

Peterborough City Council

2009/10 Report to those charged with governance

September 2010 - DRAFT

The Audit Committee
Peterborough City Council
Town Hall
Bridge Street
Peterborough
PE1 1HQ

September 2010

Ladies and Gentlemen

2009/10 Report to those charged with governance

We are pleased to present our report on the results of our audit work for 2009/10. We hope that the information contained in this report provides a useful source of reference for members.

Yours faithfully

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

The 'Statement of responsibilities of auditors and of audited bodies' issued by the Audit Commission in April 2008 applies to our 2009/10 audit of Peterborough City Council under the Code of Audit Practice for Local Government Bodies issued by the Audit Commission in July 2008. A copy of the statement is available from the Chief Executive of Peterborough City Council. 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 expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement and the Code of Audit Practice. 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.

Executive Summary

The purpose of this report

This report summarises the results of our 2009/10 audit. It sets out:

- matters arising from our audit of the financial statements which we are required to report to you under the Audit Commission's Code of Audit Practice and International Standard on Auditing (UK & Ireland) 260 - "Communication of audit matters with those charged with governance";
- the results of our work under the Code of Audit Practice, to support the Value for Money conclusion; and
- an audit fee update.

Our work during the year was performed in line with the plan that we presented to you in February 2010. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement. A list of these reports is included at Appendix A to this letter.

We have set out below the most important issues and recommendations that we have discussed with you in the course of our work.

Financial Statements

The Council has established a good track record of preparing quality draft accounts and working papers and we were pleased again with their quality this year. This ensured that the audit process itself was efficient. At the time of preparing this report there are a small number of areas of audit work to be completed, but subject to those and your adoption of the accounts in due course, our intention would be to issue an unqualified opinion on the 2009/10 accounts.

Arising from this work there are a number of matters that we wish to bring to your attention. These matters are set out in more detail in the section of the report titled "Financial Statements".

The most significant matters to bring to your attention concerns adjustments made in respect of the Council's Schools PFI scheme. These are technical accounting adjustments and there is no impact on the General Fund Balance.

Financial Standing

No issues in relation to financial standing arose from the 2009/10 audit.

Use of Resources

At the end of May 2010, the Audit Commission wrote to all chief executives to inform them that, following the government's announcement, work on Comprehensive Area Assessment (CAA) would cease with immediate effect and that the Commission would not be issuing new scores for the use of resources assessments.

We are still required however by the Code of Audit Practice to issue a value for money conclusion, and we have used the results of the work completed on the use of resources assessment up to the end of May to inform the 2009/10 conclusion. Although we are not able to report scored judgements, the significant findings from our 2009/10 use of resources work are reported (pages 8 and 9).

Role of the Audit Committee

In light of the findings contained within this report, we ask the Audit Committee to:

- review the findings in considering its approval of the updated Statement of Accounts;

- consider the draft management representation letter (Appendix B) and confirm you are comfortable with the representations proposed, including those in respect of unadjusted misstatements.

Financial statements

Accounts

We have substantially completed the audit of the Authority's accounts in line with the Code of Audit Practice and International Standards on Auditing (UK & Ireland).

The main outstanding matters are:

- final checks on the updated accounts
- approval of the accounts by the Authority
- receipt of your letter of representation to us.

The draft management representation letter is attached for your consideration in Appendix B.

We anticipate issuing an unqualified audit opinion on the financial statements.

Accounting Issues

A number of accounting issues were identified and addressed during the audit. The most significant of these issues are set out below:

I) Accounting for PFI schemes

In 2009/10, the Local Government Statement of Recommended Practice requires Local Authorities to account for PFI schemes under "IFRIC 12: Service Concessions". The effect of this change is to bring PFI schemes "on balance sheet" as a finance lease. This is a very complex area of technical accounting. The Council elected not to use consultants and prepared good working papers to effect the conversion to IFRIC 12.

However, an amount of £9.0m that the Council paid to the PFI contractor as up-front contributions in 2006 and 2007 was not treated appropriately in the draft Statement of Accounts. The amount was included within tangible fixed assets and the finance lease creditor; it should not have been included within either balance. This single error effects both the current year and the prior year comparatives.

Reductions of £8.1m and £7.6m have been made to the balance of finance lease liabilities at 31 March 2009 and 31 March 2010 respectively. Reductions of £8.6m and £8.3m have also been made to the net book value of tangible fixed assets at 31 March 2009 and 31 March 2010 respectively. Other adjustments have been made to the 2009/10 and prior year Income and Expenditure Account.

There is no impact on the General Fund Balance reported in the draft Statement of Accounts.

II) Cash balances

We noted that a balance of £204,000 included within cash related to cash collected by Cross Keys Homes, but recorded on the Council's Spectrum cash collection system. The Council included a corresponding credit balance in the draft accounts. As this cash is not an asset of the Council, the final draft of the accounts has been adjusted to remove both the cash balance and the corresponding credit.

This is a balance sheet adjustment only; there is no impact on the General Fund Balance reported in the draft Statement of Accounts.

International Standards on Auditing require us to report to you all unadjusted misstatements, which we have identified during the course of our audit, other than those of a clearly trivial nature. We regard misstatements less than £10,000 as clearly trivial. The unadjusted misstatements are set out in Appendix C to this report.

Systems of internal control

We are required to report to you any material weaknesses in the accounting and internal control systems identified during the audit. We have not identified any material weaknesses in control, but have discussed some other issues with the Executive Director of Strategic Resources and Head of Strategic Finance. These matters will be formally documented in our report to management to be presented to the Audit Committee in November 2010.

Accounting practices

We are also required to report to you our view on qualitative aspects of the Authority's accounting practices and financial reporting. The financial statements were prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009 (the SORP).

Value for Money in the Use of Resources

Work performed

We have performed work to conclude on the Authority's arrangements for achieving economy, efficiency and effectiveness in its use of resources.

Our work to support our Value for Money conclusion comprised the following elements:

- Work performed on the key lines of enquiry (KLoEs) specified by the Audit Commission as underpinning the Value for Money conclusion. This includes Use of Resources assessment work undertaken to the end of May.
- Review of the Annual Governance Statement.

Value for Money Conclusion

At the end of May 2010, the Audit Commission wrote to all Chief Executives to inform them that, following the government's announcement, work on the Comprehensive Area Assessment (CAA) would cease with immediate effect and that the Commission would not be issuing new scores for the use of resources assessments.

However, we are still required by the Code of Audit Practice to provide a conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our work to support our Value for Money conclusion is based on the adequacy of the Council's arrangements to meet criteria issued by the Audit Commission. These are listed in Appendix C. Our work to support our conclusion also included the work performed on the Use of Resources assessment work undertaken to the end of May 2010.

Based on our work we intend to issue an unqualified value for money conclusion.

Use of resources

Following the government's announcement that CAA was to be abolished, all work on Use of Resources for CAA also ceased at the end of May. We are not able to report scored judgements from the work we have performed on the Use of Resources assessment as this work was not completed. However, we had completed the majority of the work on the assessment prior to May and the significant findings from our 2009/10 use of resources work are reported below.

Areas of good practice

- The Council's "Green Shoots" programme, which aims to involve prospective partners, both in and outside of Peterborough, to take action to collaborate in order to reduce costs, is innovative, but at the time of our work the programme was in its initial phase and outcomes were yet to be achieved.
- Significant improvements in financial management at the Council enabled it to act quickly in response to the credit crunch, although new challenges have arisen in the light of Government austerity measures.
- The establishment of the Qlikview budgetary control system in 2009/10 has improved the timeliness and quality of monthly budgetary control; figures are available for budget managers to analyse within one working day of the month end.
- On the third theme of "Managing Resources" we undertook more detailed work on strategic asset management and workforce planning. This was the first time workforce planning was included in the criteria. The arrangements were assessed as good.
- Continued improvements in procurement were reflected by the Council winning the Local Government Chronicle Procurement Award for its Demand Management Programme.

- In 2009/10 the Council established a Member / Officer working group (the Strategic Governance Board) to further review and embed policies, procedures and regulations across the Council.
- Standards Committee members made presentations to the "Neighbourhood Councils" to embed good governance in those bodies. Scrutiny Committees are hosting "Big Debates" to engage the public on issues that concern them.

Areas for improvement

- The Council must ensure that the data supporting performance indicators is robust and supported by audit trails. We noted that an issue that arose in Children's Services regarding a backlog of referrals was addressed promptly by management.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: 'Delivering Good Governance in Local Government'. The AGS was included in the financial statements.

CIPFA recently issued a statement on The Role of the Chief Financial Officer in Local Government 2010¹, which makes recommendations about:

- the Chief Finance Officer's position in an authority's leadership,
- their involvement in and ability to influence key business decisions
- their responsibility for promotion of good financial management,
- their role in leading and directing a finance function which is resourced to be fit for purpose, and
- the qualifications and experience required of a Chief Finance Officer.

The recommendations of the statement are expected to be consolidated into the CIPFA/Solace Framework "Delivering Good Governance in Local Government" over the next year. In the meantime, CIPFA has recommended a voluntary "comply or explain" approach in the 2009/10 AGS. This means the AGS is expected to include either:

- a confirmation that the authority's financial management arrangements conform to the CIPFA Statement, or
- an explanation of why they do not and how the authority delivers the same impact.

The Authority has included this in the AGS. As auditors, we are not required to report on this aspect of the AGS for 2009/10.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE 'Delivering Good Governance in Local Government' framework and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

¹ http://www.cipfa.org.uk/pt/download/role_of_CFO_in_LG_2010_WR.pdf

Audit plans and fee update

Audit Plan

We issued our Audit Plan for 2009/10 and presented it to Members in February 2010.

Other than curtailment of CAA Use of Resources work in May 2010, the plan has not been changed in any significant respect.

In this report we comment only on those areas where we believe we need to communicate with those charged with governance.

Audit fees update for 2009/10

We reported our audit fee proposals in the fee letters issued in April 2009

We varied our fees because no performance studies were undertaken. These were included in the original fee at £15,000.

Our fees charged were:

	2009/10 Outturn	2009/10 Fee proposal
Financial Statements	£172,000	£172,000
Use of Resources/ VFM conclusion (including data quality)	£81,000	£96,000
Whole of government accounts	£3,000	£3,000
Total audit fee	£256,000	£271,000
Elector's Questions and consideration of other matters brought to our attention	£9,800	-
Total fee	£265,800	£271,000
Certification of claims and returns	£50,000	£50,000

The quoted fee for grant certification work is an estimate only, as the work for 09/10 is ongoing and will be charged at published daily rates.

Appendix A: Audit reports issued in relation to the 2009/10 audit year

Report title	Date issued/to be issued
Auditor Use of Resources Assessment to inform the Audit Commission CPA process	October 2009
Audit plan	January 2010
Report on 2009/10 financial statements to those charged with governance (ISA 260)	September 2010
Report to management on the Statement of Accounts audit	November 2010
Annual Audit Letter	November 2010
Grants Report to Management in relation to 2009/10 grants	January 2011

Appendix B: Draft management representation letter

(Peterborough City Council letterhead)

September 2010

To PricewaterhouseCoopers LLP

80 Strand,

London,

WC2R 0AF

This representation letter is provided in connection with your audit of the financial statements of Peterborough City Council for the year ended 31 March 2010.

Your audit is conducted for the purpose of expressing an opinion as to whether the financial statements of the authority give a true and fair view of the state of affairs of the Authority as at 31 March 2010, of its income and expenditure and cash flows for the year then ended, and have been properly prepared in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009.

My responsibilities as Chief Financial Officer for preparing the financial statements are set out in the Statement of Responsibilities for the Statement of Accounts. I am also responsible for the administration of the financial affairs of the authority. I also acknowledge that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of Peterborough City Council with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation, to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief and having made the appropriate enquiries, the following representations.

Accounting records

I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you (the authority's auditors) are aware of that information, including that:

- All the accounting records, whether for the purposes of financial reporting or any other purpose, have been made available to you for the purposes of your audit and all the transactions undertaken by the authority have been properly reflected and recorded in the accounting records.
- All other records and related information which might affect the fair presentation of, or necessary disclosure in, the financial statements, including minutes of the Council and relevant management meetings, have been made available to you and no such information has been withheld.

So far as I am aware, there is no relevant audit information of which you are unaware.

Accounting policies

I confirm that I have reviewed the Authority's accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the accounting policies and estimation techniques selected for use in the preparation of the financial statements are the most appropriate to give a true and fair view for the authority's particular circumstances, as required by the Code of Practice on Local Authority Accounting in the United Kingdom 2009.

Related party transactions

I confirm that the Authority has disclosed all related party transactions relevant to the Authority and that I am not aware of any other such matters required to be disclosed in the financial statements under the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2009.

Employee benefits

I confirm that the Authority has made you aware of all employee benefit schemes in which employees of the Authority participate.

Contractual arrangements/agreements

All contractual arrangements (including side-letters to agreements) entered into by the Authority with third parties have been properly reflected in the accounting records or, where material (or potentially material) to the financial statements, have been disclosed to you.

Laws and regulations

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Authority conducts its business and which are central to the Authority's ability to conduct its business or that could have a material effect on the financial statements.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the financial statements.

Fraud

I acknowledge responsibility for the design and implementation of internal control to prevent and detect fraud.

I have disclosed to you:

- i) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud
- ii) my knowledge of any allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by members, employees, former employees, analysts, regulators or others.
- iii) my knowledge of fraud or suspected fraud affecting the Authority involving:
 - members
 - management

- employees who have significant roles in internal control, or
- others where the fraud could have a material effect on the financial statements.

Misstatements detected during the audit

I acknowledge my responsibility for the design and implementation of internal control to prevent and detect error.

I confirm that the financial statements are free from material misstatement, including omissions.

I confirm that the reasons why the misstatements that you have brought to the attention of the Audit Committee in your ISA 260 Report have not been adjusted in the financial statements are as follows:

Those charged with governance believe their effect both individually and in aggregate is not material to the financial statements either taken as a whole or in connection with the ability properly to assess the performance and/or the financial position of Peterborough City Council.

Taxation

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken the authority's benefit or any other party's benefit.
- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the Authority or any associated company for whose taxation liabilities the authority may be responsible.

Impairments

The assumptions used to estimate the realisable value of the investments held with the Heritable Bank and Kaupthing Singer & Friedlander in my view would lead to the best estimate of the future cashflows that will arise under them.

Litigation

I am not aware of any pending or threatened litigation, proceedings, hearing or claims negotiations which may result in significant loss to authority except as follows/other than the matters listed in the memorandum supplied to you by the Monitoring Officer.

Subsequent events

Other than as described in the financial statements, there have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the financial statements or in the notes thereto.

As minuted by the Audit Committee at its meeting on 27 September 2010

.....
(Chief Financial Officer)

.....
Date

For and on behalf of Peterborough City Council

Appendix C: Summary of unadjusted misstatements and material adjusted misstatements

We have identified the following errors during our audit of the financial statements that have not been adjusted by management. The Audit Committee are requested formally to consider the listed unadjusted errors and determine whether the accounts should be amended. If the errors are not adjusted we will require a written representation from you explaining your reasons for not making the adjustments.

Unadjusted Misstatement	Income & Expenditure Account		Balance Sheet	
	Dr	Cr	Dr	Cr
Clearance of duplicate cheque		Income and Expenditure Account - £30,000	Creditors - £30,000	
Cash account balance incorrectly included within manual debtors			Cash - £15,000	Debtors - £15,000
Net effect		£30,000	£45,000	£15,000

We also identified the following material misstatement during our audit which management have corrected, but which we consider should be communicated to you to assist you in fulfilling your governance responsibilities. This adjustment relates to the restatement of the PFI scheme described on Page 6:

Adjusted Misstatement	Income & Expenditure Account		Balance Sheet	
	Dr	Cr	Dr	Cr
Adjustment of 31 March 2009 balances in relation to PFI scheme to account for up-front contribution appropriately	Income and Expenditure Account - £95,000	Statement of Movement on the General Fund Balance - £95,000	Finance Lease Liabilities - £8,026,000 Capital Adjustment Account - £544,000	Tangible Fixed Assets - £8,568,000
Net effect	£95,000	£95,000	£8,568,000	£8,568,000
Adjustment of 31 March 2010 balances in relation to PFI scheme to account for up-front contribution appropriately	Income and Expenditure Account - £81,000	Statement of Movement on the General Fund Balance - £81,000	Finance Lease Liabilities - £7,648,000 Capital Adjustment Account - £624,000	Tangible Fixed Assets - £8,272,000
Net effect on 2009/10 accounts	£81,000	£81,000	£8,272,000	£8,272,000

Appendix D: Value for Money conclusion criteria

The Audit Commission publishes Code of Practice criteria on which auditors are required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its use of resources. The criteria are linked to Key Lines of Enquiry (KLoEs). The Commission specifies which KLoEs will form the 'relevant criteria' for the VFM conclusion for each type of body each year. The table below shows the KLoEs specified for the conclusion in 2009/10 and 2008/09.

Managing Finances

Key Lines of Enquiry		Specified in 2009/10	Specified in 2008/09
1.1	Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	✓	✓
1.2	Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	✓	✓
1.3	Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	✓	✓

Governing the Business

Key Lines of Enquiry		Specified in 2009/10	Specified in 2008/09
2.1	Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	✓	✓
2.2	Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	✓	✓
2.3	Does the organisation promote and demonstrate the principles and values of good governance?	✓	✓
2.4	Does the organisation manage its risks and maintain a sound system of internal control?	✓	✓

Managing Resources

Key Lines of Enquiry		Specified in 2009/10	Specified in 2008/09
3.1	Is the organisation making effective use of natural resources?	x	✓
3.2	Does the organisation manage its assets effectively to help deliver its strategic priorities and service needs?	✓	✓
3.3	Does the organisation plan, organise and develop its workforce effectively to support the achievement of its strategic priorities?	✓	x

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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