AUDIT COMMITTEE	AGENDA ITEM No. 4
21 SEPTEMBER 2015	PUBLIC REPORT

Cabinet Member(s) responsible:	Resources portfolio holder, Cllr Seaton	
Contact Officer(s):	John Harrison, Corporate Director: Resources Steven Pilsworth, Service Director Financial Services	☎ 452520 ☎ 384564

2014/15 REPORT TO THOSE CHARGED WITH GOVERNANCE AND STATEMENT OF ACCOUNTS

R E C O M M E N D A T I O N S	
FROM : John Harrison, Corporate Director Resources	**Deadline date :** 21 September 2015
The Audit Committee is asked to:- 1. Receive and approve the "Report to those charged with governance (ISA260) 2014/15 Audit" from PricewaterhouseCoopers (PwC), the Council's external auditors. 2. Receive and approve the audited Statement of Accounts 2014/15.	

1. ORIGIN OF REPORT

1.1 This report is submitted to Audit Committee following a referral from the s151 Finance Officer.

2. PURPOSE AND REASON FOR REPORT

2.1 The purpose of this report is for Audit Committee to:

- Receive and note the "Report to those charged with governance (ISA260) 2014/15 Audit" from PwC on behalf of the Council.
- To receive and approve the audited Statement of Accounts.

2.2 This report is for Audit Committee to consider under its Terms of Reference No. 2.2.18 to review the annual statement of accounts, specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council and 2.2.19 to consider the external audit report to those charged with governance on issues arising from the audit of accounts.

3. TIMESCALE

Is this a Major Policy Item/Statutory Plan?	**NO**	If Yes, date for relevant Cabinet Meeting	N/A

4. MAIN BODY OF REPORT: 2014/15 REPORT TO THOSE CHARGED WITH GOVERNANCE AND STATEMENT OF ACCOUNTS

2014/15 Report to Those Charged with Governance

4.1 The External auditors have a statutory requirement to report to members under the Audit Commission's Code of Audit Practice and International Standard of Auditing (UK and Ireland) (ISA(UK&I) 260 – "Communication of audit matters with those charged with governance". The report is known as the ISA260.

4.2 The ISA260 report for 2014/15 from PricewaterhouseCoopers (PwC), our External Auditors is attached at Appendix 1.

4.3 With the implementation of International Reporting Standards (IFRS) during 2010/11 the audit approach taken by the auditors has been amended and requires the auditors to undertake additional audit procedures on areas of the accounts where the Council uses experts in order to derive estimated values. For the Council the significant areas of the accounts this affects are asset valuations, such as property, land and investments, and with pension fund accounting treatment.

4.4 There are a number of sections within the ISA260 report as follows:

a) **Executive summary** – describes the purpose of the report and gives a summary of the Audit.

b) **Audit approach** – notes three significant risks that are common in all audits undertaken, fraud and management override of controls, recognition of income and expenditure and valuation of property, plant and equipment. There was also one elevated risk as a result of changes in the accounting guidance for schools' non-current assets. PwC found no issues to report to the Audit Committee. They discuss some key areas of judgement related to these risks later in the report.

c) **Significant audit and accounting matters** – this section forms the main content of the report, and consists of a number of subsections, a number of these are summarised below:

- Accounts – PwC have been able to complete the majority of the audit with eight items outstanding at the time the report is written. Two of those items relate to areas of work the audit team are required to complete, these are review of the Cash Flow Statement and review of the detailed disclosures in the revised Statement of Accounts. One item relates to two approvals required at this meeting and another is completed after Audit Committee. The remaining items relate to information awaited to confirm testing undertaken, largely from external bodies, and are outstanding due to the timing of writing the report. PwC will provide an update on these at the meeting.
- Accounting Issues – Four areas are highlighted (considered in greater detail in 4.5 of this report):
    - Valuation of the Authority's Property Plant and Equipment (PPE)
    - Lack of reconciliation of gross internal area (GIA) documentation.
    - Accounting for schools' non-current assets
    - Pension liability on the Authority balance sheet
- Misstatements and significant audit adjustments – There were no misstatements to report.
- Economy, efficiency and effectiveness – work has not yet been completed by PwC on this, however the report notes that an unqualified value for money conclusion is anticipated to be issued.

d) **Internal Controls** – there were two internal control deficiencies found during the audit, which PwC believe should be brought to your attention, one of which relate to the lack of reconciliation of Gross Internal Area (GIA) documentation and the other relates to access to data files and super user access to applications. Neither of these were deemed significant. Further details of these are given in section 4.6 of this report.

e) **Risk of Fraud** – PwC are seeking members' confirmation that there have been no changes to their view of fraud risk and no additional matters have arisen that should be brought to their attention.

f) **Fees update** – as anticipated in the Audit Plan, additional work has been undertaken to address additional areas of risk facing all local authorities, which has led to increased fees.

g) **Appendix** – a copy of the letter of representation for the Councils S151 officer to sign (Appendix 2 to this report).

4.5 The following table provides further detail on the Accounting Issues raised in the PwC report, and associated comments from the Council:

PwC Report	**Management Comment**
1. Valuation of the Authority's Property Plant and equipment (PPE). The Authority engaged its property valuer, Wilks Head & Eve LLP ("WHE"), in 2014/15 to perform a valuation exercise for 20% of the Authority's PPE and to assess the unvalued 80% of the Authority's PPE and whether a material movement had occurred. WHE also valued the Authority's Investment Properties. Our valuation experts have reviewed the assumptions and methodologies used by the Authority's external valuation expert. We draw your attention to one matter in relation to these assumptions, which is one we have raised in previous ISA 260 reports - the external valuer has used an approach of apportioning land values as a percentage of building costs in their valuation. However, PwC valuers would adopt an approach that derived the land values by using a land value per acre based on market comparables. As in previous years, this matter regarding the assumptions has been reviewed and considered by Management who are comfortable that the assumptions and methodology adopted by the external valuer do not materially misstate the financial statements. We have compared the land valuations provided by WHE against a range of expected market values for the local area provided by our PwC valuers. We are satisfied that the land valuations are within this range.	The Code requires the Council's S151 Officer to ensure that adequate valuations are provided to support the Council's financial statements in relation to PPE and investment properties. To comply with this the Council, through the use of its partners Serco, commission external valuers to value the Council's properties on a rolling four year programme. The Council uses the valuers Wilks Head and Eve (WHE), who are a national and professionally qualified Royal Institution of Chartered Surveyors (RICS) firm. PwC obtain valuation advice from their internal valuers on the suitability of the valuation approaches used by WHE. This issue has been raised in previous years, and is recognised as professional differences of opinion between valuers. Management is pleased to note that PwC are not minded to challenge the valuations recorded in the accounts.
2. Lack of reconciliation of Gross Internal Area (GIA) documentation The Authority's property valuer, Wilks Head & Eve LLP("WHE"), prepare their valuation of certain properties based on the gross internal area (GIA) of that property. This information is provided to WHE by the Authority and therefore any errors in this could impact the valuation and ultimately the amounts included in the Balance Sheet. In testing the GIAs on the valuation certificates back to supporting documentation (e.g. information on the Authority's asset register, floor plans and lease	Management are pleased to note the conclusion that the amounts on the valuation certificates are appropriate. It is accepted that there are discrepancies in the GIA information and steps will be taken to address this through reviewing working practices and by including a review of any large differences in the GIA recorded on the valuation certificate and the information held by the Authority as part of the Asset Register year-end checklist.

PwC Report	Management Comment
documentation), we noted large differences which could not be easily explained by officers, in for 4 out of 6 properties tested. Investigation into these difference has identified the differences are due to: Floor plans being out of date; The Authority owning only part of the asset; and Finance lease agreements being in place for part of the asset. Where WHE have updated the GIA based on a remeasurement of the site, this information has not been updated in the Authority's asset register. In relation to outdated floor plans, WHE identified this during their valuation work, re-measured the sites and used the revised measurement within their valuation. In relation to the remaining bullet points, we noted that the Council's fixed asset system only identified the size of the whole asset and did not take into account floor sizes of partly owned assets or leased assets. These matters had however, been taken into account, by WHE in their valuations. Our work in this area has concluded that the amounts on the valuation certificates are appropriate and therefore no adjustments have been made to the accounts as a result of this matter. However, we have included this matter within our Internal Controls section [page 21 of PwCs report], as we believe it represents a control weakness within the accounting for capital as GIA information should be current and accurate.	
3. Accounting for schools' non-current assets In accordance with the Code of Practice on Local Authority Accounting 2014-15 ('the Code') and LAAP Bulletin 101 CiPFA's Local Authority Accounting Panel (LAAP) bulletin 101, the Authority has reviewed its treatment on accounting for schools' non-current assets. In summary terms, the guidance requires schools' noncurrent assets to be included on the Authority's Balance Sheet if they are controlled by the Authority as a result of past events and from which future economic benefits or service potential are expected to flow to the Authority. Control over the asset must be based on rights that are either legal or substantive. The Authority's assessment of the accounting treatment concluded that for:	We engaged with PwC at an early stage to discuss the updated guidance and outlined our proposed treatment at the interim audit stage. Work is ongoing within legal to ensure the title deeds for the land of the 5 schools in question are updated to reflect the statutory transfer to the Diocese required by the School Standards and Framework Act. As we are in the process of transferring ownership of these assets, and are obliged to treat the assets as if ownership had already transferred, we did not feel that bringing these assets onto our balance sheet would present the users of the accounts with a true and fair view of the council's position for the year ended 31 March 2015. We are pleased that PwC find our judgements acceptable and are fully disclosed within note

PwC Report	Management Comment
• Foundation schools – control is with the school. However, as these schools are local authority maintained and therefore consolidated into the Authority's financial statements, these school's noncurrent assets have also been brought on to the Authority's Balance Sheet. The Authority has undertaken a prior period adjustment to recognise these assets. We have reviewed the prior period adjustments made and are pleased to report that we have no matters which we wish to bring to the attention of the Committee. • Voluntary aided / voluntary controlled schools – control is with the governing body and not the Authority. Therefore these assets have not been included on the Balance Sheet and no adjustments have been made to the accounts as a result. During our review and testing of the Authority's assessment of its accounting treatment for voluntary aided/voluntary controlled schools non-current assets, we identified that: • For one school, no title documents could be located to confirm the legal owners of the assets and assess the legal rights over the asset; and • For 4 voluntary aided/voluntary controlled schools, title deeds confirmed that the Authority, and not the governing body, is legal owner of the assets. We have reviewed the judgements made by the Authority within its assessment and challenged the assumptions made on these 5 schools, which have a net book value as at 31 March 2015 of £9.5m. It is the Authority's view that legal ownership should reside with, and is in the process of transferring to, the governing bodies of the schools, who have substantive control over these assets. Therefore, the Authority does not have control over the assets and has not included these assets in the balance sheet. We have reviewed supporting evidence, including relevant legislation, provided by the Authority's legal team and requested full disclosure of this matter within the Statement of Accounts 2014/15. We are satisfied that this disclosure has been made within note 43 "Critical Judgement in Applying Accounting Policies". Furthermore, we require representation that the Authority considers its judgements in	43 "Critical Judgement in Applying Accounting Policies". Legal are engaging with the Diocese to resolve this so that this accounting issue does not come up again.

PwC Report	Management Comment
relation to voluntary aided / voluntary controlled schools is reasonable and appropriate to give a true and fair view for the Authority's particular circumstances. Through of review of the evidence and in consultation with our accounting technical team we have concluded that the judgements made are acceptable.	
4 Estimation of the pension liability The most significant estimate in the Statement of Accounts is in the valuation of net pension liabilities for employees in the Cambridgeshire County Council pension fund. The Authority's net pension liability at 31 March 2015 was £279 million (2014 - £224.3 million). This increase in liabilities was mainly due to actuarial losses incurred of £75.3m, (the majority of which resulted from changes in financial assumptions made by the actuary) which was offset by the return on plan assets during the year of £23.7m. We reviewed the reasonableness of the assumptions underlying the pension liability, and we are comfortable that the assumptions are within an acceptable range. We audited the data supplied to the actuary on which to base their calculations and we have placed reliance on the work undertaken by the auditors of the Cambridgeshire County Council Pension Fund in relation to the pension assets within the scheme. We have identified no significant matters from our work in this area.	The Council uses figures, provided by the Cambridgeshire County Council (CCC) Pension Fund appointed actuary, to derive the accounting entries use in the Council's statement of accounts. Due to the timing involved with producing the statement of accounts, the actuary uses a number of estimates in its production of the report that is used by the Council. This is a standard and common approach across all Councils. As part of the audit process PwC obtain evidence from the actuary to review the basis of the actuary calculations.

4.6 The following table provides further detail on the Internal Control Deficiencies raised in the PwC report, and associated comments from the Council:

PwC Report recommendation	Management Comment
1. Lack of reconciliation of Gross Internal Area (GIA) documentation We recommend that the Authority liaise with WHE to improve the quality of GIA information stored on its fixed asset system in relation to its properties. This information should be fully reconciled and up-to-date. In addition, the Authority should understand the reasons for and consider the appropriateness of any large differences in the GIA recorded on the valuation certificate and the information held by the Authority.	Strategic Property will review and update working practices to implement this recommendation. The Asset Register year end checklist will be updated to include review of any large differences in the GIA recorded on the valuation certificate and the information held by the Authority.
2. Access to datafiles and super user access to applications Access to data files should be restricted to	This recommendation will require review when we move to the new finance system (Agresso) with its inherently different Controls.

PwC Report recommendation	Management Comment
non-operational personnel ie segregation of duties should be maintained between data base access and application access.	The Financial System Services 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: - User access User access levels and limitations Approval hierarchies Transactional processing formats and fields System security and controls System tolerances Configuration changes 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.

Management Representation Letter

4.7 The Corporate Director: Resources, as Chief Finance Officer, is required to make representations on behalf of the Council in a number of areas in relation to the preparation of the Statement of Accounts. The letter is attached at Appendix 2 for review by Audit Committee.

Statement of Accounts 2014/15

4.8 The production of a timely Statement of Accounts, which is free from material error, is a key test of the robustness of financial processes and underpins the financial standing of an organisation. The Council has achieved this through the presentation of the Statement of Accounts in both June and September to Audit Committee, and also through the completion of a successful external audit process.

4.9 The draft Statement of Accounts was considered by Audit Committee on 29 June 2015 and has subsequently been the subject of external audit by PwC.

4.10 Following the external audit non-material amendments have been made to the draft Statement of Accounts (presented to Committee in June) the most significant of these related to the disposal of assets of schools converting to Academy status.

4.11 The updated Statement of Accounts for 2014/15 is attached at Appendix 3 for formal approval by the Audit Committee.

4.12 PwC are still reviewing the Statement of Accounts, if there are any updates to the version distributed with the agenda, then the revised Statement of Accounts and a schedule of updates will be tabled at the meeting.

5. CONSULTATION

5.1 Between 17th July 2015 and 14th August 2015, the Council's accounts have been subject to a statutory period of public inspection, where any person may inspect and take copies of the accounts and certain related documents. From the 24th August 2015, Peterborough City Council electors have been able to ask the external auditor questions on the accounts, and from this time, until the conclusion of the audit process are able to object to the accounts. At the time of writing this report, none of these rights have been exercised.

5.2 A clearance meeting was held 27 August 2015 where PwC outlined their key findings to the Corporate Director: Resources, as part of his role as the Council's S151 Officer. The PwC report was discussed with the Council's finance team during the period 7 to 11 September 2015.

6. ANTICIPATED OUTCOMES

6.1 To receive and note the "Report to those charged with governance (ISA260) 2014/15 Audit" from PwC on behalf of the Council

6.2 To receive and approve the audited Statement of Accounts

7. REASONS FOR RECOMMENDATIONS

7.1 Paragraph 2.2.18 of the Constitution requires the Audit Committee to "review the annual statement of accounts, specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council."

7.2 It is a statutory requirement under the Accounts and Audit (England) Regulations 2011.

8. ALTERNATIVE OPTIONS CONSIDERED

The Statement of Accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom in compliance with the Accounts and Audit (England) Regulations 2011. The only alternative option would be non-compliance with statute which is rejected.

9. IMPLICATIONS

There are no legal or financial implications of this report.

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

Council Constitution

11. APPENDICES

- Appendix 1 – ISA260
- Appendix 2 – Management representation letter
- Appendix 3 – Statement of Accounts 2014/15