to reflect this.



# 03 Audit Report



# Proposed Audit Report

## Our opinion on the financial statements

### 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 2017 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,
- the related notes 1 to 45 and the Expenditure and Funding Analysis; and
- Collection Fund and the related notes 1 to 4

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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 the Chief Financial Officer's Responsibilities 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 2016/17, 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 2016/17 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.



# Audit Report

Draft audit report (continued)

## Our opinion on the financial statements

### 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 2017 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 2016/17.

### Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2016/17 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.





# Audit Report

## Our opinion on the financial statements

### 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 2016, as to whether Peterborough City Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Peterborough City Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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 2016, 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 2017.

### 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.

Suresh Patel

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

Cambridge office

x September 2017



04

## Audit Differences



## Audit Differences

### Audit differences

In any audit, we may identify misstatements between amounts we believe should be recorded in the financial statements and 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

There are no corrected misstatements that we wish to bring to your attention.

We have identified a number of minor disclosure adjustments during the audit that have been updated by management in the financial statements. We do not deem any of these to be so significant that they require reporting to you.

At the time of writing this report we have identified no uncorrected misstatements.



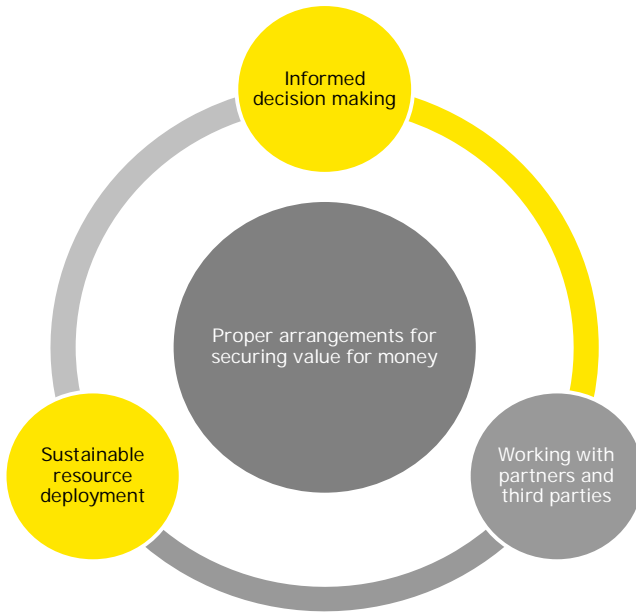
32

05 Value for Money



## Value for Money

33



### Economy, efficiency and effectiveness

We must consider whether you have 'proper arrangements' to secure economy, efficiency and effectiveness in your 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.

In considering your proper arrangements, we use the CIPFA/SOLACE framework for local government to ensure that our assessment is made against an already existing mandatory framework which you use in documents such as your Annual Governance Statement.

### Overall conclusion

We identified no significant risks around these arrangements. The table below shows the issues we considered.

We expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



## Consideration of financial resilience

## Findings

To date the Council has responded well to the financial pressure it faces. However, it has identified the need for substantial savings over the period to 2020 to balance the budget:

Budget gaps:

- ▶ 2017/18 - was £ 27.9 million, now closed
- ▶ 2018/19 - £14.8 million
- ▶ 2019/20 - £21.2 million

In 2016/17 the Council continued its track record of meeting its annual budget, delivering a surplus of £1.3m, along with approximately £23million of savings. It established a Grant Equalisation reserve with a balance of £15.6m, created to defer the impact of funding reductions, and a Capacity Building Reserve of £5 million. The general fund balance stands at £6 million as at 31 March 2017, total earmarked reserves at £33 million, schools balances of £5.4m, and capital grants at £1.2m. Total reserves are £45.6 million. Detailed savings plans will be required in subsequent years to ensure reserves are sustained.

It is clear that the Council is facing a number of financial pressures which require it to identify significant further savings or will require some difficult decisions regarding its ability to deliver its service plans for future years.

- Taking informed decisions
- Deploying resources in a sustainable manner

Our consideration focused on a review of:

- the Council's 2017/18 budget and the medium term forecast, assessing the extent of the savings plans in place;
- the robustness of any assumptions used in medium term planning; and
- the savings plans in place, and assessing the likelihood of whether these plans can provide the Council with the required savings/efficiencies over the medium term. This took into account the Council's historic record.

The 2017/18 budget is balanced, through the use of efficiencies and income plans. The Council has identified savings totalling £20.7 million in 2017/18, and with planned use of the Grant Equalisation reserve of £7.2 million it has closed its budget gap which had stood at £27.9 million. We assessed these plans 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.

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 settlement.

The Council also has earmarked reserves (£33 million at 31 March 2017) which have been established for a number of purposes, including a Grant Equalisation Reserve and a Capacity Building Reserve. The existence of these reserves provides further evidence of the Council's prudent approach to financial management.

The budget gap for 2018/19 is £14.8million after planned use of the GE reserve of £4.3 million, 2019/20 £21.2million, and for 2020/21 is £28.9million. Compared to a gross expenditure of approximately £560m per annum, and historic performance of closing the gap, we assess the Council to have adequate arrangements, based on the known information as at the end of the financial year

Our review of the budget setting process, assumptions used in financial planning, in year financial monitoring, and the Council's history of delivery has not identified any significant matters that we wish to report to you.



06 Other reporting issues



## Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We give an opinion on the consistency of the financial and non-financial information in the Peterborough City Council Statement of Accounts 2016/17 with the audited financial statements

We also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Our findings are:

- Financial information within the Narrative Report published within the Statement of Accounts is consistent with the audited financial statements.
- We have reviewed the Annual Governance Statement and can confirm it is consistent with other information that we are aware of from our audit of the financial. We requested amendment to include the Head of Internal Audit opinion, and to refer to any significant findings that Internal Audit had raised, along with action being taken. This is now included in the final version. We have no other matters to report as a result of this work.

### 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.

We are yet to complete our work on the Whole of Government Accounts (WGA) return. We will complete this work in September ahead of the Audit Committee on 25 September.

Once completed we will report any matters arising to the Audit Committee.

### 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 did not identify any issues which required us to issue 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.





## Other reporting issues

### 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 no matters to report.



07

# Assessment of Control Environment



## Assessment of control environment

### Financial controls

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.

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.

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.



40

# 08 Appendices





# Appendix A

## Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have done this by:

### 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.
Planning and audit approach	Communication of the planned scope and timing of the audit, including any limitations.	March 2017 Audit Plan
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view of the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Any significant difficulties encountered during the audit</li> <li>• Any significant matters arising from the audit that were discussed with management</li> <li>• Written representations we have requested</li> <li>• Expected modifications to the audit report</li> <li>• Any other matters significant to overseeing the financial reporting process</li> </ul>	September 2017 Audit Results Report
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events were identified, either individually or together to raise any doubt about Peterborough City Council's ability to continue for the 12 months from the date of our report.
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Significant corrected misstatements, in writing</li> </ul>	September 2017 Audit Results Report

41



# Appendix A

## Our Reporting to you

Required communications	What is reported?	When and where
Fraud	<ul style="list-style-type: none"> <li>▶ Asking the Audit Committee whether they have knowledge of any actual, suspected or alleged fraud affecting the Council</li> <li>▶ Unless all those charged with governance are involved in managing the entity, any fraud identified or information obtained indicating that a fraud may exist involving:               <ul style="list-style-type: none"> <li>(a) management;</li> <li>(b) employees with significant roles in internal control; or</li> <li>(c) others where the fraud results in a material misstatement in the financial statements.</li> </ul> </li> <li>▶ A discussion of any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	We have asked management and those charged with governance about arrangements to prevent or detect fraud. We have not become aware of any fraud or illegal acts during our audit.
Related parties	Significant matters arising during the audit in connection with the Council's related parties including, where applicable: <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and/or regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	We have no matters to report.
Subsequent events	<ul style="list-style-type: none"> <li>▶ Where appropriate, asking the Audit Committee whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	We have asked management and those charged with governance. We have no matters to report.
Other information	<ul style="list-style-type: none"> <li>▶ Where material inconsistencies are identified in other information included in the document containing the financial statements, but management refuses to make the revision.</li> </ul>	September 2017 Audit Results Report
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ We were unable to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have no matters to report.
Consideration of laws and/or regulations	<ul style="list-style-type: none"> <li>▶ Audit findings of non-compliance where it is material and believed to be intentional. This communication is subject to compliance with legislation on "tipping off"</li> <li>▶ Asking the Audit Committee about possible instances of non-compliance with laws and/or regulations that may have a material effect on the financial statements, and known to the Audit Committee.</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.



# Appendix A



## Our Reporting to you



## When and where

43

Required communications	What is reported?	When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	September 2017 Audit Results Report
Independence	<p>Communication of all significant facts and matters that have a bearing on EY's objectivity and independence.</p> <p>Communicating key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information on the firm's general policies and processes for maintaining objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity or independence and the appropriateness of safeguards.</p>	<p>March 2017 Audit Plan</p> <p>September 2017 Audit Results Report</p>
Fee Reporting	<p>Breakdown of fee information when the audit plan is agreed</p> <p>Breakdown of fee information at the completion of the audit</p> <p>Any non-audit work</p>	<p>March 2017 Audit Plan</p> <p>September 2017 Audit Results Report</p>
Certification work	Summary of certification work	Certification Report



## Independence

44

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report presented to the Audit Committee in March 2017.

We complied with the APB Ethical Standards and the requirements of the Public Sector Audit Appointment's (PSAA) 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 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 25 September 2017.

We confirm we have undertaken no non-audit work outside the PSAA Code requirements.

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2017.

We confirm that we have undertaken no non-audit work outside the PSAA Code requirements.

	Planned Fee 2016/17 £'s	Scale Fee 2016/17 £'s	Final Fee 2015/16 £'s
Total Audit Fee - Code work (see note 1)	TBC	108,533	117,408
Certification work (Housing Benefit return)	14,055	14,055	13,619

Note 1: Our actual fee will be higher than the scale fee set by the Public Sector Audit Appointments (PSAA Ltd) due to additional work required on schools payroll testing, difficulties with working papers on cash flow, cash and bank, grants and REFCUS, and additional work on the EFA requirement and restatement.

These additional fees are subject to agreement with PSAA.

We will confirm our final fees following the completion of our audit and certification work and report this within our Annual Audit Letter.







# Appendix C

## Accounting and regulatory update



### Accounting update

Since the date of our last report to the Audit Committee, new accounting standards and interpretations have been issued. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact on Peterborough City Council 
45 <i>IFRS 9 Financial Instruments</i>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> <li>• How financial assets are classified and measured</li> <li>• How the impairment of financial assets are calculated</li> <li>• Financial hedge accounting</li> <li>• The disclosure requirements for financial assets.</li> </ul> <p>Transitional arrangements are included within the accounting standard, however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be and whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although some initial thoughts on the approach to adopting IFRS 9 have been issued by CIPFA, until the Code is issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> <li>• Reclassify existing financial instrument assets</li> <li>• Re-measure and recalculate potential impairments of those assets; and</li> <li>• Prepare additional disclosure notes for material items</li> </ul>
<i>IFRS 15 Revenue from Contracts with Customers</i>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> <li>• Leases;</li> <li>• Financial instruments;</li> <li>• Insurance contracts; and</li> <li>• for local authorities; Council Tax and NDR income.</li> </ul> <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>There are transitional arrangements within the standard; however as the 2018/19 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be.</p>	<p>As with IFRS 9, some initial thoughts on the approach to adopting IFRS 15 have been issued by CIPFA. However, until the Code is issued there remains some uncertainty. However, what is clear is that for all material income sources from customers the Council will have to:</p> <ul style="list-style-type: none"> <li>• Disaggregate revenue into appropriate categories</li> <li>• Identify relevant performance obligations and allocate income to each</li> <li>• Summarise significant judgements</li> </ul>



# Appendix C

Name	Summary of key measures 	Impact on Peterborough City Council 
<i>IFRS 16 Leases</i>	<p>IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease in a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard, although as the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued it is unclear what the impact on local authority accounting will be or whether any statutory overrides will be introduced.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to classify all of its leases and therefore must ensure that all lease arrangements are fully documented.</p>
<i>Earlier deadline for production and audit of the financial statements from 2017/18</i>	<p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.</p>	<p>This year, in readiness for the earlier deadline, we carried out some early work at our interim audit stage, including work on valuations and depreciation, accounting policies, the new expenditure and funding analysis, and month 1 to 9 testing of income and expenditure. We plan to extend the amount of early work we complete at next year's interim audit stage.</p> <p>We did have difficulties with some working papers this year - where we had to ask the finance team to provide additional analysis and references before we could carry out our work. These areas were discussed with the finance team as they arose.</p> <p>We have a meeting with the finance team in early October to understand where further improvements can be made (in both teams), and to plan early work that can be completed next year.</p> <p>Through working together, and reflecting on this year, there are a number of areas where the closedown and audit processes can be further improved going forward. We do not expect the formal earlier deadline to pose a significant issue for the Council.</p>



## Appendix D

### Request for a Management representation letter

[To be prepared on the Council's letterhead]

X September 2017

Suresh Patel, Executive Director

Ernst & Young LLP  
1 More London Place  
London  
SE1 2AF

47

This letter of representations is provided in connection with your audit of the financial statements of Peterborough City Council ("the Council") for the year ended 31 March 2017. 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 financial statements give a true and fair view of the Council financial position of Peterborough City Council as of 31 March 2017 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), 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 2016/17.
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 2016/17. 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 2016/17, that are free from material misstatement, whether due to fraud or error.



## Appendix D

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



## Appendix D

- 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 audit committee (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: *25 September 2017*.
- 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.

49

### 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. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

### G. Other information

- 1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the *Narrative Report, ....*
- 2. We confirm that the content contained within the other information is consistent with the financial statements.



## Appendix D

---

### H. Expenditure Funding Analysis

1. We have reviewed the new requirements (as set out in the CIPFA LASAAC Code of practice on Local Authority Accounting in the United Kingdom 2016/17), in relation to the preparation of the Expenditure Funding Analysis to replace the previous requirement for a segmental reporting analysis, and confirm that all required amendments to the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement, as well as the requirements to prepare the Expenditure Funding Analysis and related notes have been correctly reflected in the financial statements, including retrospectively reflecting this in the financial statements.
2. The financial statements reflect the operating segments reported internally to the Council.

### I. Going Concern

1. [Note \[X\]](#) to the financial statements discloses all of the matters of which we are aware that are relevant to the 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.

### J. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the *property valuations* and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the 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. Retirement benefits

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 sincerely,

---

Chief Financial Officer

---

Chair of Audit Committee

EY | Assurance | Tax | Transactions | Advisory

#### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](http://ey.com).

51 © 2017 EYGM Limited.  
All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

[ey.com](http://ey.com)

This page is intentionally left blank