

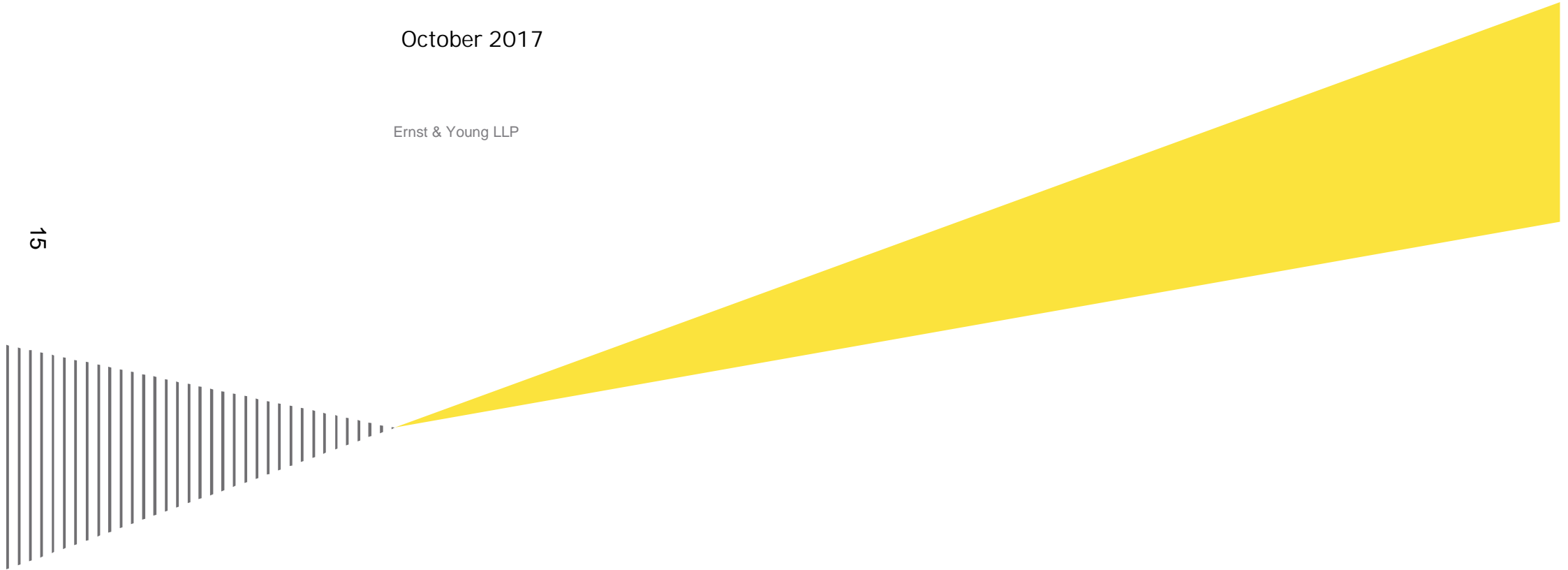
Peterborough City Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP

15



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Public Sector Audit Appointments Ltd (PSAA) have issued a “Statement of responsibilities of auditors and audited bodies”. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

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 23 February 2017)” 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 Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact 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.

A hand holding a pen writing on a document in an office setting with a calculator and a laptop.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Peterborough City Council (the Council) following completion of our audit procedures for the year ended 31 March 2017.

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

Area of Work	Conclusion
Opinion on the Council's: ▶ Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2017 and of its expenditure and income for the year then ended.
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
Reports by exception: ▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	We had no matters to report.

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 13 September 2017, and presented to the Audit Committee on 25 September 2017.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 27 September 2017.

In January 2018 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

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

Suresh Patel

Associate Partner
For and on behalf of Ernst & Young LLP

Purpose and responsibilities



Purpose and responsibilities

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council. We have already reported the detailed findings from our audit work in our 2016/17 Audit Results Report to the 25 September 2017 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we presented to the Audit Committee meeting on 27 March 2017 and is conducted in accordance with the NAO's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the NAO.

As auditors we are responsible for:

- ▶ Expressing an opinion on the 2016/17 financial statements; and on the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the NAO on your WGA return. The extent of our review and the nature of our report are specified by the NAO.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned 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.

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health. We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 27 September 2017.

Our detailed findings were reported at the 25 September 2017 Audit Committee meeting. The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p>Management override of controls</p> <p>A risk present on all audits is that 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.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p>	<p>We obtained a full list of journals posted to the general ledger during the year 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.</p> <p>The most significant accounting estimates in the financial statements relate to the net pension liability and property valuations. We challenged the significant movement in the actuarial valuation and found no indication of management bias in these estimates. Our work on the property valuations has been completed and we found no indication of management bias to the balances presented within the financial statements.</p> <p>We have not identified any material weaknesses in controls or evidence of material management override.</p> <p>We have not identified any material instances of inappropriate judgements being applied.</p> <p>We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.</p>

Revenue and expenditure recognition

Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation. We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.

In our view, as the Council’s main sources of revenue are largely fixed and budgeted for, e.g. government grants and taxation, the revenue recognition risk exists largely in relation to the potential for the incorrect classification of revenue spend as capital. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.

We considered whether or not revenue spend had been appropriately capitalised by testing a sample of additions to property, plant and equipment to ensure these were correct to be included as assets on the balance sheet. Our testing did not identify any material expenditure items, which had been inappropriately capitalised.

We tested a sample of income and expenditure transactions based on our established testing threshold for accuracy. We also carried out cut-off testing, where we examined a sample of receipts and payments before and after year end to ensure that the transactions were properly recorded in the accounts.

Our testing did not reveal any material misstatements with respect to revenue and expenditure recognition.

Overall, our audit work did not identify any issues or unusual transactions which indicated that there had been any misreporting of the Council’s financial position.

Other Key Findings

Financial statements presentation

Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 changing 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 service analysis should be based on the organisational structure under which the Council operates.

This change in the code requires a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements.

Conclusion

We reviewed the Expenditure and Funding Analysis, restated CIES and associated notes.

We agreed with the Council’s assessment for reporting its organisational structure and agreed the restated comparative figures back to the Council’s segmental analysis and supporting working papers. The disclosures were in line with the CIPFA Code of Practice.

Other Key Findings	Conclusion
<p>Property valuations</p> <p>At 31 March 2017 the value of property on the Council's balance sheet was over £600 million, representing almost 87% of the total assets. To ensure assets are recorded at fair value, the Council adopts a rolling five year revaluation programme (i.e. 20% of assets are revalued each year). This is an exercise which involves judgement, input from external experts and leads to a material accounting estimate.</p> <p>Where there are increases or decreases in asset valuations, the accounting entries required to record these changes affect several primary statements and disclosures in the Council's financial statements.</p>	<p>We assessed and were satisfied with the competency and objectivity of the Council's property valuer. Therefore, we were able to place reliance on their work and carried out audit procedures to challenge the basis of valuation used by the valuer.</p>
<p>Pension valuations and disclosures</p> <p>The Council is an admitted body to the Cambridgeshire Pension Fund. Hymans are appointed as actuaries for this fund and provide the Council with the figures for the disclosures in the financial statements, based on payroll and pension data provided to them by the Council.</p> <p>The value of the pension liability is a significant balance sheet item (£272.3 million at 31 March 2017) and represents a material accounting estimate.</p>	<p>We assessed and were satisfied with the competency and objectivity of the Council's actuary. Our work found that assumptions used by the actuary and adopted by the Council were considered to be generally acceptable. The sensitivities relating to these assumptions had been correctly disclosed in Note 7 to the financial statements, and in the accounting policies note.</p>
<p>Preparation of group accounts</p> <p>The Council has a number of joint arrangements which may necessitate the preparation of group accounts in the future. 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.</p>	<p>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.</p> <p>We were satisfied with the reasonableness of the Council's evaluation which concluded that it did not need to consolidate any of its arrangements.</p>

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality for Peterborough City Council to be £9.929 million (2016: £10 million). We reassessed this using the actual results for the financial year, which increased this amount to £10.458 million. The basis of our assessment of materiality has remained consistent with prior years at 2% of gross expenditure.</p> <p>We consider Gross Expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	<p>We agreed with the Audit Committee that we would report to the Committee all uncorrected audit differences in excess of £0.496 million, revised to £0.520 million (2016: £0.500 million).</p>

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits: we audited all disclosures and undertook procedures to confirm material completeness
- Related party transactions: we audited all disclosures and undertook procedures to confirm material completeness.
- Councillors' allowances: we agreed the amounts disclosed in the financial statements to those on the Council's website and carried out substantive testing.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

A close-up, shallow depth-of-field photograph of a stack of gold coins. The coins are stacked vertically, with the edges of several coins visible. The lighting is warm, highlighting the metallic texture and the embossed details on the coins. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Value for Money".

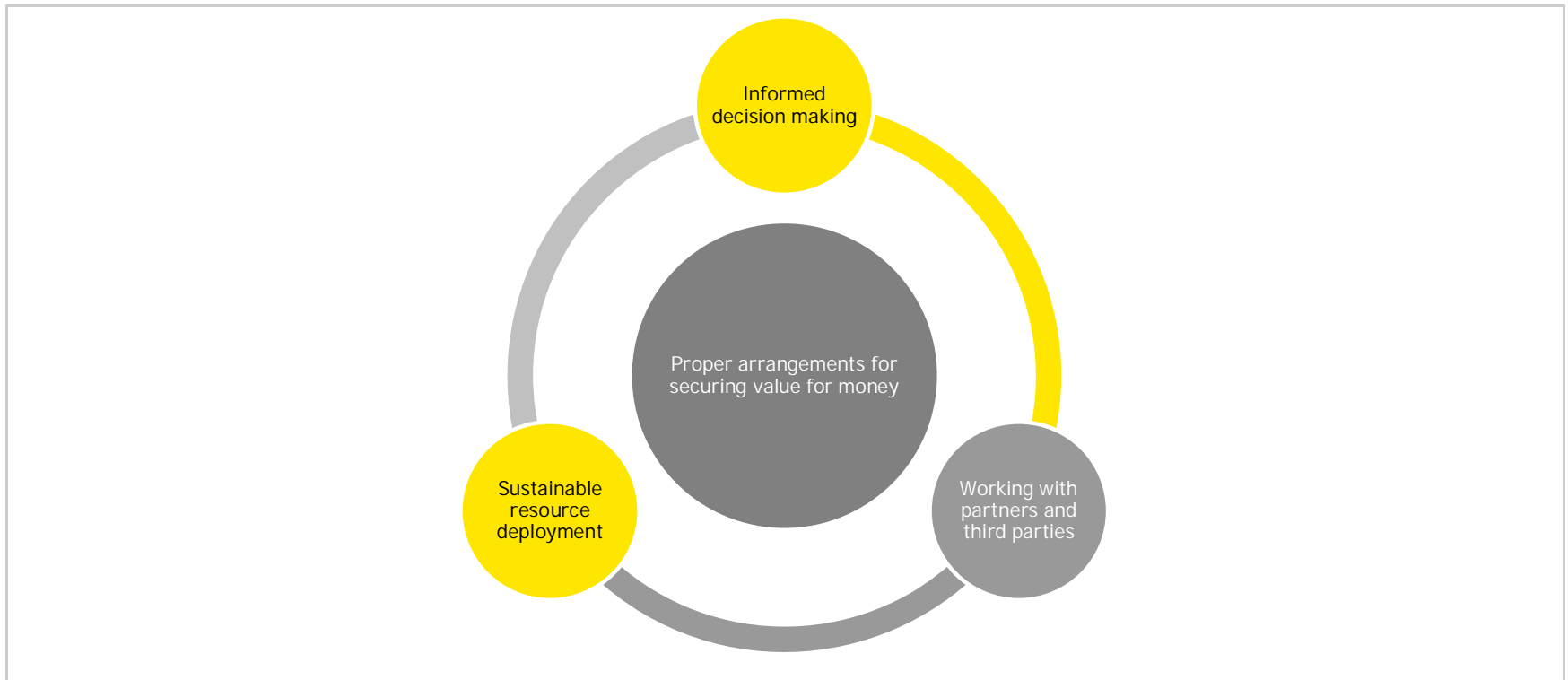
Value for Money

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.



We identified no significant risks in relation to these arrangements. However, we did focus on the financial resilience of the Council given the financial challenges faced by local government.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to secure economy, efficiency and effectiveness on its use of resources.

We therefore issued an unqualified value for money conclusion on 27 September 2017.

Consideration of financial resilience	Conclusion
<p>In common with the majority of the local government sector the Council faces significant financial challenges over the next three years. While the budget gap for 2017/18 has been closed, the phasing of reductions in government support and pressures on costs mean that the gap is £14.8 million in 2018/19 and £21.2 million in 2019/20.</p> <p>Therefore, there is a significant budget gap over the medium term, for which the Council has identified a number of savings and actions.</p>	<p>Our consideration focused on a review of:</p> <ul style="list-style-type: none"> • 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. <p>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. 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.</p> <p>Savings plans were properly managed and monitored and the Council's budget setting process was deemed to be robust, with sensibly prudent assumptions applied to uncertain income streams, risks related to reductions in government funding and future expenditure.</p> <p>Reserve levels are reflective of the challenges the Council faces and the Council has built up a level of reserves that it plans to use to assist the transformation.</p> <p>The Council recognises it faces unprecedented financial pressures and that a fundamental change is required to the way it operates in order to future-proof the Council's operations.</p>

Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

We performed the procedures required by the National Audit Office on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes. We had no issues to report.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading. We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public. We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response. We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2016/17 financial statements from member of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 25 September 2017. 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 regulatory and professional requirements.

Control Themes and Observations

As part of our work, 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 identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Audit Committee.

A close-up photograph of a person's face as they look through a pair of black binoculars. The person's eyes are focused on the lenses. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your
future

Focused on your future

Area	Issue	Impact
<p><i>Earlier deadline for production and audit of the financial statements from 2017/18</i></p>	<p>The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year.</p> <p>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>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>To prepare for this change the Council has commenced taking steps in 2016/17. It reviewed closedown procedures, reviewed what work could be brought forward and set a faster internal timetable for closure of 2016/17 which it comfortably achieved.</p> <p>As auditors, nationally we have:</p> <ul style="list-style-type: none"> • Issued a thought piece on early closedown • As part of the strategic Alliance with CIPFA jointly presented accounts closedown workshops across England, Scotland and Wales • Presented at CIPFA early closedown events and on the subject at the Local Government Accounting Conferences in July 2017 <p>This year, 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 and these were discussed with the finance team as they arose.</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. With management's input, we will continue to develop this approach to bring forward our audit during the 2017/18 audit, and we do not expect the formal earlier deadline to pose a significant issue for the Council.</p>

Appendix A

Audit Fees



Appendix A Audit Fees

The scale fee is set by the PSAA and was reported in the Audit Plan that we presented to the Audit Committee meeting on 27 March 2017. We set out below the fees for the year ended 31 March 2017.

Description	Final Fee 2016/17 £	Planned Fee 2016/17 £	Scale Fee 2016/17 £	Final Fee 2015/16 £
Total Audit Fee – Code work (see note 1)	111,033	108,533	108,533	117,408
Total Audit Fee – Certification of claims and returns	TBC	14,055	14,055	13,619
Non-audit work (see note 2)	0	0	n/a	0

Note 1: Our actual fee is 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. We have still to agree the additional fee of £2,500 for this additional work with the Chief Finance Officer. These additional fees are also subject to agreement with PSAA.

Note 2: We confirm that we have undertaken no non-audit work outside the PSAA Code requirements.

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ED None

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