

# Peterborough City Council Audit results report

Year ended 31 March 2018

For Audit Committee 16 July 2018



4 July 2018

Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of Peterborough City Council (the Authority) for 2017/18. We will issue our final report following the Audit Committee meeting on 16 July 2018.

We have substantially completed our audit of the Authority for the year ended 31 March 2018. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the statement of accounts in the form at Section 4 of this report, before the statutory deadline of 31 July 2018. Whilst we have no matters to include in the auditor's report on your arrangements to secure economy, efficiency and effectiveness in your use of resources, in light of the financial challenges the Authority faces, we do include some specific commentary in Section 6.

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

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

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 16 July 2018.

Yours faithfully

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents



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 and management of Peterborough City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Peterborough City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Peterborough City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



# 01 Executive Summary

# Executive Summary

## Scope update

In our Audit Plan presented to the 12 February 2018 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the statement of accounts. We carried out our audit in accordance with this plan.

- Changes in materiality: In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £10.5 million. This level of materiality remains appropriate for the actual results for the financial year – we recalculated a small change in materiality upon receipt of the unaudited accounts. The materiality used during the audit was £11 million. The basis of our assessment has remained consistent with prior years at 2% of gross expenditure on provision of services. The threshold for reporting misstatements that have an effect on the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement, and collection fund), is £550,000.
- Significant risks: We have updated the focus and response to the significant risks we identified in our Audit Plan. We are clear that our response to the significant risk of management override is to focus on those areas where there is more incentive and opportunity for management to override control. We have identified two material risks related to fraud, covering the risk of fraud in revenue recognition and the inappropriate capitalisation of revenue expenditure which we consider as separate significant risks. This is set out more fully in Section 3 of the report.

## Status of the audit

We have substantially completed our audit of the Authority's statement of accounts for the year ended 31 March 2018 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 Authority's statement of accounts in the form which appears at Section 4. However until work is complete, further amendments may arise:

- Testing of capital grants and their application, and capital grants received in advance, including s106 monies.
- Clearance of schools payroll queries and I&E sample, completion of testing, and receipt of 3 schools bank confirmations.
- PPE valuations work
- Clearance of issues arising from technical review of the accounts
- Clearance of all queries on our audit query log
- Review of the final version of the financial statements
- Completion of subsequent events review
- Receipt of the signed management representation letter

There are two areas where we are unable to complete the work required due to late receipt of external guidance or external confirmations:

- IAS19 procedures on the pension disclosures (still awaiting the response from the pension fund auditor)
- WGA: completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission (late receipt of NAO Group Instructions)

We expect to issue the audit certificate after we issue the audit opinion, once the WGA submission has been completed.



# Executive Summary

## Audit differences

There are no unadjusted or adjusted audit differences arising from our audit. We are currently liaising with the finance team in respect of the pension valuation estimate.

We identified some presentational and disclosure issues which have been adjusted by management, and are not detailed in this report.

## Areas of audit focus

Our Audit Plan identified key areas of focus for our audit of Authority's statement of accounts. 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
- 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

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

During the course of our normal audit work, we have not identified any significant deficiencies in internal control or any other matters relating to internal controls which we believe should be brought to the attention of the Audit Committee.

# Executive Summary

## Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Plan we identified a significant risk relating to the actions facing the Authority to address longer term financial resilience issues. Whilst these challenges are similar to other authorities, the scale of the challenge for appears more significant for Peterborough with the Authority identifying large gaps in future funding requirements.

The risk we identified impacted two aspects of the value for money arrangements:

- Taking informed decisions
- Deploying resources in a sustainable manner

We have included in Section 6 the detailed work we carried out in response to this risk. Whilst we are satisfied that the Authority has proper arrangements in place in respect for taking informed decisions and deploying resources in a sustainable manner we do also highlight that, despite these arrangements, there remain risks around the financial resilience of the Authority and its ability to meet future gaps in funding requirements.

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## Other reporting issues

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

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, as at the time of writing, we had only just received the Group Audit instructions from the NAO. We will complete this work in August ahead of the deadline of end of August.

We have no other matters to report.

## Independence

We have no matters relating to our Independence to bring to your attention.

Please refer to Section 10 for our update on Independence.

## 02

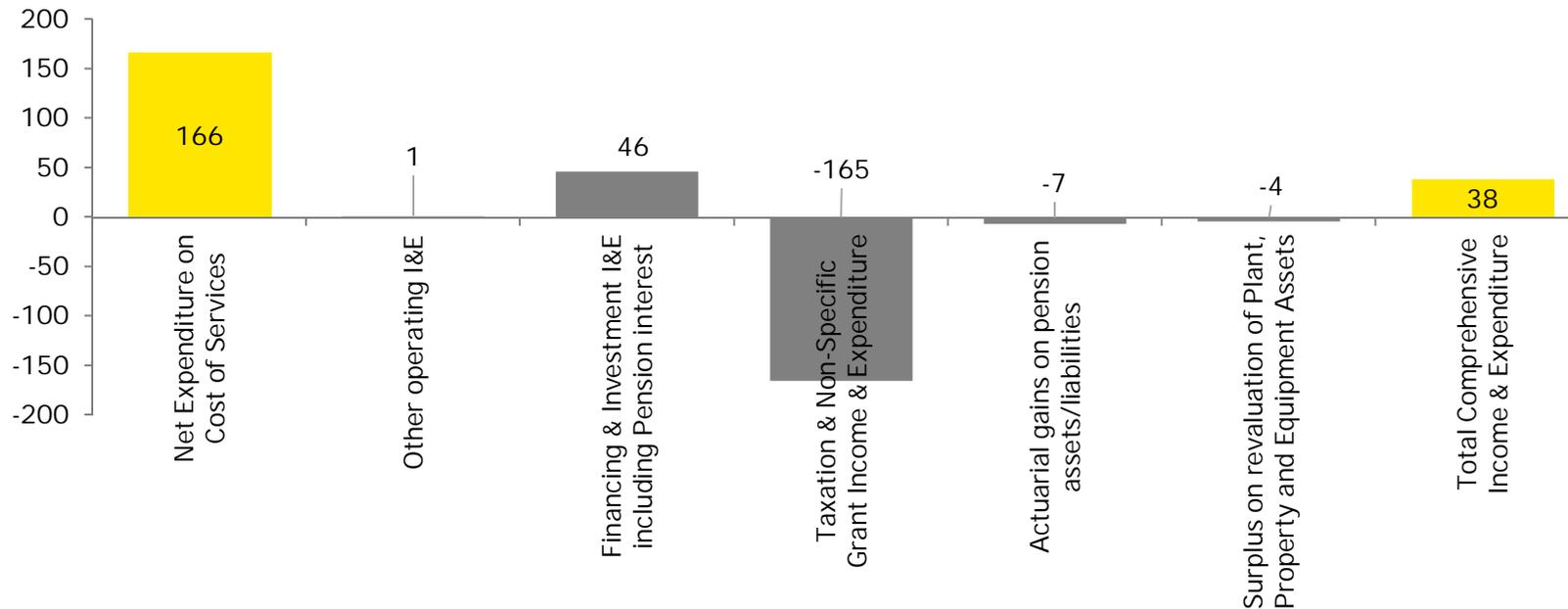
# Understanding Financial Statements



## Understanding the financial statements

### Key components of net expenditure

Net cost of services for the year ended 31 March 2018 was £166 million, an increase of £5 million from the prior year. Net comprehensive expenditure for the year ended 31 March 2018 was £38 million, an increase of £10 million from the prior year.



Total net expenditure on the provision of services (£49 million) is consistent with the prior year. The following provides an overview of the material items:

- Gross income of £532 million is comprised of government grant income of £286 million, Council Tax of £69 million, Business Rates of £44 million and other service income (including fees and charges) of £130 million.
- The majority of grant income (£286 million) is Schools Grant of £116 million, Revenue Support Grant of £20 million, Housing Benefit Subsidy of £63 million and Capital Grants of £25 million.
- Total gross expenditure on cost of services of £581 million relates largely to staff costs of £160 million, service expenses of £368 million, interest payments of £17 million and depreciation of £34 million.



# 03 Areas of Audit Focus



## Areas of Audit Focus

# Significant risk – Revenue and expenditure recognition

### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

The Authority itself is not under specific pressure from central government outside of the requirement to cut spending that all Authorities are facing. The Authority has underspent in 2017/18 by £6.9 million, but during the year was projecting a deficit. The achievement of its budget has been reliant on the use of reserves of £7.2 million in the year. There is no specific requirement for Authorities to break even. Authorities are not penalised for incurring deficits as long as reserves are maintained at adequate levels.

### What judgements are we focused on?

- Inappropriate capitalisation of revenue expenditure;
- Revenue items incorrectly identified as Revenue expenditure funded from capital under statute (REFCUS of £23.4 million), thus funded from capital;
- Inappropriate recognition of multi-year capital grants.

### What did we do?

- We tested a sample of additions to PPE and reviewed for any inappropriate capitalisation of revenue expenditure;
- We reviewed a sample of REFCUS expenditure to ensure it was appropriately treated as such; and
- *Work on capital grants is ongoing*

### What are our conclusions?

Our testing to date has not identified any material misstatements from revenue and expenditure recognition.

We have not identified any instances of inappropriate capitalisation of revenue.

Overall our audit work to date has not identified any material issues or unusual transactions to indicate any misreporting of the Council's financial position.





## Areas of Audit Focus

# Significant risk – Misstatements due to fraud or error – management override

### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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

### What judgements are we focused on?

- Change in Minimum Revenue Provision (MRP) approach;
- Changes to accounting policies;
- Material estimates – see next page; and
- Manual Journals

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### What did we do?

- We reviewed the change to the MRP approach and tested its application as part of our testing on use of capital receipts and on s106 contributions
- We reviewed changes to accounting policies
- We reviewed material accounting estimates for evidence of management bias – see next page
- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;

### What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any inappropriate judgements being applied in the Council's change to its MRP approach nor in any changes to accounting policies.

We have not identified any inappropriate judgements being applied in the Council's calculation of material estimates.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business.





## Areas of Audit Focus

# Significant risk – Misstatements due to fraud or error



### Material estimates

Material estimates that may be open to management bias:

- PPE/Investment Properties (£592 million /£22 million) – valuations and impairment - 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.
- Pensions Liability (£277 million) – 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.
- Provisions for impairment of receivables (£18 million) – this is not considered a significant risk, this is calculated in house and is dependent on type and stage of debt. We undertake specific procedures in relation to this provision. We have no matters to bring to your attention.
- Private Finance Initiative (£32 million) - the Authority's PFI liability at 31 March 2018 is £31.8 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. Therefore, we have treated it as a higher inherent risk but this is not considered a significant risk.

Other non-material estimates that may be open to management bias:

- NDR appeals provision (£5.5 million) - this is a higher inherent risk but not considered to be a significant risk. This is the fourth year this provision has been calculated. We have undertaken specific procedures to address management bias. We have no matters to bring to your attention.
- Creditor Accruals – this is not considered a significant risk, this is calculated in house and is dependent on type and stage of creditor. Specific procedures have been undertaken by the audit team . Our work on creditor accruals identified no matters to bring to your attention.



# Areas of Audit Focus



## Valuation of Land and Buildings

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Authority'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 Authority 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 Authority'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 Authority'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 Authority 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 2017/18 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.

*Our work on PPE Valuations is still being concluded - we have not identified any material issues in the valuations based on our work to date.*



## Areas of Audit Focus



### Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS19 require the Authority to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Cambridgeshire County Council. The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Authority's balance sheet. At 31 March 2018 this totalled £277 million (£272 million at 31 March 2017).

The information disclosed is based on the IAS 19 report issued to the Authority 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 the NAO for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- Reviewing and testing the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

At the time of writing - we were still waiting for assurance from the pension fund auditor. In lieu of this response, we have carried out some analysis between the actuary's report which was produced from the December 2017 valuation, from which the Council prepared its accounts, and the draft Pension Fund accounts for 31 March 2018. We have identified a potential increase in the valuation of the fund of £24 million, (<1% increase) of which the Council's share is £2.3 million, which is not material. The Council needs to conclude whether it wishes to change its accounts for this revised estimate, which may require obtaining a new IAS19 report from the actuary. The Council should consider including further consideration of this estimate in Note 45. However, the estimate could change further, up or down, once the pension fund auditor has concluded their audit.



## Areas of Audit Focus



### Other matters

**Assessment of Group Boundary:** The Authority has a number of joint arrangements which may necessitate the preparation of group accounts. As with the prior year, the Authority 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 Authority's Financial Statements. These partnership arrangements are disclosed in note 14 to the accounts. Group accounts have not previously been prepared by the Authority. 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.

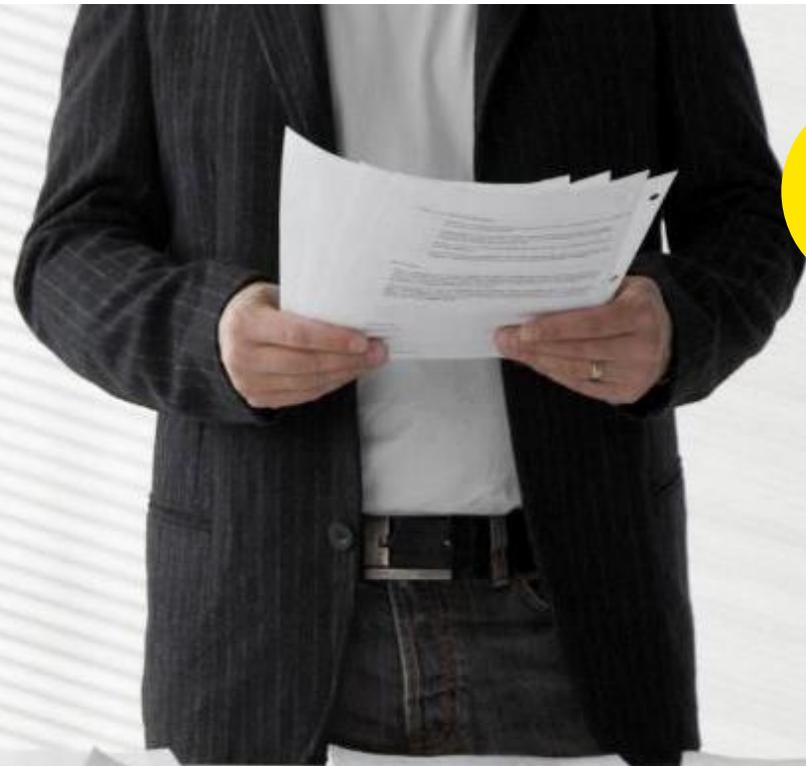
Our approach focussed on the reasonableness of the Authority's assessment by reviewing the Authority's determination of where overall control lies with regard to the operation and delivery of services of the potential group bodies. We were satisfied with the reasonableness of the Authority's evaluation which concluded that it did not need to consolidate any of its arrangements.

**Faster Close:** The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the FY18 financial year. From this year, the timetable for the preparation and approval of accounts was brought forward with draft accounts to be prepared by 31 May 2018 and the publication of the audited accounts by 31 July 2018.

We carried out early work where possible at our interim audit in January/February. We also began the final accounts audit earlier – on 14 May 2018. We have also used our EY Client Portal to streamline our communications with the finance team and provide them with access to the status of audit requests.

The Authority met the shortened deadline. To a very large extent the accounts and notes were supported by good working papers, except for in a few specific areas, where we have had some difficulties and we have worked with the finance team to resolve these. We are confident the finance team can provide the supporting working papers we need and that the audit deadline of 31 July 2018 will be met. Both teams also found the use of the Client Portal was helpful to the process. We will again arrange a team debrief after the deadline, with the audit team and finance team, to highlight improvement areas for both teams.

**IFRS 15 implementation:** A new accounting standard relating to revenue from contracts comes into effect on 1 April 2018. The Authority has undertaken an assessment of its implications and given the nature of the Authority's income streams, it has concluded that IFRS 15 is unlikely to have a material impact on the single entity financial statements of the Authority. We concur with the Authority's initial assessment.



# 04 Audit Report



# Audit Report

## Our draft opinion on the financial statements

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PETERBOROUGH CITY COUNCIL

#### Opinion

We have audited the financial statements of Peterborough City Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Comprehensive Income and Expenditure Statement,
- Movement in Reserves Statement,
- Balance Sheet,
- Cash Flow Statement,
- the related notes 1 to 46
- the Collection Fund and the related notes 1 to 4, and
- Statement of Accounting Policies

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of Peterborough City Council as at 31 March 2018 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 2017/18.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



# Audit Report

## Our draft opinion on the financial statements

### Other information

The other information comprises the information included in the Statement of Accounts 2017/18 set out on pages 2 to 114, other than the financial statements and our auditor's report thereon. The Chief Financial Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, 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 2018.

### 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.



# Audit Report

## Our draft opinion on the financial statements

### Responsibility of the Chief Financial Officer

As explained more fully in the Statement of Responsibilities set out on page 17, 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 2017/18, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the Council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to cease operations, or have no realistic alternative but to do so.

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

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities> This description forms part of our auditor's report.

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the Peterborough City Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the 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 2018.



# Audit Report

## Our draft opinion on the financial statements

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council 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 Council 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 Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### Delay in certification of completion of the audit

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

Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

### Use of our report

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

*Suresh Patel (Key Audit Partner)*  
*Ernst & Young LLP (Local Auditor)*  
*Cambridge*  
*x July 2018*



# 05 Audit Differences





## Audit Differences

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In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

### Summary of adjusted differences

There are no adjusted differences, at the time of writing.

We identified some presentational and disclosure issues which have been adjusted by management, but are not detailed in this report as they are not significant enough to be brought to the attention of the audit committee.

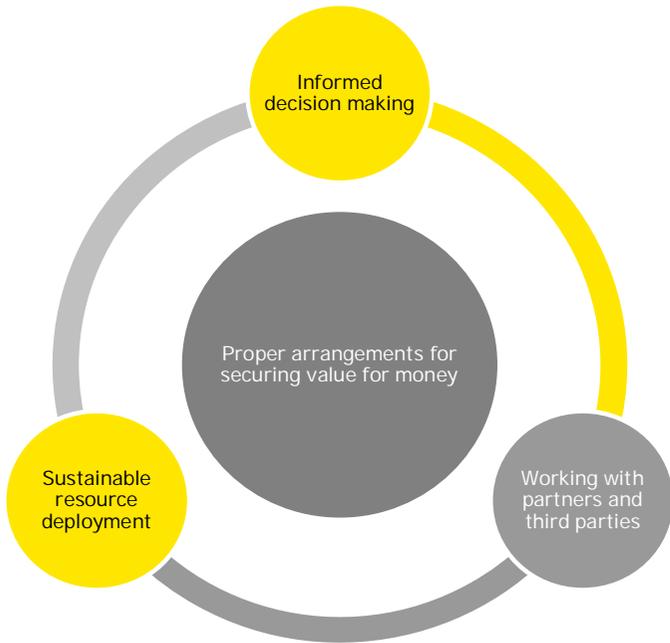


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## Value for Money Risks





## Background

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. For 2017/18 this is based on the overall evaluation criterion:

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

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

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

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

## Overall conclusion

We identified one significant risk around these arrangements. The table below presents our findings in response to the risk in our Audit Planning Report.

We expect to have no matters to include in the auditor’s report about your arrangements to secure economy, efficiency and effectiveness in your use of resources. However, we do highlight to the Committee the significant challenges faced by the Authority to secure its long term financial resilience in light of national and local pressures, some of which the Authority has control and influence over and others where it has less.



## Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:  
*“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”*

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

The table below presents the findings of our work in response to the risks areas in our Audit Planning.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Budget gaps	Take informed decisions Deploy resources in a sustainable manner	<p>The Authority has significant budget gaps over the next three years. The Authority has worked hard to close the gap for 2018/19 through the planned use of reserves, budget cuts and savings targets (some of which are non-recurrent). The Authority has built up reserve levels over the last three to five years and as at 31 March 2018 it had £41million in General Fund and Earmarked reserves.</p> <p>The Authority has a good track record of underspends, and meeting savings targets. Although the Authority has significant budget gaps it has clear plans for how it will manage these in the short to medium term.</p> <p>Communication and explanation of the Medium Term Financial Strategy to Members and to the public has been transparent and realistic. The latest MTFS report presented to Cabinet on 11 June 2018 clearly sets out the approach the Authority is taking over the next three years; including implementing a rolling budget in 2018/19 to be executed in three tranches through the year, enabling a more flexible approach. The report also sets out the challenges and difficult decisions that will need to be made.</p> <p>Despite some recent turnover at a senior level in the finance team, the Authority has been able to maintain strong arrangements.</p> <p>Whilst the Authority has sound arrangements in place, the size of the challenge in the longer term is significant with a £31 million gap for 2019/20 and 2020/21. A number of these challenges are driven by national policy and decisions outside of the control of the Authority. As such there remain risks around the longer term financial resilience of the Authority.</p>

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## Other matters to bring to your attention

We noted the following issues as part of our audit

### What are our findings?

- Budget gaps at the time of our audit planning: £24 million in 2018/19, £28 million in 2019/20 and £40 million in 2020/21. Achieving the 2017/18 budget was reliant on one-off resources of £19.7 million; £7.2 million utilisation of reserves and £12.5 million of capital receipts. For 2018/19, efficiencies and one-off reductions of £8.3 million had already been identified, leaving a further £15.7 million savings target to close the gap of £24 million.
- Outturn for the year ended 31 March 2018: £6.9 million underspend, £12.3 million contribution to earmarked reserves, and £10.5m use of reserves (including £7.2 million planned use of the Grant Equalisation reserve). Total General Fund and Earmarked reserves stand at £41 million. Savings of £20.8 million were approved in the budget, which were exceeded. However, to achieve the budget, there were also £20.4 million of non-repeatable savings in the budget (including £12.7 million use of capital receipts, and £7.2 million use of the grant equalisation reserve).
- Arrangements through the year: Communication and explanation of the Medium Term Financial Strategy to members and to the public has been transparent and realistic through out the year. The latest MTFS report presented to Cabinet on 11 June clearly sets out the approach the Authority is taking over the next three years, including implementing a rolling budget in 2018/19 to be executed in three tranches through the year, enabling a more flexible approach. The report also sets out the challenges and difficult decisions that will need to be made. Despite some recent turnover at a senior level in the finance team; the Authority has been able to maintain strong arrangements.

### Looking forward – budget gaps in the medium term

For 2018/19 the budget gap is now closed through budget reductions and savings of £26.4 million, including the planned use of £4.2 million from the Grant Equalisation reserve. The Authority's track record points to it being likely to achieve these. However the planned measures again use one-off savings of £12 million; including the use of capital receipts (£2.9 million), MRP re-provisioning (£3.7 million) and use of reserves (£4.2 million).

The gap in 2019/20 is £12 million, and in 2020/21 is £19 million. At this point in time there is no planned use of reserves for those years, and it is intended that a steady level of reserves will be maintained. The Authority has now begun its next phase of its MTFS to create a sustainable budget; with less reliance on one-off measures, and by identifying repeatable savings. This approach includes implementing a rolling budget process which will bring forward decision making and implementation, with the aim of improving accountability.

The Authority is also increasing its collaboration with Cambridgeshire County Council across a range of services. Future areas being considered to reduce the gap include:

- Commercial opportunities
- Procurement and commissioning
- Reducing reliance on agency staff
- Centralising services where there is a business case
- Greater integration with health and other partners.

Despite these plans and arrangements the Authority, like many other authorities across the country, faces several challenges that are driven by national policy and decisions outside of its control. As such there remain risks around its long term financial resilience.



# 07 Other reporting issues



## Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements

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

Financial information in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

### Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We have not yet commenced our work in this area, as we did not receive the Group Audit Instructions from the NAO until the very end of our on site audit visit. It is likely that we will now complete this work in August ahead of the WGA deadline of end August, though we will attempt to complete this by the main audit deadline of 31 July if possible. We will provide an update at the Audit Committee on 16 July.

### Other powers and duties

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



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# Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

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



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# 09 Data Analytics



## Data analytics – Journal Entry Analysis and Payroll Analysis

### Analytics Driven Audit

#### Data analytics

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

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

In 2017/18, our use of these analysers in the Authority's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

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

#### Journal Entry Analysis

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

#### Payroll Analysis

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



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Independence

## Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 12 February 2018.

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

We 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 16 July 2018.

## Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats. There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard and in statute.

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

## Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

We confirm that we have not undertaken non-audit work outside the PSAA Code requirements.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee – Code work	TBC*	108,533	108,533	111,033
Non-audit work - Housing Benefit Subsidy Claim	TBC**	TBC**	13,619	24,075

\*The final fee for the 2017/18 account audit is still to be quantified. We anticipate only a very small increase in fee above the scale fee, to be agreed with the s151 officer. It will also need to be approved by PSAA.

\*\*The scope of the 2017/18 HB audit is still to be agreed with officers. In 2016/17, we carried out all the audit testing, hence the increase in fee. The HBCount regime makes the assumption that the client will carry out at least the 40+ (additional testing in response to errors found initial sample) and the auditor reperform a sample of their work. We will update the Audit Committee if there has been any progress on this.



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## Appendices

# Audit approach update

We summarise below our approach to the audit of the material items in the balance sheet and any changes to this approach from the prior year audit. Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

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

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Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Property, plant and equipment	Substantively test all relevant assertions	Substantively tested all relevant assertions	No change
Short term debtors			
Short & long term borrowing			
Short & long term creditors			
Other long term liabilities			
Capital grants received in advance			
Reserves			

## Appendix B

# Summary of communications during 2017/18

Date 	Nature 	Summary 
Throughout the year	Meetings, calls and emails	Kay McClennon has been in regular contact with the Acting Director of Corporate Resources in respect of the Authority' financial risks, accounts closedown and the audit approach. This has included weekly updates during June and July. In addition Suresh Patel has shared by email a number of insights ranging from a GDPR preparedness document to EY updates on developments in Corporate Governance requirements.
20 November 2017	Meeting	EY attended the Audit Committee to present a progress report for discussion indicating significant risks and areas of audit focus.
12 February 2018	Meeting	Suresh Patel attended a meeting with the Chief Executive and the CFO to discuss strategic and operational issues facing the Council, and the progress of the audit to date.
12 February 2018	Meeting	EY attended the Audit Committee to present the Audit Plan.
26 March 2018	Meeting	EY attended the Audit Committee to present a progress report.
3 April 2018 3 May 2018	Meeting	Kay McClennon and Flo Barrett held phone meetings with the finance team to discuss the year-end audit.
21 June 2018	Meeting	The audit team led by Suresh, held a closure meeting with the CFO and the finance team to discuss the draft Audit Results Report and agree the main findings and conclusions.
25 June 2018	Meeting	Suresh arranged a meeting with the CFO to discuss specifically the Authority's financial resilience and our VFMC work.
16 July 2018	Meeting	EY to attend Audit Committee to present this Audit Results Report (ISA 260 report).

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

## Appendix C

# Required communications with the Audit Committee

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

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report 12 February 2018
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report 12 February 2018
Significant findings from the audit	<ul style="list-style-type: none"> <li>• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>• Significant difficulties, if any, encountered during the audit</li> <li>• Significant matters, if any, arising from the audit that were discussed with management</li> <li>• Written representations that we are seeking</li> <li>• Expected modifications to the audit report</li> <li>• Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit Results Report 16 July 2018

# Appendix C

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		 Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <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>• Material misstatements corrected by management</li> </ul>	None to report Audit Results Report 16 July 2018
Subsequent events	<ul style="list-style-type: none"> <li>• Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	By letter of rep request in Audit Results Report 16 July 2018
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>• Any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	By letter of rep request in Audit Results Report 16 July 2018

# Appendix C

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		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <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 regulations</li> <li>• Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	<p>None to report Audit Results Report 16 July 2018</p>
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Planning Report 12 February 2018 Audit Results Report 16 July 2018</p>

# Appendix C

## Our Reporting to you

Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	Audit Results Report 16 July 2018
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>• Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of</li> </ul>	We have asked management and those charged with governance by letter of representation. We have not identified any material instances or non-compliance with laws and regulations.
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>	None to report Audit Results Report 16 July 2018

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# Appendix C

## Our Reporting to you

Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>Written representations we are requesting from management and/or those charged with governance</li> </ul>	By letter of rep request in Audit Results Report 16 July 2018
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	None to report Audit Results Report 16 July 2018
Auditors report	<ul style="list-style-type: none"> <li>Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit Results Report 16 July 2018
Fee Reporting	<ul style="list-style-type: none"> <li>Breakdown of fee information when the audit planning report is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	Audit Planning Report 12 February 2018 Audit Results Report 16 July 2018
Certification work	<ul style="list-style-type: none"> <li>Summary of certification work</li> </ul>	Certification Report - December 2018



## Management representation letter

### Draft Management Rep Letter

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**Suresh Patel**  
Executive Director  
Ernst & Young LLP  
1 More London Place  
London  
SE1 1AF

Dear Suresh

#### **Management Representation letter – audit of Peterborough City Council's Statement of Accounts for the year ended 31 March 2017**

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Peterborough City Council ("the Council") for the year ended 31 March 2018. 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 financial position of Peterborough City Council as of 31 March 2018 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 2016/18.

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 2017/18.
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 2017/18. 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 2017/18, that are free from material misstatement, whether due to fraud or error.

5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

#### **B. Non-Compliance with Laws and Regulations, Including Fraud**

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers") including non-compliance matters:
  - Involving financial statements;
  - Related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
  - Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
  - Involving management, or other employees who have significant roles in internal controls or others; or
  - In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulation communicated by employees, former employees, analysts, regulators or others.

#### **C. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and Audit Committees (or summaries of actions of recent meetings for which minutes have not yet

# Management representation letter

## Management Rep Letter

been prepared) held through the year to the most recent meeting on the following date: 16 July 2018.

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 year 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.

### D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the 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. No other claims in connection with litigation have been or are expected to be received.

### E. 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.

### F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

### G. Comparative Information – Comparative Financial Statements

In connection with your audit of the comparative financial statements for the year ended 31 March 2017, we represent, to the best of our knowledge and belief, the following:

1. There have been no significant errors or misstatements, or changes in accounting policies that would require a restatement of the amounts from the financial statements for the year ended 31 March 2017 which are shown as comparative amounts from the

amounts in the financial statements for the year ended 31 March 2018. Any differences in the comparative amounts from the amounts in the financial statements for the year ended 31 March 2017 are solely the result of reclassifications for comparative purposes.

### H. Estimates

PPE/Investment Properties – valuations and impairment  
Pensions Liability  
Provision for impairment of receivables  
Private Finance Initiative

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
2. We confirm that the disclosures made in the financial statements with respect to the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 accounting estimate(s) are complete and made in accordance with
3. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

### I. Retirement benefits

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

Yours faithfully,

.....  
Acting Director of Corporate Resources

Date .....

.....  
Chair of the Audit Committee

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ED None

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