
Government and Public Sector

***Peterborough City
Council***

Annual Audit Letter

2011/12 Audit

October 2012

Introduction

The purpose of this letter

This letter is a public document which summarises the results of our 2011/12 audit for members of the Authority and other stakeholders.

We have already reported the detailed findings from our audit work to those charged with governance in the following reports:

- Audit plan for the 2011/12 accounts audit
- Audit report for the 2011/12 Statement of Accounts, incorporating the value for money conclusion
- Report to those charged with Governance (ISA (UK&I) 260)

The matters reported here are the most significant for the Authority. Appendix A summarises our recommendations for the year.

Scope of work

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Our 2011/12 audit work has been undertaken in accordance with the Audit Plan that we issued on 26 March 2012 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

We met our responsibilities as follows:

Audit responsibility	Result
<i>Perform an audit of the accounts in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).</i>	We reported our findings to the Audit Committee on 24 September 2012 in our 2011/12 <i>Report to those charged with governance (ISA (UK&I) 260)</i> . On 28 September 2012 we issued an unqualified audit opinion.
<i>Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.</i>	We reported our findings to the National Audit Office on 28 September 2012.
<i>Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.</i>	On 28 September 2012 we issued an unqualified value for money conclusion.
<i>Consider the completeness of disclosures in the Authority's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.</i>	There were no issues to report in this regard.
<i>Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.</i>	There were no issues to report in this regard.

Audit responsibility	Result
<i>Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.</i>	There were no issues to report in this regard.
<i>Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.</i>	We issued our completion certificate on 28 September 2012.

Audit Findings

Accounts

We audited the Authority's Statement of Accounts in line with approved Auditing Standards and issued an unqualified audit report on 28 September 2012.

We identified the following key issues from our audit of accounts:

- Our audit work in relation to the *transfer of Adult Social Care services* from the Peterborough Primary Care Trust ("the PCT") to the Council noted that the Adult Social Care function incurred a deficit in 2011/12 that was £1.26million higher than previously understood by the PCT. This expenditure occurred when the function was managed by the PCT and is not an additional liability for the Council. Under the relevant accounting standard (IFRS 3), "merger accounting" was required to account for the transfer of control.
- The main implication of merger accounting is that the Council must account for the Adult Social Care service *as if had always delivered the services directly*, including all of its income and expenditure, assets and liabilities for both the 2010/11 and 2011/12 (up to 1 March 2012) year. This would have required the restatement of the prior period figures in this year's accounts. The Council did not process any "merger accounting" changes in the 2010/11 or 2011/12 figures on the grounds that the changes were not material to the accounts. We were not minded to challenge the Council's assessment that the impact of merger accounting was not material.
- The Council has set up the *Local Authority Mortgage Scheme ("LAMS")* with Lloyds TSB ("the lender"). In the LAMS, first time buyers ("the borrower") put down five per cent of the property price as a deposit to the lender, with the Council providing a cash backed indemnity of up to 20 per cent as additional security. To date, the Council has paid £1m to Lloyds TSB, with plans for a further £2m approved by Council.
- The Council has treated its payment of £1m to Lloyds as capital expenditure. We note that the Council has obtained advice from the Monitoring Officer in relation to entering into the scheme. The Council has also taken advice from external advisers in respect of its consideration of the appropriate accounting treatment. We are currently not minded to challenge the Council's accounting treatment in respect of LAMS but we recommend that it keeps its accounting arrangements under review, as there is a risk that statute may change, or that the CIPFA IFRS Code of Practice may change, and that those changes may require the Council to adopt a different accounting treatment.
- We discussed these issues with officers and also the Audit Committee on 24 September 2012.

Economy, efficiency and effectiveness

Our Use of Resources Code responsibility required us to carry out sufficient and relevant work in order to conclude on whether the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

Audit Commission guidance specifies the criteria for our value for money conclusion:

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

We issued an unqualified value for money conclusion. However, we made a number of recommendations, which we have included in the appendix in this letter.

Whole of Government Accounts

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the Audit Commission. The audited pack was submitted on 28 September 2012. We found no areas of concern to report as part of this work.

Grant Claims and Certification

We presented our most recent Annual Certification Report for 2010/11 to the Audit Committee on 6 February 2012. We certified 7 claims worth £27.0m. In 2 cases a qualification letter was required to set out significant issues arising from the certification of the claim. These details were also set out in our Annual Certification Report for 2010/11. We will issue the Annual Certification Report for 2011/12 in December 2012.

Annual Governance Statement

Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by CIPFA/SOLACE. The AGS accompanies the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Appendix A – Summary of recommendations

A summary of the significant recommendations we have made to the Authority during 2011/12 is included below:

Source Document	Recommendation	Management's response	Target Implementation Date
ISA 260 Report to those charged with governance, page 7.	In respect of the Local Authority Mortgage Scheme, we recommend that the Council keeps its accounting arrangements under review, as there is a risk that statute may change, or that the CIPFA IFRS Code of Practice may change, and that those changes may require the Council to adopt a different accounting treatment.	The substance of the transaction is to facilitate a greater amount of loan to a mortgagor than would otherwise be available. It would not be within an authority's powers to designate the payment as an investment. The Council's interpretation is that the payment is a loan / financial assistance towards expenditure which would, if incurred by the authority, be capital expenditure. If a local authority were granting a loan for house purchase, it would be treated as capital expenditure. If the statute or code of practice changed, then the Authority would revisit its approach as advised.	Ongoing
ISA 260 Report to those charged with governance, page 11.	That the Council continues to work towards improving performance management arrangements in Children's Services, and that this work ensures that improvements put in place are both robust and sustainable.	Agreed	On-going for the duration of the improvement Notice
ISA 260 Report to those charged with governance, page 11.	That the work the Council is doing to re-integrate Adult Social Care is maintained and that appropriate scrutiny continues to be applied to the performance (both financial and nonfinancial) of the service.	Agreed	On-going action with regular review at intervals throughout the year
rISA 260 Report to those charged with governance, page 11.	That arrangements are put in place to ensure risk management is appropriately embedded at a corporate level, so that the Corporate Management Team has the necessary information to manage 'corporate' risks.	As part of CMT activities, potential risks are considered and managed as inherent elements in the decision making process. However, CMT acknowledge that it is difficult to evidence how risk management is embedded, and this will be	Ongoing during the year, with evidence available for next review.

		developed further over the coming year.	
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Where we have made other recommendations during the year these have been reported to management.

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In March 2010 the Audit Commission issued a revised version of the 'Statement of Responsibilities of Auditors and of Audited Bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.

Other Matters

In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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