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# *Peterborough City Council*

*Annual Audit Letter*

2013/14

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Government and  
Public Sector

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

*In April 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.*

An audit is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

# Introduction

## The purpose of this letter

This letter summarises the results of our 2013/14 audit work for members of the Authority.

We have already reported the detailed findings from our audit work to the Audit Committee in the following reports:

- Audit plan for 2013/14;
- Audit opinion for the 2013/14 financial statements, incorporating our conclusion on the proper arrangements to secure economy, efficiency and effectiveness in the Authority's use of resources;
- Report to those charged with Governance (ISA (UK&I) 260); and
- Annual Certification Report (to those charged with governance) for 2012/13.

The matters reported here are the most significant for the Authority.

## 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.

We met our responsibilities as follows:

Audit Responsibility	Results
Perform an audit of the accounts in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).	We reported our findings to the Audit Committee on 22 September 2014 in our <i>Report to the Audit Committee of the Authority on the audit for the year ended 31 March 2014 (ISA (UK&amp;I) 260)</i> . On 24 September 2014, we issued an unqualified audit opinion.
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.	On 24 September 2014, we reported to the National Audit Office that the consolidation return was consistent with the audited statutory accounts.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 24 September 2014, we issued an unqualified value for money conclusion.

<b>Audit Responsibility</b>	<b>Results</b>	<b>Audit Responsibility</b>	<b>Results</b>
<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>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 24 September 2014.
<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.		
<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.		

# Audit Findings

## Accounts

We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit opinion on 24 September 2014.

We are pleased to report that the draft financial statements and supporting schedules for our audit continue to be produced to a good standard.

In accordance with Auditing Standards, the significant matters arising from our audit were reported within our Report to Those Charged with Governance (ISA (UK&I) 260). This report was presented to the Audit Committee on 22 September 2014. We wish to draw the following points, included in that report, to your attention in this letter:

Accounting for property plant and equipment:

1. Assets under construction; and
2. Review of assets in use.

## Accounting for property, plant and equipment

### 1. Assets under construction

In accordance with IAS 16, the Authority accounts for assets under construction (AUC) at historical cost. When the asset is brought into use, it is revalued at fair value and transferred into the appropriate class within property, plant and equipment (PP&E). It was identified that extensions to two schools included within the AUC balance as at 31 March 2013, were actually completed during 2012/13 and should have been transferred into land & buildings. Both schools, including their extensions, were revalued at 31 March 2013 by the Authority's external valuer. As such the extensions

were incorrectly included within AUC as well as land & buildings, resulting in an overstatement of the total PP&E balance at 31 March 2013 of £11.1m. Whilst the overall net book value of PP&E was £523.8m, this was over the overall materiality level we set and therefore a prior period adjustment was required to correct the 2012/13 balances. The Authority corrected the financial statements for these balances, reducing the PP&E balance as at 31 March 2013 by £11.1m, with a corresponding entry to unusable capital reserves.

### 2. Review of assets in use

At each year end, the Authority requires each service to confirm that all assets held by that service are still in use. As part of our audit procedures, we sought to place reliance on this control and we physically verified a sample of assets to confirm their existence. This year further emphasis was placed on the process by the Corporate finance team, as a result of the implementation of the Technology Forge fixed asset system, due to all the information now being held in one place. This resulted in a "cleansing" of the fixed asset register of assets which were no longer in use by the services. In turn this led to entries in the PP&E note within the financial statements to remove such assets which largely had net nil book values - disposals within the cost of vehicles, plant and equipment included in Note 18 to the accounts total £24.6m. However set against this is depreciation of £23.9m, therefore only £0.7m of net book value had been disposed of in the year.

Our testing identified some assets within Children's Services which had been stated as disposed of within the return made by the service to the Corporate team, however the assets were still in use. In addition, we identified some items which had

been capitalised by the Authority but were no longer the Authority's property, and should have been treated as revenue expenditure funded from capital under statute (REFCUS). These items were clearly trivial for adjustment.

*We include these issues within our Internal Controls section of this report on page 6, as although the amounts involved are clearly trivial for adjustment, we believe controls can be enhanced to further improve accounting for capital.*

### *Use of Resources*

We carried out sufficient, relevant work in line with the Audit Commission's guidance, so that we could conclude on whether the Authority had in place, for 2013/14, proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In line with Audit Commission requirements, our conclusion was based on two criteria:

- 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.

To reach our conclusion, we carried out a programme of work that was based on our risk assessment.

We issued an unqualified conclusion on the ability of the organisation to secure proper arrangements to secure economy, efficiency and effectiveness in its use of resources. However, we would like to bring the following matters to your attention:

- The recurring funding gap identified each year of the MTFS as presented to Cabinet on 5 March 2014 was as follows:

- 2014/15: nil
- 2015/16: £17.6m
- 2016/17: £4.6m
- 2017/18: £1.4m
- 2018/19: £2.5m

- The total savings required over the first five years of the MTFS are therefore £26.1m.
- Since March 2014, other financial pressures have emerged. As a result the forecast deficit for 2015/16 increased to £22m. Officers are working with Cabinet and the cross party Budget Working Group to develop proposals to deliver a balanced budget.
- We considered and discussed the emerging savings options with officers, in order to understand the current plans to address the funding gap. We noted that the plans are at various stages of development.
- We considered the Council's historic record in delivering savings; the monitoring and reporting arrangements in the place and the governance structure in place.

In undertaking this work, we did not identify any matters, in relation to the arrangements in place at the Council to secure financial resilience that would cause us to modify our Use of Resources conclusion. Clearly, however, the ongoing achievement of savings, together with the impact of future financial settlements should remain a key focus for the Council.

### *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.

### *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 24 September 2014. We found no areas of concern to report in this context.

### *Certification of Claims and Returns*

We presented our most recent Annual Certification Report for 2012/13 to those charged with governance in February 2014. We certified three claims worth £184 million. In all three cases a qualification letter was required to set out the issues arising from the certification of the claim, however only one of these claims was amended (by £2,821). These details were also set out in our *Annual Certification Report for 2012/13*. We will issue the *Annual Certification Report for 2013/14* in February 2015.

### *Other matters*

In our capacity as appointed auditors, we are also required to consider matters raised with us by local electors. We have been required to undertake additional work to consider two matters brought to our attention in relation to:

1. the proposed plans for the development of ground mounted solar photovoltaic panels (solar farms) and wind turbines; and
2. the use of grant monies.

We received no formal objections during 2013/14.

# Other matters reported to those charged with governance

These are the matters we consider to be **most significant** for the Authority and have been raised with those charged with governance. Other, less significant recommendations have been brought to the attention of the Executive Director Resources.

As part of our audit work in 2014/15, we will follow up the recommendations we have made and report the status of these in future reports.

Recommendation	Management Response	Target Implementation Date
<p><b>Property, plant and equipment</b>  <b>a. Assets under construction</b></p> <p>The Authority needs to ensure more rigorous monitoring of progress of AUC. We recommend closer liaison between the Corporate team who manage the fixed asset register and the service teams who should be aware of the progress of AUC within their area. A review of all AUC should be performed at year end to confirm whether they have been completed.</p>	<p>The problems arose in 2012/13 and 2013/14 within Children's services. The control weaknesses were identified by management and an additional post was created to support links to support the corporate functions of Adults, Childrens, and Communities directorates and oversee the schools capital programme. A new experienced capital accountant was recruited to this position in August 2014.</p>	<p>From August 2014</p>
<p><b>b. Instructions to external valuers</b></p> <p>We recommend that the Authority's procedures regarding instructing the external valuers are reviewed and re-issued to the relevant members of staff. This will ensure that appropriate instructions are given to the external valuer by only the Corporate team. The list of valuations returned should be checked back to the instructions to ensure a complete list of valuations has been received.</p>	<p>With the establishment of the new role overseeing the Schools capital programme new procedures will be implemented to ensure that any valuation instructions are only issued to the Council's valuers by the service capital accountants or the Corporate Capital team.</p> <p>A new year end procedure will be established with the Corporate Capital team to verify that each valuation received and entered to the Asset Register is one that has been correctly requested.</p>	<p>From September 2014</p>

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Recommendation	Management Response	Target Implementation Date
<p><b>c. Appropriate treatment of assets as REFCUS (revenue expenditure funded from capital under statute)</b></p> <p>The Authority should consider the nature of assets capitalised and ensure treatment as REFCUS as appropriate.</p>	<p>The implementation in 2012/13 of an Asset Register database, Technology Forge (TF) enables additional data to be held for each asset. Additional data will be requested from the service teams to ensure that the Corporate Capital team have sufficient data to evaluate each asset for capitalisation or treated as REFCUS.</p>	<p>From September 2014</p>
<p><b>Access to datafiles and super user access to applications</b></p> <p>Access to data files should be restricted to non-operational personnel ie. segregation of duties should be maintained between data base access and application access.</p>	<p>The FSS team currently have the ability to carry out system wide set up changes to the look, feel and configuration of the finance system including the tasks listed below:</p> <ul style="list-style-type: none"> <li>• User access</li> <li>• User access levels and limitations</li> <li>• Approval hierarchies</li> <li>• Transactional processing formats and fields</li> <li>• System security and controls</li> <li>• System tolerances</li> <li>• Configuration changes</li> </ul> <p>This access is restricted to a system administration and super-user level of access so that control can be provided over these changes. Any changes are only made when the required audit trail and necessary approval is received.</p>	<p>n/a</p>

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# *Final Fees*

## *Final Fees for 2013/14*

We reported our fee proposals in our audit plan.

We have undertaken additional work this year as a result of accounting issues identified during the course of our audit and targeted work on the use of resources. Our fees will therefore be in excess of the scale fee and we are currently in the process of agreeing the final amount with the Authority and the Audit Commission. We will report the final position in due course.

Our fee for certification of claims and returns is yet to be finalised for 2013/14 and will be reported to those charged with governance in February 2015 within the 2013/14 Annual Certification Report.



In the event that, pursuant to a request which Peterborough City Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Peterborough City Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Peterborough City Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Peterborough City Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This document has been prepared only for Peterborough City Council and solely for the purpose and on the terms agreed through our contract with the Audit Commission. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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