Peterborough City Council
Audit results report

Year ended 31 March 2020

November 2020

DRAFT

Building a better working world

3 November 2020

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 2019/20. We will issue our final report following the Audit Committee meeting on 16 November 2020.

We welcome the way in which the Authority have continued to operate a culture of being open, transparent, showing integrity and taking sufficient and appropriate ownership over the critical judgements and decisions that inform the preparation and disclosures contained in its budgets, medium term financial planning, key business decisions and the financial statements themselves. We say this in recognition of the difficult and uncertain financial circumstances facing the Authority pre and post the Covid-19 pandemic.

We have substantially completed our audit of the Authority for the year ended 31 March 2020. Our remaining procedures, which will be completed during November 2020, mainly consist of the completion of our quality assurance review and routine consultation processes with our professional practice teams on any modifications to our audit report. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Appendix G of this report, before the end of November. We expect to have one matter to report associated with the Authority's going concern disclosures. We are likely to be expressing a material uncertainty on the ability of the Authority to continue to provide the current levels of service provision for the next 12 months and beyond. See Section 2 for further information.

We are still concluding our procedures on your arrangements to secure economy, efficiency and effectiveness in your use of resources. We currently expect to modify our value for money conclusion to recognise that the structural financial resilience pressures and concerns facing the Authority before and after the Covid-19 pandemic have a significant and pervasive impact on the Authority's ability to secure adequate arrangements for Value for Money in its use of resources.

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 November 2020.

Yours faithfully

Neil Harris
Associate Partner
For and on behalf of Ernst & Young LLP
Encl

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

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. 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 Hywel Ball, 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

Status of the audit

We have substantially completed our audit of the Peterborough City Council financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our Audit Plan.

We note that to-date we have not identified any fundamental issues with the preparation of the 2019/20 statement of accounts.

The outstanding work at the date of this report is:

- Procedures in relation to assurances over the IAS 19 Pension Liability;
- Procedures in relation to value for money arrangements;
- Procedures in relation to the valuation of property, plant and equipment assets following receipt of our internal valuer report;
- Internal consultation on the Authority's going concern assessment;
- Receipt of bank confirmations from officers for our income testing sample;
- Final audit evidence from officers for our debtors and creditors sample testing;
- Several other items of evidence from officers relating to our audit queries;
- Whole of Government Accounts procedures;
- Review of the final version of the financial statements;
- Completion of subsequent events review;
- Receipt of the signed management representation letter; and
- There are still areas of audit review to be performed by the Audit Manager, Engagement Partner and Audit Quality Review Partner.

Subject to satisfactory completion of the following outstanding items above, we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Appendix G. Our audit opinion will include material uncertainty on the following matter:

- Going concern – the Authority's assessment and disclosure about Going Concern in light of the Covid-19 pandemic and its ability to continue to provide the same and current level of service provision in 2020/21 and beyond.

However until work is complete, further amendments may arise. We expect to issue the audit certificate after we issue the audit opinion, once the WGA submission has been completed. We are satisfied that the WGA work does not have a material effect on the financial statements or on our value for money conclusion.

Executive Summary

Scope update

In our Audit Plan dated 9 March 2020, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

- Changes to reporting timescales – As a result of Covid-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to the publication date for approved financial statements from 31 July to 30 November 2020 for all relevant authorities.
- Changes to our risk assessment as a result of Covid-19
  - Valuation of Non-DRC PPE assets & Investment Property - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment. We therefore increased our inherent risk on valuation of Non-DRC PPE assets & Investment Property to significant, for more detail see Section 2 of this report.
  - Disclosures on Going Concern – Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Local Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Authority's actual year end financial position and performance. See Section 2 of this report for further details.
  - Events after the balance sheet date – We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Authority.
  - Adoption of IFRS16 – The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. We therefore no longer consider this to be an area of audit focus for 2019/20.
- Accounting for PFI Liabilities – We did not include this risk in our audit plan dated 9 March 2020 and, although we recognise that the Authority's PFI liabilities have not changed, given the size and complexity of the balances we have determined that this should be increased to an area of audit focus – inherent risk.
- Change in materiality – We have considered whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Plan remain appropriate.

  We updated our planning materiality assessment using the 2019/20 draft statement of accounts. Based on our materiality measure of 1% of gross expenditure on the provision of services, we have updated our overall materiality assessment to £4.9 million (Audit Plan – £5.2 million). This results in updated performance materiality, at 75% of our overall planning materiality, of £3.7 million, and an updated threshold for reporting misstatements of £0.246 million (5% of Planning Materiality).

  The performance materiality assigned for the group entity is £0.739 million.
- Information Produced by the Entity (IPE) – We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:
  - Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
  - Agree IPE to scanned documents or other system screenshots.

As disclosed in the audit plan, additional risks are likely to result in additional audit fees which will be agreed in advance with S151 officer and then PSAA.

Executive Summary

Audit differences

Unadjusted differences

We have not identified any unadjusted audit differences.

Adjusted differences

During the audit we have identified some audit adjustments in relation to property, plant and equipment and some disclosure audit amendments in the draft financial statements which management has chosen to adjust. Further details can be found in Section 3 - Audit Differences.

Any further audit differences identified will be reported to the Audit Committee at the 16 November 2020 meeting.

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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. The Annual Governance Statement has been updated to reflect the impact of the Covid-19 pandemic on the Authority's arrangements. 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.

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 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.

At the date of this report, we consider that the Authority has taken all the appropriate steps to openly disclose and report its financial resilience concerns to MHCLG, taxpayers and other key external stakeholders. This applies to the conditions existing before Covid-19 when the Authority did seek and get approval for a capitalisation direction, and the unprecedented factors which exacerbated its financial concerns post Covid-19. We are keeping this area under review as we conclude our audit procedures on going concern and Value for Money arrangements. For further detail please refer to section 4 of the report.

We have no other matters to report.

Executive Summary

Areas of audit focus

Our audit plan identified key areas of focus for our audit of the Authority's financial statements. As outlined on page 5, we have since identified a further significant risk. In total we have identified five significant risks and five areas of audit focus. We summarise below our latest findings.

Significant risk	**Provisional findings & conclusions, subject to the final completion of our quality review procedures.**
Misstatements due to fraud or error - the incorrect capitalisation of revenue expenditure and REFCUS	We have completed our testing and found no indications that revenue expenditure and REFCUS have been inappropriately charged to capital.
Misstatements due to fraud or error - the incorrect application of MRP accounting	We have completed our review of the Authority's MRP disclosures and figures in the financial statement and are satisfied that the MRP accounting is appropriate.
Misstatements due to fraud or error - inappropriate use of capital receipts	We have completed our testing and found that for the sample of capital grants we reviewed, they were correctly applied.
Valuation of property, plant and equipment assets under depreciated replacement cost (DRC) model	We have completed our procedures including review of a sample of valuations by our EY Real Estates specialist. We are currently discussing with officers a non-material issue before reaching our conclusion.
Valuation of non-DRC property, plant and equipment assets and investment properties	We have completed our procedures including review of a sample of valuations by our EY Real Estates specialist. We are currently discussing with officers a non-material issue before reaching our conclusion.

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Areas of audit focus (continued)

Our audit plan identified key areas of focus for our audit of the Authority's financial statements. As outlined on page 5, we have since identified a further area of audit focus. In total we have identified five significant risks and five areas of audit focus. We summarise below our latest findings.

Area of audit focus	Provisional findings & conclusions, subject to the final completion of our quality review procedures
Pension Liability Valuation & Pensions Assets	We are completing our review but await the outcome of the audit procedures performed by the Cambridgeshire Pension Fund auditors before concluding. We have identified an adjusted audit difference in relation to pension fund investment value, please see Section 3.
Recoverability of NHS Accounts Receivable Balances	We have performed our audit procedures in relation to the recoverability of NHS accounts receivable balances and have not identified any audit findings.
Group Accounting and the scope of the group audit	We have performed our audit procedures in relation to the group accounting and the scope of the group audit and have not identified any audit findings.
PFI accounting	We have completed our procedures including review the consistency of the accounting models with the financial statements and have no issues to report.
Implementation of new auditing and accounting standards	Leases (IFRS 16) – The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. Going Concern (ISA 570) – We have worked with the Authority to update their going concern and events after the balance sheet date disclosures in light of the Covid-19 pandemic, see detailed findings in Section 2 for further information.

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 report our consideration of these matters, and any others identified, in the "Areas of Audit Focus" 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; and
- You agree with the resolution of the issues; and there are no other significant issues to be considered.

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

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 challenges facing the Authority to address longer term financial resilience issues. Whilst these challenges are similar to other authorities, the scale appears more significant for Peterborough with the Authority identifying large gaps in future funding requirements. The financial resilience risk we identified impacted two aspects of the value for money arrangements - taking informed decisions and deploying resources in a sustainable manner.

We have included in Section 4 the detailed work we are performing in response to this risk. At the time of issuing this report we are still engaging with our Strategy and Transactions Team who are performing the audit procedures in relation to this risk.

We will report to the Audit Committee once this work has been concluded. However, we currently expect to modify our value for money conclusion and issue an adverse opinion. This is to recognise that the structural financial resilience pressures and concerns facing the Authority before and after the Covid-19 pandemic have a significant and pervasive impact on the Authority's ability to secure adequate arrangements for Value for Money in its use of resources.

Independence

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Please refer to Section 8 for our update on Independence. There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Correspondence from the Public

We did not receive any formal objections and correspondence from members of the public.

Control observations

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

02 Areas of Audit Focus

Fraud risk - misstatements due to fraud or error

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) 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 did we do?

We have completed our standard procedures to address the fraud risk, which included:

- Identifying fraud risks during the planning stages.
- Inquiring of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Considering the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including;
    - Testing of journal entries and other adjustments in the preparation of the financial statements;
    - Reviewing accounting estimates for evidence of management bias; and
    - Evaluating the business rationale for significant unusual transactions.

What are our provisional conclusions?

Our mandatory procedures did not identify any instances of management override.

As reported in our Audit Plan, our work to identify fraud risks during the planning stages identified those areas of the accounts that involve management estimates and judgements as the key areas at risk of manipulation. The identified areas were:

- the incorrect capitalisation of revenue expenditure and REFCUS.
- the incorrect application of MRP accounting.
- inappropriate use of capital receipts.

The results of our work on these specific risks are set out on the following three pages.

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Significant risk

Misstatements due to fraud or error – the incorrect capitalisation of revenue expenditure and REFCUS

What is the risk?

The Authority is under financial pressure to achieve budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way to achieve these targets.

We consider the risk applies to capitalisation of revenue expenditure and revenue expenditure funded from capital under statute (REFCUS). Management could manipulate revenue expenditure by incorrectly capitalising expenditure which is revenue in nature and should be charged to the comprehensive income and expenditure account.

In 2019/20 the Authority has incurred £64.0 million capital expenditure (of which REFCUS represented £19.0 million).

What judgements are we focused on?

We have identified a risk of expenditure misstatement due to fraud or error that could affect the income and expenditure accounts.

We consider the risk applies to capitalisation of revenue expenditure and REFCUS and could result in a misstatement of cost of services reported in the comprehensive income and expenditure statement.

What did we do?

Our approach focused on:

- Sample testing additions to property, plant and equipment to ensure that they had been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised;
- Sample testing REFCUS transactions to ensure they had been correctly classified and the expenditure met the definition of allowable expenditure, or was incurred under direction from the secretary of state; and
- Using our data analytics tool to identify and test journal entries that moved expenditure into capital codes.

What are our provisional conclusions?

Our mandatory procedures did not identify any instances of incorrect capitalisation of revenue expenditure.

- Our sample testing of additions to property, plant and equipment found that they had been correctly classified as capital and included at the correct value.
- Our sample testing of additions to property, plant and equipment did not identify any revenue items that were incorrectly classified.
- Our sample testing of REFCUS transactions found that they had been correctly classified and the expenditure met the definition of allowable expenditure, or was incurred under direction from the secretary of state.
- Our data analytical procedures did not identify any journal entries that incorrectly moved expenditure into capital codes.

Significant Risk

Significant risk

Misstatements due to fraud or error – the incorrect application of MRP accounting

What is the risk?

The Authority is under significant financial pressure to achieve budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way to achieve these targets. We consider the risk applies to application and calculation of the minimum revenue provision.

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.

Over the last 18 months, the Authority's approach to MRP has been subject to media attention as well as scrutiny by Ministry of Housing, Communities & Local Government (MHCLG). Given this level of scrutiny and that MRP could be manipulated to artificially reduce expenditure we have identified the MRP calculation as a significant risk.

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What judgements are we focused on?

We have identified a risk of expenditure misstatements due to fraud or error that could affect the income and expenditure accounts.

We consider the risk applies to the calculation of the minimum revenue provision calculation and could result in a misstatement of cost of services reported in the comprehensive income and expenditure statement.

What did we do?

Our approach focused on:

- Testing the application of MRP to ensure the calculation met the statutory guidance;
- Re-performing the MRP calculation; and
- Engaging our EY MRP technical specialist to review the Authority's MRP policy and disclosure (if required).

What are our provisional conclusions?

Our mandatory procedures did not identify any issues with the application of the MRP accounting.

- 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.
- Our review of the MRP policy and disclosure did not identify any material audit issues.

Significant Risk

Significant risk

Misstatements due to fraud or error – inappropriate use of capital receipts

What is the risk?

The Authority is under significant financial pressure to achieve its revenue budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way of achieving these targets.

We consider the risk applies to the application and use of capital receipts in the financial statements.

The adjustments between accounting basis and funding basis under regulation changes the amounts charged to General Fund balances. Regulations are varied and complex, resulting in a risk that management misstatement accounting adjustments to manipulate the General Fund balance. We have identified the risk to be higher for adjustments concerning the application of useable capital receipts and deferred capital receipts.

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What judgements are we focused on?

We have identified a specific risk of misstatements due to fraud or error that could affect the income and expenditure accounts and the balance sheet.

We consider the risk applies to the application of capital receipts in the comprehensive income and expenditure statement (CIES) and balance sheet (via the capital financing requirement).

What did we do?

Our approach focused on:

- Sample testing the application of capital receipts in the capital financing requirement to ensure they meet the definition of sources of funding;
- Sample testing deferred capital receipts to ensure any conditions have been correctly applied; and
- Using our data analytics tool to identify and test journal entries adjustments that impact capital receipts.

What are our provisional conclusions?

Our mandatory procedures did not identify any instances of inappropriate use of capital receipts.

- Our sample testing of the application of capital receipts confirmed that they met the correct definition of funding sources.
- Our sample testing of deferred capital receipts found that conditions had been correctly applied.
- Our data analytical procedures performed to identify and test journal entries adjustments that impact capital receipts did not identify any issues.

Significant Risk

Significant risk

Valuation of property, plant and equipment assets under depreciated replacement cost model

What is the risk?

Property, plant and equipment (PPE) represents a significant balance in the Authority's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Material judgemental inputs and estimation techniques are required to calculate the PPE balances held in the balance sheet. For assets valued using depreciated replacement cost (DRC) this risk is heightened due to the specialised nature of the assets and insufficient availability of market-based evidence to assist the valuation.

As the Authority's DRC asset base is significant (£266 million), and the outputs from the valuer are subject to estimation, there is a significant risk PPE may be under/overstated or the associated accounting entries incorrectly posted.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying significant accounting estimates.

What judgements are we focused on?

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We have identified a specific risk of misstatements due to fraud or error that could affect the balance sheet.

We consider the risk applies to the valuation of property, plant and equipment using the depreciated replacement cost method in the balance sheet.

What did we do?

Our approach focused on:

- The adequacy of the scope of the work performed by the Authority's valuer, their professional capabilities and the results of their work;
- Sample testing key judgements used by the valuer in performing their DRC valuations;
- The use of EY valuation specialists to review a sample of the underlying assumptions used to value any material specialist DRC assets;
- Review of DRC assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- Consideration of useful economic lives in the most recent valuation; and
- Testing that accounting entries had been correctly processed in the financial statements.

What are our provisional conclusions?

Our consideration of the work performed by the Authority's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work did not identify any issues.

At the time of this report our EY Real Estates team are still concluding their audit procedures. Once concluded we will report the findings to the Audit Committee.

Our review of DRC assets not subject to valuation in 2019/20 confirmed that the remaining asset base was not materially misstated.

Our consideration of the useful economic lives in the most recent valuation did not identify any issues.

Accounting entries had been correctly disclosed in the financial statements.

Note we have identified some audit adjustments in relation to property, plant and equipment. See Section 3 for further details.

Significant risk

Valuation of Non-DRC PPE assets & Investment Property

What is the risk?

As reported in Section 1 of this report – The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment. We therefore increased our inherent risk on valuation of Non-DRC PPE assets & Investment Property to significant.

As the Authority's non-DRC and investment property asset base is significant (£119 million), and the outputs from the valuer are subject to estimation, there is a significant risk PPE may be under/overstated or the associated accounting entries incorrectly posted.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

What judgements are we focused on?

We have identified a specific risk of misstatements due to fraud or error that could affect the balance sheet.

We consider the risk applies to the valuation of non-DRC property, plant and equipment assets and investment properties in the balance sheet.

What did we do?

Our approach focused on:

- The adequacy of the scope of the work performed by the Authority's valuer, their professional capabilities and the results of their work;
- Sample testing key judgements used by the valuer in performing their existing use and market valuations;
- The use of EY valuation specialists to review a sample of the underlying assumptions used to value any material non-DRC and investment property asset categories;
- Review of non-DRC assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- Consideration of useful economic lives in the most recent valuation; and
- Testing that accounting entries had been correctly processed in the financial statements.

What are our provisional conclusions?

Our consideration of the work performed by the Authority's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work did not identify any issues.

At the time of this report our EY Real Estates team are still concluding their audit procedures. Once concluded we will report the findings to the Audit Committee.

Our review of non-DRC assets not subject to valuation in 2019/20 confirmed that the remaining asset base was not materially misstated.

Our consideration of the useful economic lives in the most recent valuation did not identify any issues.

Accounting entries had been correctly disclosed in the financial statements.

Note we have identified some audit adjustments in relation to property, plant and equipment. See Section 3 for further details.

Areas of Audit Focus

Other Areas of Audit Focus – PFI accounting

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.

We have confirmed that the figures in the accounting models are consistent with the disclosures in the financial statements.

The Authority has a material PFI arrangement for three secondary schools in Peterborough. PFI accounting is a complex area. We undertook a detailed review of the arrangements in 2018/19 and concluded that the accounting disclosures were materially correct. However, given the complexities involved and size of the liabilities we have identified the PFI accounting as an inherent risk.

In 2019/20 the Authority reported future PFI repayments totalling £163.0 million in the financial statements.

We have identified a specific risk of misstatements due to fraud or error that could affect the balance sheet.

We consider the risk applies to the valuation of PFI liabilities in the balance sheet.

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Our approach focused on:

- Making enquiries to management in respect of any changes to arrangements and the calculation of annual payments and the PFI liability in the balance sheet; and
- Agreeing the figures in the PFI accounting models to the entries and disclosures in the financial statements.

Areas of Audit Focus

Other 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 2020 this totalled £221 million (£322 million at 31 March 2019).

The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to Cambridgeshire 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 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 Robertson) 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.

As part of the audit of the pensions disclosures, in addition to our standard procedures to gain assurance over pension disclosures in the accounts, we have considered the key issues impacting on the reported position of Peterborough City Council. These are:

- movement in fair value of fund assets between the date of the actuary's estimate and year end
- Impact of the McCloud judgement
- Impact of the Goodwin judgement

At the time of our draft Audit Results Report, we were still waiting for assurance from the pension fund auditor. Our findings to-date on each of these items are set out below.

Areas of Audit Focus

Other Areas of Audit Focus - Pension Liability Valuation (continued)

Pensions area	What we did	What we have provisionally concluded
IAS 19 assurances	To obtain assurance over the pension fund disclosures, we: • Liaised with the auditors of Cambridgeshire Pension Fund to obtain assurances over the information supplied to the actuary in relation to Peterborough City Council; • Assessed the work of the Pension Fund actuary (Hymans Robertson) 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 • Reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.	No issues have been identified with our audit procedures performed to-date. The conclusion of this work is pending receipt of the IAS assurance letter from the Cambridgeshire Pension Fund auditors, expected in week commencing 9 November 2020.
Fair value of fund assets	The Authority receives an annual IAS 19 schedule of results report that contains the valuation of the fair value of assets for the Pension Fund as a whole. We receive assurances from the Pension Fund auditor that these values are materially stated. This work is pending receipt of the IAS assurance letter from Cambridgeshire Pension Fund, expected in week commencing 9 November 2020.	The conclusion of this work is pending receipt of the IAS assurance letter from the Cambridgeshire Pension Fund auditors, expected in week commencing 9 November 2020. We have been informed by the Pension Fund auditor that the Peterborough City Council pension fund investment assets are understated by £2.56 million. The Authority has decided not to adjust for this difference. See Section 3 for further information.

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Other areas of audit focus

We identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

Pensions area	What we did	What we have provisionally concluded
McCloud	Last year, the government's appeal in relation to the age discrimination present in public sector schemes was ruled against in the High Court. Consequently, some members of the schemes need to be compensated with higher benefits. Some schemes (including Peterborough City Council) made an allowance for this impact as past service cost in their accounts last year. Due to no guidance being provided in how members would be compensated, the adjustment made was an estimate based on papers produced by the Government Actuary's Department covering the McCloud impact. On 21 July 2020, a consultation document was released which provided further details on how benefits would be changed to remove the age discrimination. The adjustment for Peterborough City Council related to the McCloud judgement in 2018/19 was £1.3 million. This was reflected in an increased past service cost and results in an increased defined benefit obligation for the Authority. We have engaged EY Pensions Advisory team to understand the impact of the July consultation on IAS 19 report run by the Authority's actuary – Hymans Robertson. EY Pensions Advisory confirmed that the approach taken by Hymans Robertson was reasonable, but asked local teams to confirm that the amount allocated for McCloud is not material and that the proportion of deferred and pensioner members impacted to support the fact that no allowance has been made for these in the calculation. The Authority received an updated IAS 19 report which showed the impact of the consultation was £0.129 million and therefore trivial.	The revised IAS 19 report showed a trivial movement (£0.129 million) as a result of the McCloud consultation.

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Other areas of audit focus

We identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

Pensions area	What we did	What we have provisionally concluded
Goodwin	A recent employment tribunal case for the Teachers' Pension Scheme, "Mrs Goodwin v Department for Education" concluded that a female member in an opposite sex marriage is treated less favourably than a female in a same sex marriage or civil partnership, and that that treatment amounts to direct discrimination on grounds of sexual orientation. The ruling will impact LGPS schemes members falling under the following categories: • Impacts male spouse survivor of a female scheme member, whose entitlement to the survivor pension arose on or after 5 December 2005, • Impacts females members who have accrued service from 5 April 1978 and before 5 April 1988. • This includes the following population: • Current male dependants • Future male dependants We engaged EY Pensions Advisory team to understand the impact of the Goodwin case on the IAS 19 report. EY Pensions Advisory asked audit teams to confirm whether an allowance been made for Goodwin and how has this been deemed as not material. The Cambridgeshire County Council audit team is currently investigating this with the actuary on behalf of admitted bodies, which includes Peterborough City Council. However, based on our discussions with EY Pensions, we do not anticipate the impact to be material based with an expected impact of 0.1% to 0.2% of liabilities (maximum = £0.5 million).	Subject to the response received from the actuary, we have no issues to note.

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Areas of Audit Focus

Other Areas of Audit Focus – Recoverability of NHS Accounts Receivable Balances

Our audit testing did not identify any issues with the recoverability of the NHS accounts receivable balances.

The Authority has a significant accounts receivable (debtor) balance. As at 31 March 2019 the balance was £53.6 million. We are aware that a significant amount of the balance relates to one NHS debtor of £11million. The Authority is working closely with NHS bodies on the recoverability of the debtor. There is a risk that the Authority may not receive the payments from their NHS suppliers.

Given that there might be some subjectivity to the recoverability of these debtors the Authority will need to consider the level of any provision for bad debts. We have therefore raised as an inherent risk in our audit strategy.

Our approach focused on:

- Corroborating the relevant NHS debtor balances and ensure that the amounts consistent with confirmations received directly from the NHS bodies (third party information); and
- Testing any NHS bad debt provisions or NHS debtor write-offs to ensure that these are calculated in line with IAS 37.

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Other Areas of Audit Focus – Group Accounting

Our audit testing did not identify any issues with the group accounts or the group scoping.

In July 2018 the Authority incorporated Live Peterborough Limited, a local authority trading company (LATCo), with the Authority as the sole owner. Activity has increased in the company in 2019/20 to a level that is considered material. This will require the Authority to prepare group accounts.

We identify this as an inherent risk as the Authority has not prepared group accounts in the past and this can be a complex area of accounting.

Our approach focused on:

- Reviewing the group assessment prepared by the Authority, ensuring that the accounting framework and accounting policies are aligned to the Peterborough City Council group;
- Scoping the audit requirements for Live Peterborough Limited based on their significance to the group accounts. Liaising with the EY external auditor of Live Peterborough Limited and issuing group instructions that detailed the required audit procedures they were to undertake in order to provide us with assurance for the opinion we will issue on the group accounts;
- Ensuring the appropriate consolidation procedures and the Code of Practice are applied when preparing the Authority's group accounts.

Areas of Audit Focus

Other Areas of Audit Focus - Implementation of new auditing and accounting standards

Standard	Audit Findings
IFRS 16 Leases: Implementation of IFRS 16 will be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. This Code has yet to published, but in November 2020 CIPFA/LASAAC issued 'IFRS 16 leases and early guide for practitioners'. There will be some disclosure requirements for the 2019/20 statement of accounts.	The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. We no longer consider this to be an area of audit focus for 2019/20. The Authority should continue their preparation for the implementation of IFRS 16.
Going Concern Compliance with ISA 570: This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Authority will be the audit of the 2020/21 financial statements.	Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Authority's actual year end financial position and performance. We discussed the Authority's going concern assessment with management and reviewed the adequacy and the robustness of the assessment, including the assumptions supporting budget, financial planning and cashflow forecasts for at least the next 12 months from the proposed date of the auditors report (e.g. from the end of November 2020 to end of November 2021). We have reviewed and at the date of this report, reached agreement on the addition of the updates to the going concern disclosure note which has been added to the financial statements. We are now in the process of starting our internal consultation procedures setting out our assessment of the Authority's going disclosure note and the impact on our audit report. See the following slide for further information.

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Areas of Audit Focus

Going concern disclosure

There is a presumption that the Authority will continue as a going concern. However, the current and future uncertainty over government funding and other sources of Authority revenue as a result of Covid-19, increases the need for the Authority to undertake a detailed going concern assessment to support its assertion and to make appropriate disclosures in its accounts. From an audit perspective, the auditor's report considers the going concern concept as a 12-month outlook from the audit opinion date, rather than the balance sheet date.

Findings and conclusions

Officers have carried out an assessment of the impact of Covid-19 on the Authority's income, expenditure, balances and reserves to inform reporting to the Audit Committee and other members. These assessments have been used to enhance the disclosure in the financial statements around the going concern assertion.

We have reviewed the assessment, focusing on the reasonableness of the financial impact assessment, cashflow and liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions, including around reductions in fees and charges. We have also considered the adequacy of the revised disclosure note and its consistency with the going concern assessment and our audit procedures.

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The Authority is currently forecasting £37.9 million of additional cost pressures as a result of Covid-19. This is broken down as additional expenditure of £25.2 million, income losses of £7.2 million and non-delivery of 2020/21 cost savings of £5.5 million. This is partly mitigated by grant funding of £33.6 million with £4.3 million requiring to be funded from reserves. The level of general fund reserves as at 31 March 2020 is £6.0 million which is the minimum level required by the CFO. The Authority has indicated that it may need to consider using reserves in the short-medium term to mitigate the impact of COVID on costs.

The Authority has £30.7 million of other usable reserves, however only £6.7 million of this balance is uncommitted.

The Authority is currently forecasting an overspend of £11.3 million for the 2020/21 financial period. The Authority published Phase One of the 2021/22 - 2023/24 Medium Term Financial Strategy (MTFS) on the 16 October, and was presented to Cabinet on the 26 October 2020. Phase One recognised that the impact of COVID-19 will create additional pressures for the 2021/22 of up to £33.9 million. The current budget gap for 2021/22 is £35.7 million.

As a result of these pressures the CFO initiated detailed discussions with the Ministry of Housing, Communities and Local Government (MHCLG) to discuss the Authority's future financial position. This followed the CFO writing to MHCLG on the 1st October 2020 setting out the Authority's financial circumstances and actions required to improve the medium to long term viability of the Authority. These discussions are as advised through the modified guidance issued by CIPFA, that authorities under budgetary pressure due to COVID-19 have the time and space to explore alternatives to freezing spending when budgets do not balance.

The Authority's cash flow modelling through to March 2022 demonstrates that it is able to work within its capital financing requirement. It has cash and short term investment balances of £10.4 million at 31 March 2020 and the ability for additional short term borrowing of up to £62.3 million.

We have reviewed the revised going concern disclosure and are satisfied that it adequately reflects the Authority's assessment and informs the reader of the impact of the Covid-19 pandemic on the Authority's finances. We are currently now completing our internal consultation with our Professional Practice Directorate on our audit work and assessment of the Authority's going concern disclosure. We expect that this may result in a material uncertainty in our audit report as the Authority's current financial position casts significant doubt on their ability to continue to provide the current levels of service provision for the next 12 months and beyond.

03 Audit Differences

Audit Differences

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

We highlight the following misstatements greater than £0.246 million which have been corrected by management that were identified during the course of our audit.

- Property, plant and equipment – Misappropriation between reversal of a previous impairment and downward revaluation of £1.861 million. There is no general fund impact resulting from this audit adjustment.

- Property, plant and equipment – Downward revaluation of £1.122 million required on St Georges School due to errors in the valuers (NPS) working paper. This reduces the non-current asset value in the balance sheet but there is no general fund impact resulting from this audit adjustment.

- Property, plant and equipment – Net downward revaluation of £2.236 million on PPE assets following updated valuations from the valuer (NPS). This reduces the non-current asset value in the balance sheet but there is no general fund impact resulting from this audit adjustment.

- IAS 19 Pensions – Increase in the value of the pension liability of £2.560 million due to increases in the investment values as a result of timing differences in the valuation of these investments by the actuary.

We have identified several disclosure adjustments during the audit. We have judged that only one of these adjustments warrant flagging to the Audit Committee in this report:

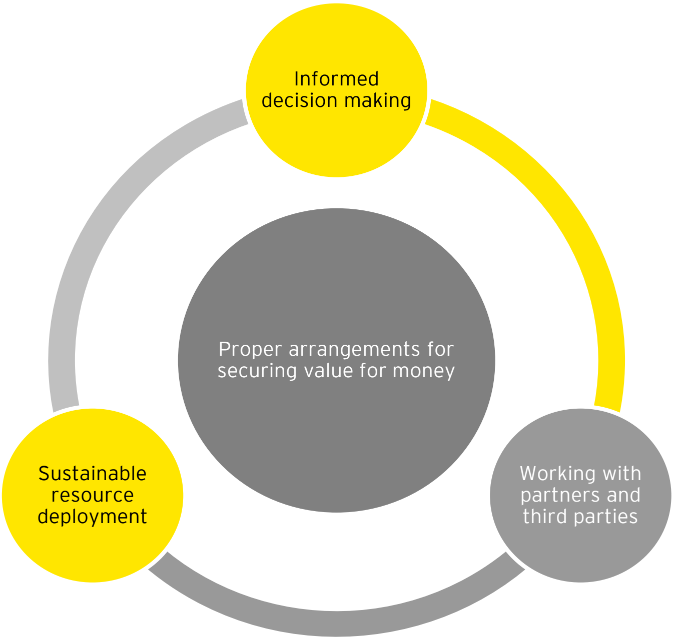
Going Concern – The impact of Covid-19 has substantial implications for the Authority's finances. We therefore had to assess the work performed by the Authority to ensure there was an adequate disclosure, with a supporting assessment, on the Authority's viability and liquidity for the period of at least 12 months from the proposed date of the auditor's report. Our procedures resulted in an additional disclosure in the statement of accounts. See Section 2 for further details on this issue.

Summary of unadjusted differences

We have not identified any unadjusted audit differences.

04 Value for Money Risks

Value for Money



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Background

We are required to consider whether the Authority 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 2019/20 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.

Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of Covid-19.

This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019/20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019/20 VFM arrangements conclusion.

Overall conclusion

We identified one significant risk around these arrangements. The table below presents our findings in response to the risk identified in our Audit Plan as well as any risks identified since then and any other significant weaknesses or issues we want to bring to your attention.

Please note that we are still concluding our audit procedures on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for Money Risk

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 Report as well as any additional risks identified since then.

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What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings to-date?
We reported in previous years 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 which have still not been addressed. The cumulative unmitigated budget gap to 2022/23 is £30.6 million and this also includes the successful delivery of £26.3 million of savings up to that period and some savings which are still subject to finalisation. It also includes a £10million capitalisation direction currently with MHCLG for approval. The Chief Financial Officer has expressed concerns on the fragility of the Authority's financial position in the robustness statement presented to 25th February 2020 Cabinet supporting the 2020/2021 budget. In particular, there is a risk the Chief Financial Officer could trigger the production of a Section 114 report if the Authority could not report a balanced budget for 2020/21, where: 1. the Capitalisation Direction approval is not confirmed by 31 March 2020; or 2. realistic transformational plans, for reducing the cost of service delivery required to deliver a balanced and sustainable budget for future years, are not developed, and implementation commenced by July 2020. Whilst the Authority is taking action to identify ways to bridge the gaps, there remains a significant risk to its financial resilience.	• Taking informed decisions; and • Deploying resources in a sustainable manner.	To address this risk, we planned: Phase 1 – Financial Resilience Concerns (March to April 2020): ▸ Robust review of the Authority's Medium Term Financial Strategy and the concerns raised by the Chief Financial Officer, including correspondence with MHCLG on the capitalisation direction application; ▸ Developing an understanding of how the Authority identifies its budget gaps and risk mitigations; ▸ Consideration of exercising our statutory powers at this point (by April 2020) and if appropriate issuing a statutory written recommendation under section 24 (schedule 7) of the Local Audit and Accountability Act 2014. Phase 2 – Authority's Response to Financial Resilience Concerns (April to July 2020): ▸ Developing an understanding of how the Authority quantifies and quality assures its savings plans; ▸ Reviewing the extent to which the Authority is addressing the future budget gaps identified within its Medium Term Financial Strategy, including the robustness of assumptions and judgements associated with savings and transformation plans. See the following slide for details of our audit procedures performed.

Value for Money Risk (continued)

What are our findings to-date?

Please note that we are still concluding our audit procedures on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

For both phases of the risk we have engaged with our Strategy and Transactions team to provide specialist support to work with the audit team in reviewing, challenging and exercising appropriate professional scepticism on the Authority's medium-term financial strategy and proposed transformation saving plans.

We have prepared a detailed scope of work for phase 1 and 2 and agreed this with officers at the Authority. We have obtained initial data and information required from the Authority for phase 1 and have drafted our conclusion. We are now completing our procedures on phase 2.

Phase 1 Conclusion: Our modelling suggests that the Authority's forecasts within the current financial year and over the medium-term financial strategy are both reasonable and appropriate compared with our base-case economic scenario. It is however noted that the financial challenge the Authority is facing, is forecast to be considerably more severe in our more volatile economic conditions.

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The Authority's ability to deal with these challenges is significantly hindered by their reserve position, which is insufficient in dealing with the forecast financial challenge beyond the current financial year.

The Authority's financial resilience is therefore a significant hinderance on the Authority's ability to provide value for money from public resources, as the financial uncertainty they face over the medium-term makes it difficult for the Authority to make meaningful and sustainable decisions that provide value for money. We therefore expect to modify our value for money conclusion.

Phase 2 Progress: At the time of this report Authority officers are compiling the information and data requirements for the phase 2 work.

Capitalisation Direction: The Authority did obtain its capitalisation direction from MHCLG pre-Covid-19. The Authority took appropriate steps pre-Covid-19 to achieve this and have been open and transparent on its financial resilience risks and pressures, we therefore determined that it was not appropriate to issue a statutory written recommendation at that stage.

Overall Conclusion: We will report to the Audit Committee once this work has been concluded. However, we currently expect to modify our value for money conclusion to recognise that the structural financial resilience pressures and concerns facing the Authority before and after the Covid-19 pandemic have a significant and pervasive impact on the Authority's ability to secure adequate arrangements for Value for Money in its use of resources.

05 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 2019/20 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 2019/20 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.

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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. Our work on the Whole of Government Accounts will be undertaken in December 2020 and will report any matters arising to the Audit Committee.

Other reporting issues

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 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.

At the date of this report, we consider that the Authority has taken all the appropriate steps to openly disclose and report its financial resilience concerns to MHCLG, taxpayers and other key external stakeholders. This applies to the conditions existing before Covid-19 when the Authority did seek and get approval for a capitalisation direction, and the unprecedented factors which exacerbated its financial concerns post Covid-19. There have been frequent public statements, and detailed disclosures in the Authority's unaudited 2019-2020 financial statements. The Authority have formally notified and continue ongoing dialogue with MHCLG on their financial condition and concerns which includes exploring all options on securing a viable Authority now and in the future. The Authority have followed the spirit and intent of the CIPFA guidance on section 114 reporting. The Authority have also worked constructively to address our questions and challenges on the depth and clarity of their going concern disclosures and assessments. On this basis, whilst we are significantly concerned about the Authority's financial condition and the impact on future budgets and service provision for the taxpayers of Peterborough, we also believe the Authority have acted appropriately in key decisions and public reporting. Therefore, it would be a disproportionate step to issue either a public interest report or a statutory recommendation at this stage. However we will revisit this again once we have concluded our remaining consultation processes on the going concern disclosures and the outcome of our Value for Money audit procedures. If we believe there are any fundamental gaps in the Authority's assessment of financial resilience for the next 12 months and beyond which are important to draw to the attention of taxpayers, external stakeholders and other users of the accounts, we may decide it is appropriate to exercise one of our powers and duties.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations.

Aside from the matters raised elsewhere in this report, we have no other matters to report.

06 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.

07 Data Analytics

Data analytics – Journal Entry Analysis and Payroll Analysis

Analytics Driven Audit

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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 2019/20, 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 plan.

Payroll Analysis
We also use our journal entry analyser in our payroll testing of the non-schools payroll. We obtain all payroll transactions posted in the year from the general ledger system and perform completeness analysis over the data, including reconciling the total amount to the payroll system. 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.

08 Independence

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 9 March 2020.

We complied with the APB Ethical Standards. 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 November 2020.

Relationships, services and related threats and safeguards

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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 01 April 2019 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 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed in have been provided on a contingent fee basis.

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 2019.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

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	Scale fee 2019/20	Final Fee 2018/19
	£	£
Total Fee – Code work	160,570 (Notes)	106,334
Total fees	TBA	106,334

All fees exclude VAT

Note 1: In the audit planning report dated 9 March we reported the an increase to the 2019/20 scale fee based on the following factors, and expanded in the following slides:

- The lowering of our audit materiality from the prior year and the impact this has on our audit testing across all of the Authority's primary financial statements and supporting notes.
- The need to scope and audit the group accounts for the first time.
- The need to audit the significant and heightened risks presented in this audit plan, which includes incorrect capitalisation of expenditure, MRP and incorrect use of capital receipts.
- The need to engage EY Real Estate to review the valuation of DRC assets.
- The need to engage our advisory experts to support our assessment of the Authority's future plans to address concerns on its future financial resilience.

The total of this additional scale fee was agreed at £77,000. This proposed fee adjustment has been discussed and agreed with officers and at the Authority's Audit Committee. We have also shared the supporting details and had discussions on the fee variation with PSAA. PSAA are currently in the process of finalising their determination of the proposed changes to the scale fee.

Note 2: As detailed in slide 5 we have encountered changes to the audit strategy since our audit planning report that have resulted in additional audit procedures and audit fees:

- The need to engage EY Real Estate to review the valuation of non-DRC and investment properties assets as a result of the RICs guidance to valuers highlighting the uncertain impact of Covid-19.
- The corrected and uncorrected audit adjustments identified in this report.
- The impact of the McCloud consultation on the IAS 19 pension liability.
- The impact of Covid-19 on our audit procedures and the Authority's going concern assessment, including the requirement for internal consultation.

We have received full co-operation from Authority officers in relation to our audit queries and we would like to thank officers for their support in getting us to this stage of the audit. We have encountered some delays in responses to our queries which have caused delays in our audit procedures. This has been due to fewer officers available to answer queries, a loss of expertise in the finance department and some illness in the finance team. We also acknowledge that the audit has been protracted through to November, rather than July which has required more officer time while also drafting phase 1 of the budget.

Our initial estimation of the additional fees as a result of the items identified above is £25,000. This is not included in the £77,000 proposed change to the baseline fee and this element (estimated at £25,000) is subject to the conclusion of the audit, our final determination of the fee variation and subject to further discussions with officers before we provide the supporting details for PSAA to determine.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee. At the time of this report we have not received any correspondence from the public.

Fee analysis (continued)

We do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity. For an organisation such as Peterborough City Council and the audit complexities encountered the extent of audit procedures now required mean it will take approximately 2,500 hours to complete a quality audit. A commercial benchmark for this size of external audit would be in the region of £250,000. Your scale fee is £83,570 and our current estimate is a final fee of £185,570.

Summary of key factors

1. **Status of sector.** Financial reporting and decision making in local government has become increasingly complex, for example from the growth in commercialisation, speculative ventures and investments. This has also brought increasing risk about the financial sustainability / going concern of bodies given the current status of the sector.

    - To address this risk our procedures now entail higher samples sizes of transactions, the need to increase our use of analytics data to test more transactions at a greater level of depth. This requires a continual investment in our data analytics tools and audit technology to enhance audit quality. This also has an impact on local government with the need to also keep pace with technological advancement in data management and processing for audit.

2. **Audit of estimates.** There has been a significant increase in the focus on areas of the financial statements where judgemental estimates are made. This is to address regulatory expectations from FRC reviews on the extent of audit procedures performed in areas such as the valuation of land and buildings and pension assets and liabilities.

    - To address these findings, our required procedures now entail higher samples sizes, increased requirements for corroborative evidence to support the assumptions, use of our internal specialists and increased correspondence with external specialists.

3. **Regulatory environment.** Other pressures come from the changing regulatory landscape and audit market dynamics:

    - Parliamentary select committee reports, the Brydon and Kingman reviews, plus within the public sector the Redmond review and the new NAO Code of Audit practice are all shaping the future of Local Audit. These regulatory pressures all have a focus on audit quality and what is required of external auditors.

    - This means continual investment in our audit quality infrastructure in response to these regulatory reviews, the increasing fines for not meeting the requirements plus changes in auditing and accounting standards. As a firm our compliance costs have now doubled as a proportion of revenue in the last five years. The regulatory lens on Local Audit specifically, is greater. We are three times more likely to be reviewed by a quality regulator than other audits, again increasing our compliance costs of being within this market.

Fee analysis (continued)

Summary of key factors (continued)

4. As a result public sector auditing has become less attractive as a profession, especially due to the compressed timetable, regulatory pressure and greater compliance requirements. This has contributed to higher attrition rates in our profession over the past year and the shortage of specialist public sector audit staff and multidisciplinary teams (for example valuation, pensions, tax and accounting) during the compressed timetables.

    - We need to invest over a five to ten-year cycle to recruit, train and develop a sustainable specialist team of public sector audit staff. We and other firms in the sector face intense competition for the best people, with appropriate public sector skills, as a result of a shrinking resource pool. We need to remunerate our people appropriately to maintain the attractiveness of the profession, provide the highest performing audit teams and protect audit quality.

    - We acknowledge that local authorities are also facing challenges to recruit and retain staff with the necessary financial reporting skills and capabilities. This though also exacerbates the challenge for external audits, as where there are shortages it impacts on the ability to deliver on a timely basis.

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Next steps

We have communicated with management, this Audit Committee and PSAA on our proposed changes to the baseline fee for the 2019-2020 external audit. This detail was set out in our audit planning report with a proposed £77,000 increase in the scale fee. We will conclude discussions with management and notify PSAA of our proposed final fee to take account of the points raised on page 45.

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.

- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2019
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2019: https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf

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09 Appendices

Audit approach update

We summarise below our approach to the audit of 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
Investment property			
Intangible assets			
Short term debtors			
Cash & cash equivalents			
Short & long term borrowing			
Short & long term creditors			
Short term provisions			
Other long term liabilities			
Capital grants received in advance			
Reserves			

Summary of communications during 2019/20

Date	Nature	Summary
6 December 2019	Meeting	EY introducing Neil Harris as the new Engagement Partner and hand over meeting held with outgoing Engagement Partner, Suresh Patel, and S151 officer.
13 February 2020	Meeting	EY attended a planning meeting with S151 officer and the finance team to discuss the phasing of the audit and any key issues.
9 March 2020	Report	EY provided Audit Planning Report for 23 March 2020 Audit Committee
3 April 2020	Call	EY and S151 discussed the Peterborough City Council capitalisation direction and impact of Covid-19 on the Authority.
17 June 2020	Meeting	EY and S151 discussed the progress on the draft financial statements.
13 July 2020	Meeting	EY attended Audit Committee to provide an update to the audit strategy as a result of Covid-19
14 August 2020	Meeting	Audit team held meetings with the finance team to discuss audit progress and agree any findings.
From 24 September 2020	Weekly Meetings	EY and S151 discussed the financial position of the Authority and pressure arising from Covid-19, including the actions the Authority were taking and the impact on the financial statements, audit procedures and audit reporting.
3 November 2020	Report	EY provided this Audit Results Report (ISA 260 report) for 16 November 2020 Audit Committee
16 November 2020	Meeting	EY attended 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 progress and 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 Plan - March 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Plan - March 2020
Significant findings from the audit	▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process	Audit Results Report – November 2020

Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Major Local Authorities	For the audits of financial statements of public interest entities our written communications to the Audit Committee include: ▸ A declaration of independence ▸ The identity of each key audit partner ▸ The use of non-member firms or external specialists and confirmation of their independence ▸ The nature and frequency of communications ▸ A description of the scope and timing of the audit ▸ Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits ▸ Materiality ▸ Any going concern issues identified ▸ Any significant deficiencies in internal control identified and whether they have been resolved by management ▸ Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the audit committee ▸ Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof ▸ The valuation methods used and any changes to these including first year audits ▸ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework ▸ The completeness of documentation and explanations received ▸ Any significant difficulties encountered in the course of the audit ▸ Any significant matters discussed with management ▸ Any other matters considered significant	Audit Plan – March 2020 and Audit Results Report – November 2020

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Appendix C

		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: ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements	Audit Results Report – November 2020
Misstatements	▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management	Audit Results Report – November 2020
Subsequent events	▶ Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Audit Results Report – November 2020
Fraud	▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility.	Audit Results Report – November 2020

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Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures, Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the Authority	Audit Results Report – November 2020
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016: ▸ Relationships between EY, the company and senior management, its affiliates and its connected parties ▸ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▸ Related safeguards ▸ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▸ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit	Audit Plan – March 2020 and Audit Results Report – November 2020

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Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
	▸ Details of any inconsistencies between the Ethical Standard and Authority's policy for the provision of non-audit services, and any apparent breach of that policy ▸ Details of any contingent fee arrangements for non-audit services ▸ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▸ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence	
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	We have received all requested confirmations
Consideration of laws and regulations	▸ 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 ▸ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	Audit Results Report – November 2020

Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Group Audits	▸ An overview of the type of work to be performed on the financial information of the components ▸ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▸ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▸ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▸ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.	Audit Results Report – November 2020
Written representations	▸ Written representations we are requesting from management and/or those charged with governance	Audit Results Report – November 2020
Material inconsistencies or misstatements	▸ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report – November 2020
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report – November 2020
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit Plan – March 2020 and Audit Results Report – November 2020

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Management representation letter - Draft

Management Rep Letter

XX November 2020

Neil Harris
Partner
Ernst & Young LLP
1 More London Place
London
SE1 2AF

Dear Neil

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Peterborough City Council ("the Group and Council") for the year ended 31 March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of Peterborough City Council as of 31 March 2020 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group and Council CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We understand that the purpose of your audit of our consolidated and council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and Council the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council 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 Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.

3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.

4. As members of management of the Group and Council, we believe that the Group and Council have 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 2019/20 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and council financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because [specify reasons for not correcting misstatement].

Management representation letter - Draft

Management Rep Letter

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing 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 consolidated and Council financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Group or 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 consolidated or 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 Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or 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 regulations 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 all material transactions, events and conditions are reflected in the consolidated and council financial statements, including those related to the COVID-19 pandemic.

3. We have made available to you all minutes of the meetings of the Group, Council, Cabinet and Audit Committee held through the year to 16 November 2020.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and 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 year ended, as well as related balances due to or from such parties at the 31 March 2020 year end. These transactions have been appropriately accounted for and disclosed in the consolidated and council 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 Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

Management representation letter - Draft

Management Rep Letter

7. From the date of our last management representation letter through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

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 consolidated and council 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 to litigation and claims, both actual and contingent, and have disclosed in Note 40 to the consolidated and council financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. There have been no events, including events related to the COVID-19 pandemic, subsequent to year-end which require adjustment of or disclosure in the consolidated and council financial statements or notes thereto.

F. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.

2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.

G. 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.

H. Going Concern (subject to final disclosures in the Authority’s financial statements)

Note [X] to the consolidated and council financial statements discloses all the matters of which we are aware that are relevant to the Group and Council’s ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

I. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the property, plant and equipment and investment property valuations and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

Management representation letter - Draft

Management Rep Letter

J. Estimates

- Minimum Revenue Provision
- Pensions Liability
- Private Finance Initiative
- Property, plant and equipment/Investment Properties – valuations and impairment
- Provision for impairment and recoverability of receivables

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 2019/20.

2. We confirm that the significant assumptions used in making the estimates appropriately reflect our intent and ability to carry out our statutory services on behalf of the entity.

3. We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimates are complete, including the effects of the COVID-19 pandemic, and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and council financial statements due to subsequent events, including due to the COVID-19 pandemic.

K. 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,

____

(Chief Financial Officer)

____

(Chair of the Audit Committee)

Appendix E

Accounting and regulatory update

Future accounting developments

Since the date of our last report to the Audit Committee, there have been a number of exposure drafts, discussion papers and other projects issues. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on Peterborough City Council
IFRS 16	▸ The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20.	▸ Consider systems impact and need to gather information for comparatives ▸ Consider timetable to implementation

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Appendix E

Regulatory update

Since the date of our last report to the Audit Committee, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on Peterborough City Council
Code of Audit Practice 2020	▸ The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21.	▸ The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed. ▸ Further updates will be provided when possible.
Going Concern - ISA (UK) 570 (Revised September 2019)	▸ The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, however EY expects to early-adopt the revised standard for all of our audits of periods ending on or after 30 June 2020. ▸ This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.	▸ Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage. ▸ Further updates will be provided when possible.
Independence	▸ The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs) . This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed.	▸ We do not provide any non-audit services. ▸ We will continue to monitor and assess all proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020.

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Appendix F - Reflections from the Redmond review

Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting

Published on the 8th September 2020, Sir Tony Redmond's findings and recommendations from his independent review provides a significant opportunity to shape the future sustainability of local government financial reporting and auditing. We believe this will help ensure audit continues to meet the evolving needs of local authorities, the public, and the public interest.

Guiding principles for reform

We believe reforms should be guided by the following principles:

- Reforms should enhance, or at least should not create risks to, the quality of financial reporting and external audit.
- The importance of the multidisciplinary audit firm model, to enable local auditors to respond efficiently and effectively to the increased reporting complexity, risks and financial resilience pressures we have seen facing the public sector pre and post Covid-19.
- There should not be a two-tier system of generally accepted accounting and auditing standards between the public and corporate sectors.
- To be effective and sustainable, reforms need to focus on the public sector financial reporting and external audit ecosystem as a whole.

Appendix F - Reflections from the Redmond review

Taking our guiding principles, we broadly welcome the Redmond review and proposals, in particular:

Quality of financial reporting and external audit

- The recognition that all stakeholders in the ecosystem have a role to play to improve accountability, transparency and sustainability. This includes improving the effectiveness of Audit Committees, strengthening the training skills, capacity capability and attractiveness of the public sector finance and audit professions.
- His conclusion that the current procurement and fee structure does not support sustainable audit quality. We have provided you with our perspectives on how baseline audit fees need to change to take account of your risk profile, complexity as well as the regulatory and professional context which drive our audits.

Reforming the public sector financial reporting and external audit ecosystem

- Establishing the Office for Local Audit Regulation (OLAR), which provides a "system leader" and will bring clarity to the existing framework for local authority audit.
- The importance of MHCLG establishing a liaison committee of all key stakeholders to oversee reforms. To begin with MHCLG should take urgent action to implement primary legislation to establish OLAR, revise the timetable for financial reporting and revisit the procurement and fee structure for public sector audit.

Multidisciplinary audit firm model

- The importance of the auditors work to critically assess the financial resilience and viability of public sector bodies and his proposals on how this assessment could be enhanced within the NAOs code of audit practice.

Safeguarding professional accounting and auditing standards

- The need for CIPFA/LASAAC to revisit the accounting code and introduce summarised accounts. We agree that there is a need for more proportionality in the Code which also sets out the expectations of practitioners and auditors and how this could be applied in areas such as pensions and asset valuations. However, we believe that any future proposals on the accounting code should not create a two-tier system.

What are we doing in the meantime?

1. Planning for a 30 September financial reporting target date for 2020/2021 accounts, integrated with our NHS work.
2. Implementing the new NAO code and changes to our VFM conclusion work and reporting for 2020/2021 audits. We will also work with the NAO and other audit suppliers on any refinements to how auditors assess financial resilience.
3. Continuing to engage with and influence MHCLG, NAO, PSAA CIPFA/LASAAC, FRC and other key stakeholders on the actions required to implement the Redmond proposals as swiftly as possible and how these effectively align to the broader package of audit reforms which BIES will consult on later this year.

Draft audit report

This is an example report. Our audit report will not be completed and issued until the work and internal consultation are complete.

Our 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 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement and the related notes 1 to [x];
- Collection Fund and the related notes 1 to [x]]; 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 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of Peterborough City Council as at 31 March 2020 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 2019/20.

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 Peterborough City 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 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.

Material uncertainty related to going concern (PROVISIONAL WORDING SUBJECT TO PROFESSIONAL PRACTICE CONSULTATION).

We draw attention to Note XX in the financial statements, which describes the Council's ability to continue as a going concern. As stated in Note XX, this indicates that a material uncertainty exists that may cast significant doubt on the Council's ability to continue providing the current level of services without an increase in planned funding. Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the Statement of Accounts 2019/20, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information.

Our opinion on the financial statements

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

Arrangements to secure economy, efficiency and effectiveness in the use of resources (FINAL CONCLUSION TO BE CONFIRMED)

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General in April 2020, we are/are not 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 2020.

Please note that our work on value for money is still ongoing. Given the Council's financial position, and similar to our reporting on going concern, we are likely to issue an adverse qualification on the VFM conclusion.

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.

Responsibility of the Chief Finance Officer

As explained more fully in the Statement of Responsibilities set out on pages [...], the Chief Finance 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 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority'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 Authority either intends to cease operations, or have no realistic alternative but to do so.

Our opinion on the financial statements

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

Auditor's responsibilities 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 in April 2020, as to whether Peterborough City Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Peterborough City Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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

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

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

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 Authority'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.

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