
***Report to those charged
with governance
(ISA 260 (UK&I))
2010/11 Audit***

**Government and
Public Sector**

***Peterborough City
Council***

September 2011



Audit Committee
Peterborough City Council
Town Hall
Bridge Street
PETERBOROUGH
PE1 1HG

September 2011

Dear Sirs

We are pleased to enclose our report to the Audit Committee in respect of our audit of Peterborough City Council (“the Authority”) for the year ended 31 March 2011, the primary purpose of which is to communicate the significant findings arising from our audit.

The scope and proposed focus of our audit work was summarised in our audit plan, which we presented to the Audit Committee in March 2011. We have subsequently reviewed our audit plan and concluded that our original risk assessment remains appropriate.

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the financial statements on 27 September 2011.

We look forward to discussing our report with you on 26th September 2011. Attending the meeting from PwC will be Julian Rickett and Chris Hughes.

Yours faithfully

PricewaterhouseCoopers LLP

*PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT
T: +44 (0) 20 7583 5000, F: +44 (0) 20 7212 7500, www.pwc.co.uk*

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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.

Executive summary

The purpose of this report

Under the Auditing Practices Board’s International Auditing Standard (UK and Ireland) 260 (ISA (UK&I) 260) - “Communication of audit matters with those charged with governance” we are required to report to those charged with governance on the significant findings from our audit before giving our audit opinion on the accounts of Peterborough City Council (‘the Authority’). As agreed with you, we consider that “those charged with governance” at the Authority are the Audit Committee.

This letter contains the significant matters we wish to report to you arising from all aspects of our audit programme of work in accordance with ISA (UK&I) 260.

Our audit work during the year was performed in accordance with the plan that we presented to you on 28 March 2011. An audit of financial statements 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. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate. A list of these reports is included at Appendix 1 to this letter.

We have set out below what we consider to be the most significant matters that we have discussed with you in the course of our work.

We would also like to take this opportunity to express our thanks for the co-operation and assistance we have received from the management and staff of the Authority throughout our work. Despite the significant additional challenges brought by the conversion to IFRS, the Authority has again delivered excellent working papers and worked with us to enable us to deliver an efficient audit.

Significant matters

We have set out below what we consider to be the most significant matters that we have discussed with management during the course of our work. These matters are:

- The conversion to International Financial Reporting Standards (“IFRS”).
- The valuation of the Authority’s properties.

Further details are given in the section on Significant Audit and Accounting matters below. There are no other significant matters arising from our audit. We will discuss the matters contained within this letter with the Audit Committee on 26 September 2011.

Please note that this report will be sent to the Audit Commission in accordance with the requirements of their standing guidance.

Audit approach

Our audit scope and approach has been as set out within our Audit Plan that was presented in March 2011.

Set out below are the details of the significant audit risks as identified in our Audit Plan, together with comments on the results of our work.

Risk and areas of focus	Audit Findings
<i>Management override of controls</i>	
<p>In any organisation, there exists a risk that management and some staff could have the potential ability to process transactions or make adjustments made to the financial records outside of the normal financial control processes. Such issues could potentially lead to a material misstatement in the financial statements.</p>	<p>We tested balances and transactions within the accounts for completeness and performed additional audit procedures on journal entries. Our testing has not identified any significant issues to bring to your attention.</p>
<i>Revenue Recognition</i>	
<p>There is a risk that the Authority could adopt accounting policies or treat income and expenditure transactions in such as way as to lead to material misstatement in the reported revenue position.</p>	<p>We performed cut-off tests to ensure that the income has been recorded in the correct period and tested that revenues are correctly calculated and accounted for. Our testing has not identified any significant issues to bring to your attention.</p>
<i>2010/11 – The first year of transition to IFRS</i>	
<p>The transition to IFRS involves both new and considerably revised financial statements and an increase in the depth of disclosures required in the notes to the accounts. There is a risk of material errors in the restatements and reclassifications required in preparing the accounts in their new format and of material omissions of information required to be disclosed by the new Code of Practice on Local Authority Accounting.</p>	<p>We have worked closely with the Authority over the last 18 months to ensure that any accounting issues were discussed and resolved with management promptly.</p> <p>We have reviewed the draft accounts and discussed disclosure matters arising with management. Following discussions both during the year and as a result of this review, some improvements to the format of the notes have been made in the 2010/11 accounts.</p>
<i>Value for Money opinion – Increased pressure on budgets</i>	
<p>The Authority is likely to be experiencing increased pressures on many of its budgets as economic conditions have worsened. Budget holders may feel under pressure to try to push costs into future periods, or to miscode expenditure to make use of resources intended for different purposes.</p> <p>Local government bodies are expected to make significant efficiency savings over the next three years. There is a risk that savings plans may not be robust or based on long term solutions which could result in short term, year-end actions to ensure that the targets are met.</p> <p>There are also risks in relation to financial reporting, that the requirement to report particular financial results overrides best financial reporting practice.</p>	<p>We have reviewed the Authority's budget monitoring processes for the purposes of our audit and, based on the scope of that work, we have not identified any areas of concern.</p> <p>As part of our use of resources work as well as our work on financial standing, we have considered the Authority's savings plans and considered the arrangements in place to make these plans robust.</p> <p>We have also considered the accounting implications of any savings plans and in particular, we have considered the impact of the efficiency challenge on the recognition of both income and expenditure.</p> <p>At the time of drafting this report, our work in this area was ongoing but to date we have not identified any significant issues to bring to your attention in this regard.</p>

Significant audit and accounting matters

ISA (UK&I) 260 requires us to communicate to you relevant matters relating to the audit of the financial statements sufficiently promptly to enable you to take appropriate action.

Accounts

We have completed our audit, subject to the following outstanding matters:

- approval of the financial statements and letters of representation;
- confirmation of any outstanding legal matters from the Monitoring Officer; and
- completion procedures including our review of subsequent events and the final draft of the financial statements.

Subject to the satisfactory resolution of these matters, the finalisation of the financial statements and their approval by those charged with governance we expect to issue an unqualified audit opinion.

Uncorrected misstatements

ISA 260 requires us to consider with those charged with governance any misstatements in the draft accounts which management have not corrected, other than those that are ‘clearly trivial’ (which we have agreed with you are those below £100,000).

We confirm that there are no identified uncorrected misstatements which would have a material effect on the financial statements.

Audit adjustments

ISA 260 requires us to report on any audit adjustments, whether or not corrected by the Authority, that have, or could have, a material effect on the financial statements.

We confirm that all errors that were identified from our audit of the financial statements were correctly adjusted for by management. The adjustments were technical in nature and had no impact on the General Fund Balance.

Observations on the design or implementation of internal control systems

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as auditors is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the Authority only to the extent necessary for us to complete our audit. Our work does not constitute a full test of the controls and is not designed to identify all deficiencies or issues that may exist. It should be noted that the responsibility for controls assurance rests with those charged with governance.

In the audit plan we planned to adopt a top-down, controls-based approach to the audit. This involved understanding and evaluating the controls used by management to ascertain how much assurance we can draw from them. We have only validated controls where we required specific assurance over the operation of controls. This work was carried out as part of our planning visit in September 2010. The controls work was then supplemented with detailed analytical review procedures and additional substantive tests.

We report internal control issues separately to the Audit Committee and action plans have been agreed with officers- our Report to Management, issued on 23 August 2011, has been approved and the Authority is working actively to address the recommendations raised.

Reliance on Internal Audit

An integral element of our 2010/11 audit approach was to liaise with Internal Audit at an early stage to ensure that, where possible, we could rely on their work.

While we have liaised with Internal Audit in the past, this year we expanded the scope of that liaison to encompass more reliance on the controls testing undertaken by Internal Audit. We agreed a formal protocol with the Head of Internal Audit and shared this with the Executive Director of Strategic Resources.

We planned to rely on the work of internal audit for key controls in the following areas:

- Payroll;
- Housing benefits; and
- Council tax and NNDR income.

We were able to rely on the work of Internal Audit in these areas and modified our audit approach accordingly.

Our testing has not identified any significant issues to bring to your attention.

Qualitative aspects of the Authority's accounting practices and financial reporting

IFRS Compliance

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom (the "Code") requires that the Authority's accounts be produced in accordance with IFRS. 2010/11 is the first year in which the Authority has been required to produce IFRS compliant accounts with compliant comparatives.

This has been a significant challenge for the Authority and we are pleased that the track record the Authority has established of producing excellent working papers has continued.

As part of our year end work, we reviewed the disclosures for compliance with the Code. While we communicated several matters to the Authority regarding the presentation of disclosure notes in the accounts, no significant departures were noted which require communication to those charged with governance.

Accounting issues

Valuation of property, plant and equipment

The Authority's accounting policy, consistent with the requirements set out in Code of Practice on Local Authority Accounting, is for property, plant and equipment to be included in the financial statements at current fair value. The Authority achieves this by arranging for periodic, professional valuations at least every four years and in intervening years has regard to the movement in property prices and any other factors that may indicate a significant difference between current values in the financial statements and current values indicating the need for additional steps to ensure that values in the financial statements are not materially misstated.

For this year, management has:

- Obtained formal valuations from Wilks, Head & Eve (WHE), independent valuation specialists, of property completed and brought into use this year;
- Considered factors relating to the use and useful lives of properties and concluded that there are factors leading to a need for impairment reviews and revaluations as a result of changes to the use, or planned use, of properties within the Authority's business;
- Obtained formal revaluations from WHE for the properties identified, in particular where there has been significant capital spend on projects and/or disposals on projects during the year; and

- Obtained a beacon analysis from WHE to value components when applying componentised depreciation.

In response to the requirements of International Standards on Auditing, which have been clarified this year to the extent that our work on valuations has had to increase compared to previous years, we have reviewed the methodology used by management and engaged our internal valuation team to:

- Assess whether valuation methods and definitions used by WHE in valuation are consistent with code requirements;
- Review the assumptions applied by WHE against those used by other Local Government valuers;
- Review reasonableness of numerical assumptions included in the reports; and
- Assess WHE ability to perform valuation / identify any concerns with WHE.

We discussed several matters with the Authority to enable us to conclude our work in this area, including the appropriateness of the methodology for valuing Investment Properties. We have also obtained representation from WHE stating their independence and confirming appropriate qualifications. As part of our audit we have also checked that the valuations have been incorporated correctly into the Fixed Asset Register and Statement of Accounts. Our testing has not identified any significant issues to bring to your attention.

Judgments and accounting estimates

Other than those matters described in Notes 45 and 46 of the accounts, no significant judgments or accounting estimates were required in the preparation of the financial statements.

Management representations

The draft of the representation letter that we are requesting management to sign and those charged with governance to approve is attached in Appendix 2.

Financial standing

No issues in relation to financial standing arose from the 2010/11 audit.

Audit independence

We confirm that, in our professional judgment, as at the date of this document, we are independent auditors with respect to the Authority and its related entities, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit engagement leader and the audit staff is not impaired.

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.

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.

Economy, efficiency and effectiveness

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources (the "Use of Resources Conclusion").

In accordance with guidance issued by the Audit Commission, in 2010/11 our conclusion is based on two criteria:

1. The organisation has proper arrangements in place for securing financial resilience; and

2. The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Unlike in previous years, we have not been required to reach a scored judgement in relation to these criteria and the Audit Commission has not developed 'key lines of enquiry' for each criteria. Instead, we have determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

At the time of drafting this report, we have completed our work on the Use of Resources conclusion, subject to the following outstanding matters:

- Our internal quality review procedures; and
- completion procedures including our review of subsequent events.

Subject to the above, we expect to issue an unqualified Use of Resources conclusion.

Risk of fraud

We discussed with the Audit Committee their understanding of the risk of fraud and corruption and any instances thereof when presenting our Audit Plan.

In presenting this report to the Audit Committee we seek members' confirmation that there have been no changes to their view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.

Accounting developments

There are a number of minor updates to the CIPFA Code of Practice on Local Authority Accounting in the UK 2011/12.

The main accounting change relates to the adoption of the requirements of FRS 30 Heritage Assets in the CIPFA Code. This requires heritage assets to be measured at valuation in normal circumstances, and permits authorities to use the measurement and disclosure principles of FRS 30 for Community Assets.

The Authority has provided interim disclosures in respect of Note 44 of the Accounts, as required by the Code

Fees update

Fees update for 2010/11

We reported our fee proposals as part of the Audit Plan for 2010/11.

We varied our fee largely because we did not undertake any performance studies in relation to the 2010/11 financial year.

Our fees charged were therefore:

	2010/11 Outturn	2010/11 Fee proposal
Total Fee	252,000 *	266,000

*We note that the Audit Commission also provided a fee rebate direct to the Council in respect of the 2010/11 audit of £19,603, making the net cost £232,397.

Appendices

Appendix 1: Audit reports issued in 2010/11

Audit plan	March 2011
Report on 2010/11 financial statements to those charged with governance (ISA 260)	September 2011
Report to management on the Statement of Accounts audit	September 2011
Annual Audit Letter	November 2011
Grants Report to Management in relation to 2010/11 grants	January 2012

Appendix 2: Letter of representation

[Peterborough City Council letterhead]

PricewaterhouseCoopers
7 More London Riverside
London
SE1 2RT

Dear Sirs

This representation letter is provided in connection with your audit of the Statement of Accounts of Peterborough City Council (the “authority”) for the year ended 31 March 2011 for the purpose of expressing an opinion as to whether the Statement of Accounts gives a true and fair view, and has been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom and the Best Value Accounting Code of Practice.

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 sufficient 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:

Financial Statements

- I have fulfilled my responsibilities, for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom; in particular the financial statements give a true and fair view in accordance therewith.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- Significant assumptions used by the authority in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the financial statements for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom requires adjustment or disclosure have been adjusted or disclosed.

Information Provided

- 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.
- I have provided you with:
 - Access to all information of which I am aware that is relevant to the preparation of the financial statements such as records, documentation and other matters, including minutes of the Council and relevant management meetings;

- Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the authority from whom you determined it necessary to obtain audit evidence.
- So far as I am aware, there is no relevant audit information of which you are unaware.

Fraud and non-compliance with laws and regulations

- I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- I have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- I have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the authority and involves:
 - Management;
 - Employees who have significant roles in internal control; or
 - Others where the fraud could have a material effect on the financial statements.
- I have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the authority's financial statements communicated by employees, former employees, analysts, regulators or others.
- I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

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.

Related party transactions

I confirm that we have disclosed to you the identity of the authority's related parties and all the related party relationships and transactions of which we are aware.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.

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 have been properly reflected in the accounting records or, where material (or potentially material) to the financial statements, have been disclosed to you.

Litigation and claims

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and such matters have been appropriately accounted for and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

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 and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

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.

Using the work of experts

I agree with the findings of Wilks, Head & Eve, experts in evaluating the valuation of Property, Plant and Equipment, and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the financial statements and underlying accounting records. The authority did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

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 26 September 2011

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Chief Financial Officer
For and on behalf of Peterborough City Council

Date

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