

Peterborough City Council Audit Update

Year ended 31 March 2021

18 January 2024

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Private and Confidential
Audit Committee
Peterborough City Council

Dear Members of the Audit Committee,
Conclusion of the 2020/21 audit engagement

I provided Committee Members with a report dated 16 November 2023 on the position of the 2020/21 audit for the Audit Committee on 27 November 2023. I have attached a copy of that report in Appendix A.

This report sets out an update for the Audit Committee on the final outstanding issues. Subject to the successful closure of the outstanding items on the following page we are in a position to complete the 2020/21 audit.

This report is intended solely for the information and use of the Audit Committee, and management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on the 29 January 2024.

Yours faithfully

Janet Dawson
Partner
For and on behalf of Ernst & Young LLP

Executive Summary

Status of the 2020/21 audit - final outstanding issues

Empower Loan

Our audit procedures in relation to the £20.4 million loan have identified an audit difference in relation to the outstanding loan value as at 31 March 2021. The value of the outstanding loan in the 2020/21 statement of accounts is identical to the value used in the 2019/20 statement of accounts. Our procedures determined that the Council should have discounted the first year of the contractual cash flows from the prior year model. This would have the impact of reducing the value of the loan by £1.587 million. Management have determined not to adjust for this difference. We have therefore added this uncorrected difference to our Letter of Representation request (see Appendix B).

Post Balance Sheet Consideration

In our report to the Audit Committee dated 16 November (see Appendix A) we informed members that work was outstanding in relation to the corroboration of assumptions used in the Council's model for valuing the rooftop solar panel portfolio. This model has been used to value the assets as at 31 March 2022.

We received information from the Council on 13 December 2023 and 12 January 2024 in relation to inverter costs and the implications for the valuation in the model.

When we apply our EY specialist inflation forecast figures and the updated inverter replacement costs to the model we calculate a valuation of £17.55 million for the rooftop solar panel portfolio as at 31 March 2022. This is not materially different from the valuation of the loan as at 31 March 2021 in the 2020/21 statement of accounts and therefore this constitutes an adjusting post balance sheet event which is not material. This has been disclosed by the Council in Note 45 of the Statement of Accounts 2020/21.

RECOMMENDATION:

We recommend the Council to regularly revisit and reassess the rooftop solar panel model to ensure accurate and complete inputs for future valuations. Management should thoroughly understand and substantiate all model assumptions with corroborative audit evidence.



Executive Summary

Status of the 2020/21 audit - final outstanding issues (continued)

Loan to the developer of Hilton Garden Inn Hotel

In our report to the Audit Committee dated 16 November (see Appendix A) we informed members that work was outstanding in relation to the developer of the Hilton Garden Inn in Peterborough going into administration.

We received information from the Council on 8 January 2024 in relation to the impact of the administration on the 2020/21 statement of accounts.

We have concluded that the issue represents a non-adjusting post balance sheet event and therefore requires disclosure only in the 2020/21 statement of accounts. This has been disclosed by the Council in Note 45 of the Statement of Accounts 2020/21.

We have requested representation from Management in their Letter of Representation to confirm that the full value of the Council's loan as shown in the 2020/21 statements is secured and that they are not aware of any material losses that the Council may incur. Please see Appendix 2 for a draft copy of the Letter of Representation.

RECOMMENDATION:

We recommend the Council to maintain vigilant oversight of the financial implications arising from the Hilton Hotel Loan. In the event a potential financial loss to the Council becomes apparent, please notify us immediately.

Executive Summary

Status of the 2020/21 audit - final outstanding issues (continued)

We have substantially completed our audit of the Peterborough City Council financial statements for the year ended 31 March 2021 and have performed the procedures outlined in our Audit Plan and our findings reported in the Audit Results Reports presented to the Audit Committee on the 31 August 2022 and 24 July 2023.

The outstanding closing procedures at the date of this report relate to:

- ▶ Final audit completion and review procedures;
- ▶ Review of the Council's updated going concern disclosures;
- ▶ Completion of subsequent events and post balance sheet events review up to the date of signing;
- ▶ Receipt of the signed management representation letter; and
- ▶ Receipt and review of the final signed version of the financial statements.

Subject to satisfactory completion of the outstanding items above, we expect to issue an unqualified opinion on the Council's financial statements. We will communicate this to management and the Audit Committee before the 2020/2021 financial statements are authorised for issue. Until our audit work is complete, further amendments may arise. We expect to issue the audit certificate after we issue the audit opinion.

Appendix A - 16 November Audit Committee Report



Private and Confidential
Audit Committee
Peterborough City Council

16 November 2023

Dear Members of the Audit Committee,

Conclusion of the 2020/21 audit engagement

I updated committee members at the Audit Committee on 11 September 2023 on the position of the 2020/21 audit. As part of our final review process we identified a technical area that required additional audit evidence and support to ensure we had obtained sufficient assurance to satisfy findings from the prior year Financial Reporting Council (FRC) review.

We anticipated that we would conclude this area by 30 September 2023. However, we currently await the required supporting evidence from the Council. We have also been made aware of issues in relation to the Council's loan issued to the developer of Hilton Garden Inn Hotel which has been taken into administration by the Council in October 2023.

We have provided an update for the Audit Committee on the final outstanding issues on the following pages.

We also wish to inform the Audit Committee that we have commenced our 2021/22 and 2022/23 Value for Money procedures. We have issued a number of queries to the finance team to assist us with this work. Part of those procedures require us to provide commentary on the production of the 2022/23 draft Statement of Accounts. We are aware that these have not yet been published and we have not been provided with a date when these might be presented to Audit Committee.

Yours faithfully

Janet Dawson
Partner
For and on behalf of Ernst & Young LLP

Appendix A - 16 November Audit Committee Report (continued)

Status of the 2020/21 audit - final outstanding issues

Empower Loan

The purpose of this report is to update you on the final outstanding item on the 2020/21 audit. This is in relation to the classification and valuation of the Empower loan debtor of £20.4 million as at 31 March 2021.

Our audit procedures require us to consider post balance sheet events which may materially impact the transactions and balances in the Council's accounts as at 31 March 2021. We have considered that the transfer of the solar panel portfolio from Empower LLP to the Council in November 2021 constitutes an adjusting post balance sheet event if the value of the assets is materially different from the loan amount outstanding as at 31 March 2021.

We have audited the Council's model for valuing the rooftop solar panel portfolio, this model was produced by the Council's specialist Edenseven. We challenged the Council on a range of assumptions used by Edenseven on 20 September 2023. The Council were unable to provide any additional support, we therefore worked with our EY Strategies and Transactions specialists to corroborate the assumptions used but were unable to gain sufficient assurance regarding two areas that significantly impact the valuation:

1. Edenseven used 5% as their inflation assumption throughout the life of the model. The Council have been unable to support the 5% assumption used by Edenseven, we therefore consider this to be an error in the model. Our EY specialist inflation forecast does not return a material difference but the Council will need to ensure the model is updated each year for actual inflationary figures provided by Ofgem and more accurate forecast assumptions.
2. When performing a comparison between the previous Empower model and the Edenseven model we identified that the Empower model contained a full replacement programme for solar panel inverters. This is because inverters in photovoltaic solar panels have a life expectancy of 15 years while the contract for income generation is 20 years. The Edenseven model only accounts for 6.6% of inverters to be replaced. Our estimate for a full replacement programme of inverters could reduce the valuation of the assets in the model by up to £3.4 million.

We held a call with the Council on 12 October 2023 to discuss the inverter issue and requested that evidence is obtained from the specialist regarding the discrepancies. We also requested evidence from the Council to support the cost to replace each inverter (part and labour).

We have regularly requested this information from the Council but are yet to receive any evidence to conclude on the remaining queries in relation to inverter costs.

Until we receive the information requested we are unable to quantify the potential audit adjustment in order to conclude our audit of the 2020/21 Statement of Accounts. If this information is not received in a timely manner this will lead to a modification of our audit opinion.

Appendix A - 16 November Audit Committee Report

Status of the 2020/21 audit - final outstanding issues

Loan to the developer of Hilton Garden Inn Hotel

We have been made aware that the developer of the Hilton Garden Inn in Peterborough has been taken into administration by the Council.

In total the Council has issued a loan of £15 million to the developer. As at 31 March 2021 the value of the loan issued was £3.075 million.

We will need to receive the Council's post balance sheet event consideration assessment in relation to the developer falling into administration and how this impacts the 2020/21 Statement of Accounts.

Until we receive the Council's consideration of this issue we are unable to quantify the potential impact on the 2020/21 Statement of Accounts.



Appendix B – Draft Request for a Management Representation Letter

Request for a Management Representation Letter

[To be prepared on the entity's letterhead]

29 January 2024
Janet Dawson
Partner

Ernst & Young

1 More London Place
SE1 2AF
London
United Kingdom

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 2021. 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 2021 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 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).

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 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
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 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022) 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 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)) for the Group and Council and 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 and the effects of the conflicts and related sanctions in Ukraine, Russia and/or Belarus 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 [\[specify reasons for not correcting misstatement\]](#).
6. We confirm the Group and Council does not have securities (debt or equity) listed on a recognized exchange.

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.



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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 and including those related to the conflict can related sanction in Ukraine, Russia and/or Belarus.
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 the most recent meeting on the following date: [29 January 2024](#)
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 year end. These transactions have been appropriately accounted for and disclosed in the consolidated and Council financial statements.

5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
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.
7. From the date of our last management representation letter through the date of this letter we have disclosed to you any unauthorised 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 unauthorised access to our information technology systems is reasonably likely to have a material impact on the Group and Council financial statements, in each case or in the aggregate, and ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

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 41 to the consolidated and Council financial statements all guarantees that we have given to third parties.

E. Going Concern

1. Note 45 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



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to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. Other than those described in Note 45 to the consolidated and Council financial statements, there have been no events, including events related to the COVID-19 pandemic, and including events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, subsequent to year end which require adjustment of or disclosure in the consolidated and Council financial statements or notes thereto.
2. In relation to the Fletton Quay Hilton Hotel disclosure in Note 45 we confirm that the full value of the Council's loan is secured and that we are not aware of any material losses that the Council may incur.

G. 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 the Council, subsidiary undertakings and associated undertakings.

H. 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.

I. Reserves

1. We have properly recorded or disclosed in the consolidated and Council financial statements the useable and unusable reserves.

J. 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, the pension liability valuation and financial instrument 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.

K. Estimates

- Minimum Revenue Provision
 - Pensions Liability
 - Private Finance Initiative
 - Property, Plant and Equipment and Investment Properties – valuations, impairments and depreciation
 - Provision for Impairment of Receivables
 - Financial Instruments
1. We confirm that the significant judgments made in making the have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
 2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the above accounting estimates.
 3. We confirm that the significant assumptions used in making the above estimates appropriately reflect our intent and ability to carry out our statutory services on behalf of the entity.
 4. We confirm that the disclosures made in the consolidated and Council entity financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022)).
 5. We confirm that appropriate specialized skills or expertise has been applied in making the above estimates.
 6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and parent entity financial statements, including due to the COVID-19 pandemic.

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L. Retirement benefits

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

Yours faithfully,

(Chief Financial Officer/Finance Director)

(Chairman of the Audit Committee)

Appendix 1 – Uncorrected misstatements

Communication schedule for uncorrected misstatements

Entity: Peterborough City Council Period Ended: 31-Mar-2022 Currency: £,000

No.	SAP ref.	Account (Note 1)	Analysis of misstatements (Debit/Credit)						Effect on the current period OCI (Debit/Credit)	Income statement effect of the current period (Debit/Credit)
			Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Equity			
[Misstatements are recorded as journal entries with a description]			Debit/Credit (Note 2)	Debit/Credit (Note 2)	Debit/Credit (Note 2)	Debit/Credit (Note 2)	Debit/Credit (Note 2)		Non taxable	
Factual misstatements:										
SAD 22		WIP arrears for Employer equipment - see 21 PCC Employer Loan Memo January 2022 - Control corrected in 2021/22, uncorrected for 2022/23								
		Balance Sheet - in the Movement & Reversals Statement								
		Capital Adjustment account						(100,000)		
SAD 23		Judgmental judgement SAD to reflect that the Employer Loan asset made have issued one year on from 2018/20 - see 21 PCC Employer Loan Documentation Updated September 2021								
		Credit - Balance Sheet - Short Term Debtors	(1,500,500)							
		Debit - CFS - Financing & Investment Income & Expenditure								1,500,500
		Debit - Balance Sheet - Capital Adjustment Account						1,500,500		
		Credit - MIS - Adjustment Between Funding & Accounting						(1,500,500)		

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