

# **Peterborough City Council**

Annual Audit Letter for the year  
ended 31 March 2019

4 September 2019

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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](http://www.psaa.co.uk)).

This 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 April 2018)' issued by PSAA set 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 and Terms of Appointment. 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.



# 01 Executive Summary

## Executive Summary

We are required to issue an annual audit letter to Peterborough City Council (the Authority) following completion of our audit procedures for the year ended 31 March 2019. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
<b>Opinion on the Authority's:</b>	Unqualified - the financial statements give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended.
▶ Financial statements	
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
<b>Concluding on the Authority's arrangements for securing economy, efficiency and effectiveness</b>	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
<b>Reports by exception:</b>	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Authority.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Authority, 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.

Area of Work	Conclusion
<b>Reporting to the National Audit Office (NAO) on our review of the Authority's Whole of Government Accounts return (WGA).</b>	We have no matters to report to date. We are in the process of concluding this work which will be finalised before the 13 September deadline.

## Executive Summary (cont'd)

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In addition we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Authority communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 4 July 2019 and updated on 31 July 2019.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the NAO's 2015 Code of Audit Practice.	We have not as yet issued our audit completion certificate. 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 Authority's WGA 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 and will be completing the WGA work before the 13 September deadline.

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



Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP



## 02 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 Authority.

We have already reported the detailed findings from our audit work in our 2018/19 Audit Results Report to the 15 July 2019 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 Authority.

## Responsibilities of the Appointed Auditor

Our 2018/19 audit work has been undertaken in accordance with the Audit Plan that we presented at the 11 February 2019 Audit Committee and is conducted in accordance with the NAO's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO. As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2018/19 financial statements; and
  - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Authority 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 Authority;
  - ▶ Any significant matters that are in the public interest;
  - ▶ Any written recommendations to the Authority, 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.

## Responsibilities of the Authority

The Authority is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Authority 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 Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



**03**

**Financial Statement Audit**

# Financial Statement Audit

## Key Issues

The Authority's Statement of Accounts is an important tool for it to show how it has used public money and how it can demonstrate its financial management and financial health. We audited the Authority's Statement of Accounts in line with the NAO's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO and issued an qualified audit report on 31 July 2019. We reported detailed findings to the 15 July 2019 Audit Committee.

We summarise here the key risks we identified and our conclusions.

Significant Risk	Conclusion
<b>Misstatements due to fraud or error - the incorrect capitalisation of revenue expenditure and REFCUS</b> In 2018/19 the Authority has incurred £95.9 million capital expenditure (of which REFCUS represented £20.5 million).	We did not identify any matters to report in relation to the capitalisation of revenue expenditure and REFCUS.
<b>Misstatements due to fraud or error - incorrect application of capital grants</b> In 2018/19 the Authority applied £38.0 million of capital grants and contributions.	We did not identify any matters to report in relation to the application of capital grants.
<b>Valuation of property, plant and equipment assets under depreciated replacement cost (DRC) model</b> The Authority's DRC asset base is significant at £246 million,	Through our sample testing of key judgements used by the Authority's valuer in performing their DRC valuations, including use of our EY valuation specialists, we did identify some issues which resulted in the valuations falling at the ends of the tolerance range set by our specialists. However, as the valuations were within the range and we did not identify any evidence of management bias or manipulation, we have concluded that the valuations are materially correct.
<b>PFI accounting</b> In 2018/19 the Authority reported future PFI repayments totalling £171.0 million in the financial statements.	Our audit testing confirmed that there were no audit issues in the calculation of the PFI annual payments or the liability held in the balance sheet.
<b>MRP accounting</b> The Authority must make an annual contribution from revenue to reduce its overall borrowing requirement. This is termed the Minimum Revenue Provision (MRP). The MRP is determined prudently in accordance with statutory guidance.	Our testing confirmed that the MRP calculation met the statutory guidance; Our re-performance of the MRP calculation did not identify any material misstatements although we did identify some trivial adjustments which would need to be applied in future periods to ensure a cumulative material error does to arise; and Our review of the MRP policy and disclosure did not identify any material audit issues.

## Financial Statement Audit (cont'd)

Other Areas of Audit Focus	Conclusion
<p><b>Valuation of Other Land and Buildings and Investment Properties</b></p> <p>The fair value of non-DRC Property, Plant and Equipment (PPE) (£318 million) and Investment Properties (IP) (£29.6 million) represent significant balances in the Authority's accounts.</p>	<p>Our audit procedures above did not identify any material differences in the financial statements. However we did identify a non-material misclassification of the Peterborough Town Hall which the Authority has not adjusted for in the final statements.</p> <p>In addition, during our work on PPE we identified that £21.7 million of asset disposal had been omitted from the accounts in error. This was correctly adjusted for by the Authority.</p>
<p><b>Pension Liability Valuation</b></p> <p>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 2019 this totalled £322 million.</p>	<p>The Authority updated its accounts to reflect the impact of national issues impacting all local authority pension schemes as well as to reflect changes in the value of investments. We were satisfied that the changes were correctly reflected in the Authority's final statement of accounts.</p>
<p><b>New accounting standards</b></p> <p>The Authority had to implement two new accounting standards for 2018/19 and make preparations for another new standard for 2020/21. These standards are:</p> <ul style="list-style-type: none"> <li>▶ IFRS 9 - Financial instruments</li> <li>▶ IFRS 15 - Revenue from contracts</li> <li>▶ IFRS 16 - Leases (2020/21).</li> </ul>	<p>FRS 9 - Financial Instruments: Our audit procedures for financial instruments did not identify any audit issues.</p> <p>IFRS 15 - Revenue from Contracts: Our audit procedures for revenue from contracts did not identify any audit issues.</p> <p>IFRS 16 - Leases: The Authority have already considered their completeness of leases and identifying those that may require reclassifying. We therefore believe the Authority is well placed to address the implications of IFRS 16.</p>

## Financial Statement Audit (cont'd)

### 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 to be £9.3 million (2017/18: £10.5 million), which is 1.8% of gross revenue expenditure reported in the accounts. This results in a performance materiality, at 75% of overall materiality, of £7.0 million (2017/18: £7.9 million).</p> <p>We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Authority.</p>
Reporting threshold	<p>We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.467 million (2017/18: £0.525 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 agreed all disclosures back to source data, and councillor allowances to the agreed and approved amounts.
- ▶ Related party transactions: We tested the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence.

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

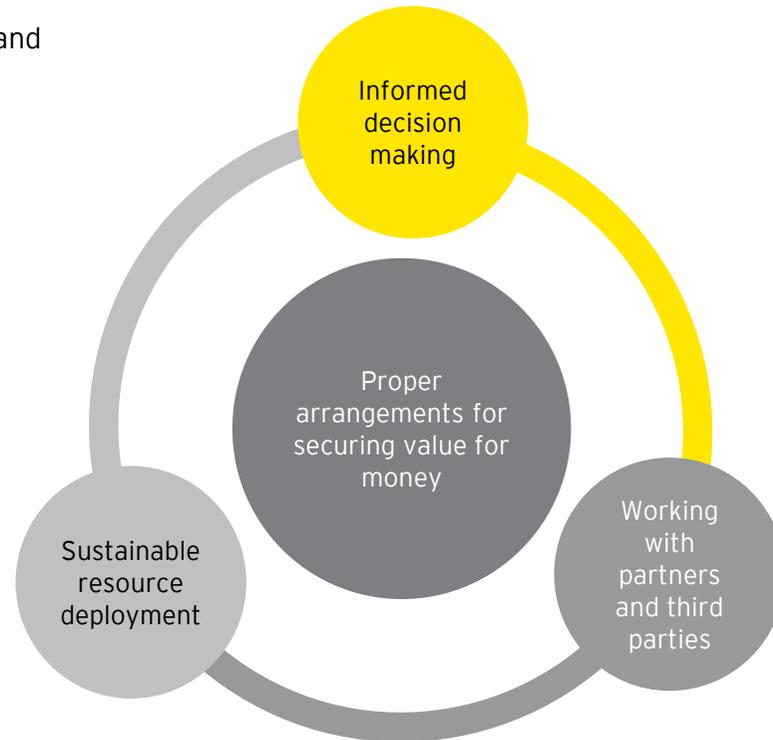


# 04 Value for Money

We are required to consider whether the Authority has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in 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 two significant risks in relation to these arrangements. The tables below present the findings of our work in response to the risks identified and any other significant weaknesses or issues to bring to your attention.

We have performed the procedures outlined in our audit plan and audit results report. We did not identify any significant weaknesses in the Authority's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. 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.

We therefore issued an unqualified value for money conclusion on 31 July 2019.



## Value for Money (cont'd)

Significant Risk	Conclusion
<p><b>Financial Resilience</b></p> <p>We reported in the previous year our views on the financial resilience of the Authority and in particular the scale of the financial challenge it faces. Like most local authorities, the Authority's finances continue to be stretched. There are significant gaps in the budget over the period of the Medium Term Financial Strategy. The cumulative budget gap to 2020/21 is £20.7 million and this also includes the successful delivery of £72.3 million of savings up to that period. Whilst the Authority is taking action to identify ways to bridge the gaps, there remains a significant risk to its financial resilience.</p>	<p>The Authority has significant budget gaps over the next three years. The Authority has worked hard to close the gap for 2019/20 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 2019 it had £37.2 million 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 2019 clearly sets out the approach the Authority is taking over the next three years; including implementation of a rolling budget in 2019/20 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>Whilst the Authority has sound arrangements in place, the size of the challenge in the longer term is significant with a £20.7 million cumulative gap for 2021/22. 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>
<p><b>Procurement arrangements following the Authority's review of the 2014 IT Strategy</b></p> <p>During the year the Authority informed us of issues that they had identified with the formation of the 2014 IT Strategy and its delivery, in particular in respect of procurement arrangements. We updated our value for money risk assessment to recognise this as a significant risk and have carried our appropriate procedures to inform our value for money conclusion.</p>	<p>We have reviewed information provided by the Authority on its internal consideration of issues with the formation of the 2014 IT Strategy and its delivery, specifically in relation to the procurement arrangements in operation at that time and were followed to award related contracts. The Authority's internal review has identified evidence that some procurement arrangements were not followed appropriately. We have considered these matters against the two aspects of value for money arrangements.</p> <p>We have reviewed the Authority's contract register and sought assurances over the appropriateness of the related procurement arrangements for a sample of contracts. Whilst we have identified a need for the Authority to ensure it's contract register is up to date, from our review we were satisfied that expected procurement arrangements were in place.</p> <p>The Authority has made reference to this matter in its Annual Governance Statement.</p> <p>We note that the Authority has asked internal audit to carry out a review of contracts in 2019/20. We have concluded that the arrangements for 2018/19 were in place.</p>



## 05 Other Reporting Issues



## Other Reporting Issues

### Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office on the accuracy of the consolidation pack prepared by the **Authority** for Whole of Government Accounts purposes.

We are in the process of completing the WGA work and this will be finalised before the 13 September deadline.

### Annual Governance Statement

We are required to consider the completeness of disclosures in the Authority'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 **Authority** 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 **Authority** 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 2018/19 financial statements from members 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.



## Other Reporting Issues (cont'd)

### Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 15 July 2019. 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 audit approach and have therefore not tested the operation of controls. 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. However as a result of our audit procedures performed we identified some areas for improvement:

- ▶ Controls should be implemented that reconcile the schools payroll balances to the Authority's general ledger system;
- ▶ The Authority's housing benefits risk based verification policy should be formally approved annually as per the housing benefit and council tax benefit circular S11/2011 paragraph 15; and
- ▶ There were some omissions on the Authority's contracts register. Therefore we would recommend regular review to ensure this is up-to-date.



# 06 Focused on your future



## Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Authority is summarised in the table below.

Standard	Issue	Impact
<b>IFRS 16 Leases</b>	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2020/21 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2020/21 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2020/21 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>We have considered the Authority's implementation plan and preparedness for IFRS 16. The Authority have already considered their completeness of leases and identifying those that may require reclassifying. We therefore believe the Authority is well placed to address the implications of IFRS 16.</p> <p>However, what is clear is that the Authority will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The <b>Authority</b> must therefore ensure that all lease arrangements are fully documented.</p>
<b>IASB Conceptual Framework</b>	<p>The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>This introduces;</p> <ul style="list-style-type: none"> <li>- new definitions of assets, liabilities, income and expenses</li> <li>- updates for the inclusion of the recognition process and criteria and new provisions on derecognition</li> <li>- enhanced guidance on accounting measurement bases</li> <li>- enhanced objectives for financial reporting and the qualitative aspects of financial information.</li> </ul> <p>The conceptual frameworks is not in itself an accounting standard. However, an understanding of concepts and principles can be helpful to preparers of local authority financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.</p>	<p>It is not anticipated that this change to the Code will have a material impact on Local Authority financial statements.</p> <p>However, Authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.</p>



## 07 Audit Fees

## Audit Fees

In our Annual Results Report presented to the Audit Committee on 15 July 2019 we highlighted that we had carried out additional work to complete the audit and would seek to agree an additional fee with the Authority's Section 151 officer. In the table below we summarise the fees that we have agreed and that are now subject to approval by PSAA.

	Final fee 2018/19	Final Fee 2017/18
	£	£
Scale fee	83,570	108,533
Additional audit work: (Note 1)		
- PPE DRC valuations significant risk	6,052	-
- PFI Accounting significant risk	1,280	-
- MRP Accounting significant risk	6,394	-
- Pensions additional work	905	-
- Financial resilience VFM significant risk	1,442	-
- IT Contract VFM significant risk	6,671	-
- Issues with supporting working papers	-	1,755
- Late issue with PPE valuations	-	4,995
<b>Total audit fee - code work</b>	<b>106,315</b>	<b>115,283</b>
Other non-audit services (Housing Benefits) (note 2)	N/A	20,827
<b>Total fees</b>	<b>106,315</b>	<b>136,110</b>

All fees exclude VAT

Note 1: We have performed additional work as a result of the risks we identified. This has resulted in an additional audit fee which we have agreed with the S151 officer. We note that this is also in the process of being agreed with the PSAA.

Note 2: The Authority has appointed a new provider for the 2018/19 housing benefit subsidy claim.

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