

Government and Public Sector
***Peterborough City
Council***

September 2012

Report to those charged with
governance (ISA 260 (UK&I))

2011/12 Audit



The Members
Peterborough City Council
Town Hall
Bridge Street
Peterborough
PE1 1HG

September 2012

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 2012, 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 2012. 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 no later than 28th September 2012. At the time of writing, the key outstanding matters, where our work has commenced but is not yet finalised, are; completion of review of the final draft of accounts, completion of the audit of the Whole of Government Accounts return and completion of audit work on revaluations of property, plant and equipment. We will provide an oral update on these matters at the meeting on 24th September 2012.

We look forward to discussing our report with you on 24th September 2012. Attending the meeting from PwC will be Julian Rickett.

Yours faithfully

PricewaterhouseCoopers LLP

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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 Council'). As agreed with you, we consider that "those charged with governance", at the Council, 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 26th March 2012. 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 set out below what we consider to be the most significant matters that we have discussed with you in the course of our work.

Significant matters

Our audit plan highlighted the following significant risks:

- management override of normal control processes;
- income and expenditure recognition; and
- the accounting for the transfer of the provision of adult social care from Peterborough Primary Care Trust to the Council.

The findings from our audit work in these areas are set out in this report.

During the audit we also identified the following areas that we wish to draw to the audit committee's attention;

- Accounting for the transfer of Adult Social Care;
- The valuation of the Council's properties;
- Accounting treatment for the Council's participation in its Local Authority Mortgage Scheme.

We will discuss the matters contained within this letter with the Audit Committee on 24th September 2012.

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

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 Council throughout our work. We note that the first draft of the accounts provided to us at the commencement of the audit was of a very good quality. The working papers supporting the audit trail from the general ledger to the accounts were also of a very good quality.

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. We set out below the significant risks identified in the audit plan together with the audit action we have taken in respect of each one.

Significant risks

Recognition of income and expenditure

We consider the risk of material misstatement in relation to revenue recognition and because of the nature of local authorities we consider the risk of material misstatement in relation to expenditure recognition as well.

There is a risk that the Council could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the reported income and expenditure position.

Due to their nature, we do not consider the receipt of council tax, national non domestic rates, housing rent, financing income or revenue support grant to be a significant risk and these income streams are therefore excluded from this category.

The Council is likely to be experiencing increased pressures on many of its budgets as a result of the recent economic conditions.

Audit action

We have undertaken our audit work in relation to this risk in accordance with the audit plan. There are no matters which we wish to draw to your attention.

Management Override of Controls

The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of the organisations policies, aims and objectives and to manage the risks facing it; this includes the risk of fraud.

Our audit is designed to provide reasonable assurance that the 2011/12 Accounts are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent.

We consider the manipulation of financial results through the use of journals and management estimates, such as accruals as significant fraud risks.

Audit action

We have undertaken our audit work in relation to this risk in accordance with the audit plan. There are no matters which we wish to draw to your attention.

Adult Social Care transfer

Adult Social Care services were delivered by Peterborough Primary Care Trust (“the PCT”) under a Section 75 agreement which terminated on 29 February 2012. On 1 March 2012, the service transferred to the Council.

The transaction will involve the TUPE of staff to the Council from Peterborough Primary Care Trust. The Council must consider how the transfer should be accounted for in accordance with the guidance in the year

Audit action

Our audit action is detailed on pages 3 and 4 below.

Significant risks
Audit action

comparatives depending on whether relevant criteria are met.

Accounts

We have completed the audit of the Authority's accounts in line with current Auditing Standards except for the following outstanding matters:

- the review of the final draft of the statement of accounts;
- completion of audit work on revaluations of property, plant and equipment;
- completion of the audit of the Whole of Government Accounts return; and
- completion procedures including subsequent events review and PwC quality review procedures.

We shall provide a verbal update to the Committee on 24 September regarding these matters.

We have completed the audit of the Authority's accounts in line with current Auditing Standards. 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.

Accounting issues

Accounting for the transfer of Adult Social Care

Since 2004, the Council has operated a Section 31 pooled fund arrangement ("the arrangement") with Peterborough Primary Care Trust ("the PCT") for the PCT to provide Adult Social Care services on behalf of the Council. The PCT took the decision to terminate this agreement on the 29th February 2012, so that from 1st March 2012 Adult Social Care services were again provided directly by the Council ("the transfer").

In summary, our audit work in relation to this transfer noted that the Adult Social Care function incurred a deficit in 2011/12 that was £1.26million higher than previously understood by the PCT. This expenditure occurred when the function was managed by the PCT. While this is not an additional liability for the Council, we set out below the detailed accounting standards in relation to this matter.

Under the relevant accounting standard (IFRS 3), the transfer constituted a "business combination". The relevant date for the occurrence of the business combination was 1 April 2011 (rather than 1 March 2012), as at 1 April 2011 the contractual arrangements between the PCT and the Council changed. The Council assumed a greater proportion of the risk share than it had previously. In this situation, application of the relevant accounting standard meant that the Council had "joint control" of the arrangement. Furthermore, this meant that "merger accounting" was required to account for the transfer of control.

The main implication of merger accounting is that the Council must account for the Adult Social Care service *as if it had always delivered the services directly*, including all of its income and expenditure, assets and liabilities for both the 2010/11 and 2011/12 (up to 1 March 2012) year. This would have required the restatement of the prior period figures in this year's accounts.

However, a prior period adjustment is only required where there is a material impact on the accounts. The Council did not process a prior period adjustment in its draft accounts, as it had determined that the impact was not material. Additionally the Council did not process any "merger accounting" changes in the 2011/12 figures, again on the grounds of materiality. We performed a comparison between what is already included in the accounts and what should be in the accounts under "merger accounting" principles, based on figures

provided by the PCT's auditors, regarding the income and expenditure and assets and liabilities associated with the adult social care function. We are not minded to challenge the Council's assessment that the impact of merger accounting was not material.

However, our comparison has highlighted that the Adult Social Care function incurred a greater deficit in 2011/12, in that there were additional costs and income associated with Adult Social Care that were not included in the Council's accounts because they were costs directly incurred by the PCT that related to Adult Social Care.

Had merger accounting been applied for the current year, an extra £1.26million deficit would have been recorded in the Council's accounts. Under merger accounting, this would not have had an impact on the General Fund as the deficit would have been reversed out at 1 March 2012 upon the termination of the agreement.

We note that this figure includes "allocated costs" that the PCT were required to allocate to Adult Social Care in applying the merger accounting guidance specific to the NHS. We also note that the figure quoted of £1.26million is subject to the materiality the PCT auditors would have applied in reporting to us. Therefore, the deficit recorded in the Council's accounts (before being reversed out at 1 March 2012) may have been lower than £1.26million.

While this is a technical accounting issue, we note that this issue highlights uncertainty regarding the deficit in Adult Social Care in 2011/12. However, we understand that the Council had put arrangements in place to mitigate against additional budgetary pressures arising in Adult Social Care as part of the work on the 2012/13 budget that occurred in the latter part of 2011, by budgeting in full for the level of activity and cost notified to it by the PCT.

Valuation of Property, Plant and Equipment

The Council'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 Council 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, and SERCO (members of the Council's internal valuation team who have transferred to SERCO as part of the Council's outsourcing arrangements) 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 Council's business;
- Obtained formal revaluations from WHE and SERCO 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 to value components when applying componentised depreciation.

In response to the requirements of International Standards on Auditing, we have reviewed the methodology used by management and engaged our internal valuation team to:

- Assess whether valuation methods and definitions used by WHE and SERCO in valuation are consistent with code requirements;
- Review the assumptions applied by WHE and SERCO against those used by other Local Government valuers;

- Review reasonableness of numerical assumptions included in the reports; and
- Assess the ability of WHE and SERCO to perform valuations.

We have also obtained representations from WHE stating their independence and confirming they hold appropriate qualifications. At the time of drafting this report we were clarifying with WHE their rationale for including an element for finance costs in the valuation of assets measured on a Depreciated Replacement Cost basis.

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. On performing this work we identified the following issues;

- As noted above, the Council reviews assets with significant capital additions in the year, engaging external valuers to revalue these assets at the end of the year. The Council's policy is then to apply depreciation to these assets (rather than to have applied it before the valuation). This policy is not in contravention to the Code, however, the effect of applying this depreciation policy is that the net book value of the assets concerned is recorded in the accounts at 31 March 2012 as £55.75m, whereas the valuation of those assets as per the valuation reports at 31 March 2012 is £56.96m, a difference of £1.2m. We recommend the depreciation policy be re-considered, so that the closing net book value of assets matches valuation reports, where the valuation date is 31 March.
- The Fixed Asset Register is very complex and is run from a number of formulas. Part of the accounting entries required when processing revaluations is the reversal of depreciation previously charged to the asset, either to the CIES or the revaluation reserve. Several of the formulas in respect of this adjustment were incorrect in the relevant working paper, which resulted in the Council making a number of changes to the Property, Plant and Equipment note (Note 19). These changes were technical accounting adjustments that had no impact on the General Fund.

Local Authority Mortgage Schemes (LAMS)

The Council has set up the Local Authority Mortgage Scheme ("LAMS") with Lloyds TSB ("the lender"). In the LAMS, first time buyers ("the borrower") put down five per cent of the property price as a deposit to the lender, with the Council providing a cash backed indemnity of up to 20 per cent as additional security. The Council then earns interest on this amount. To date, the Council has paid £1m to Lloyds TSB, with plans for a further £2m approved by Council.

The Council has treated its payment of £1m to Lloyds as capital expenditure. The justification for this treatment is regulation 25(1)(b) of the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003, which defines as capital expenditure "... *the giving of a loan, grant or other financial assistance to any person, whether for use by that person or by a third party, towards expenditure which would, if incurred by the authority, be capital expenditure*".

We consider that an alternative interpretation of statute may be appropriate as, although the lender would not have made its loan to the borrower without the Council having placed money on deposit with it, the Council may not have a relationship with the borrower making the house purchase that is sufficient for regulation 25(1)(c) to be effective. This is because the status of the deposit appears such that the lender cannot treat the amount deposited as its own monies.

An alternative accounting treatment would treat the commitment that the Council makes to the lender as meeting the definition of a financial guarantee. Financial guarantees are required to be accounted for in accordance with Section 7.2.4 of the CIPFA Code, being "*initially recognised as a liability at fair value and an expense, estimated by considering the probability of the guarantee being called and the likely amount payable under the guarantee*".

However, we recognise that this issue rests on the interpretation of statute, and that others may be of the view that as the amount advanced to the lender by the Council is reflected in a larger advance to the borrower than

would otherwise have been permitted by the lender's rules, there is arguably a flow of cash between the Council and the borrower that is sufficient to constitute the giving of a loan by the Council to the lender for use by the borrower in acquiring a property.

We note that the Council has obtained advice from the Monitoring Officer for entering into the scheme and has not relied solely on any assurances given to it by its Treasury Management Advisors in respect of its consideration of the appropriate accounting treatment.

We are currently not minded to challenge the Council's accounting treatment in respect of LAMS but we recommend that it keeps its accounting arrangements under review, as there is a risk that statute may change, or that the CIPFA IFRS Code of Practice may change, and that those changes may require the Council to adopt a different accounting treatment.

Misstatements and significant audit adjustments

We are required to report to you all uncorrected misstatements which we have identified during the course of our audit, other than those of a trivial nature. No unadjusted misstatements above the agreed reporting level of £250,000 have been identified.

As anticipated, given that this is only the second time the Council has produced a set of IFRS based financial statements, a number of presentation and disclosure amendments were identified during the course of the audit, which we have worked with the finance team to address. None of these impacted the year end position and the financial statements have been amended by management.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the financial statements. We will ask the Audit Committee, by approving the Letter of Representation, to represent to us that they have considered the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements.

Judgments and accounting estimates

The clarity ISAs (International Standards on Auditing), applicable for the first time in 2010/11, introduced an increased emphasis on what auditors need to do on accounting estimates. For each estimate we assess the level of risk that they may be misstated and tailor our audit procedures to address the risk, depending on the nature of the estimate. The following significant judgments or accounting estimates were used in the preparation of the financial statements:

- Estimated economic useful lives of property, plant and equipment assets. Management has used a consistent approach in relation to estimated economic useful lives of property, plant and equipment. We have assessed the reasonableness of asset lives and there are no matters which we wish to draw to your attention.
- Calculation of pension fund net liability. Management has utilised the information provided from the actuary which is the fundamental basis of this estimation. We have performed additional work to consider the accuracy of disclosure within the Financial Statements, the reasonableness of fundamental assumptions and the asset allocation. There are no matters that we wish to draw to your attention in this regard.
- During the financial year the Council has had a number of associated bodies which provide services on behalf of the Council, including Vivacity (which is responsible for the management and delivery of services previously provided in-house), Opportunity Peterborough and Peterborough Museum and Art Gallery Trust. The Council has undertaken an assessment of these entities to determine whether it exercises control over the bodies and therefore should consolidate the financial results into the Council's accounts. The Council has determined that although it controls Opportunity Peterborough and the Museum, based on the immateriality of the entities financial results they do not require

consolidation into the accounts. We have discussed this with management and we are not minded to challenge the appropriateness of this accounting treatment.

- Property valuation and impairment. The Council revalued its schools and several other properties as part of its four yearly revaluation programme, and also reviewed the valuation of its Investment Properties. The valuation was carried out by valuers appointed by the Council and we have reviewed the assumptions and methodology used by them as part of our audit work. There are no matters that we wish to draw to your attention.
- As part of our audit work we have also considered management’s assumption that the Council remains a going concern. We have performed a review of the performance of the Council for past, current and future financial years. We have not identified any issues that indicate that the Council is not a going concern.

Accounting issues - new requirements in the 2011/12 Code of Practice

The Code of Practice on Local Authority Accounting in the United Kingdom for 2011/12 was published in spring 2011 setting out a number changes in accounting requirements for local authorities. We set out below the audit work we have done in respect of these changes:

- Heritage assets – the Code requires authorities to present information about the heritage assets that they hold. Heritage assets are those that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. We have discussed with management the approach it took to identifying potential heritage assets, and how it has obtained valuations for these. There are no matters that we wish to draw to your attention.
- Carbon Reduction Commitment (CRC) – 2011/12 is the first year that the Council is required under the CRC Energy Efficiency Scheme to purchase and surrender CRC allowances in proportion to the emissions it makes during the year. The Council has recorded a provision of £260,000 in its accounts in respect of the CRC. There are no matters that we wish to draw to your attention.
- Exit packages - There is a new requirement for a disclosure note setting out the number of exit packages agreed, analysed between compulsory redundancies and other departures and presented in £20,000 bands up to £100,000 and £50,000 bands above £100,000. We reviewed the presentation and disclosure of the note to ensure that it was in accordance with the requirements of the Code, and there are no matters we wish to draw to your attention

Management representations

The final draft of the representation letter that we are requesting management and those charged with governance to sign is attached in Appendix 1.

Financial standing

No significant matters in connection with the Council’s financial standing were identified during the audit.

Related parties

No significant matters in connection with the Council’s related parties were identified during the audit.

Audit independence

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) “*Communication with those charged with governance*”, UK Ethical Standard 1 (Revised) “*Integrity, objectivity and independence*” and UK Ethical Standard 5 (Revised) “*Non-audit services provided to audited entities*” issued by the UK Auditing Practices Board. Together these require that we communicate at least annually with you regarding all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers’ firms and associated entities (“PwC”) and the Company, its directors and senior

management and its affiliates (“the Group”) that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

For the purposes of this letter we have made enquiries of all PricewaterhouseCoopers’ whose work we intend to use when forming our opinion on the truth and fairness of the financial statements.

Relationships and Investments

We have not identified any potential issues in respect of personal relationships with the Council or investments in the Council held by individuals.

Employment of PricewaterhouseCoopers staff by the Council

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Council as a director or in a senior management position covering financial, accounting or control related areas.

Business relationships

We have not identified any business relationships between PwC and the Council.

Services provided to the Council

The audit of the financial statements is undertaken in accordance with the UK Firm’s internal policies. The audit is also subject to other internal PwC quality control procedures such as peer reviews by other offices.

In addition to the audit of the financial statements, one matter has arisen which we draw your attention to;

Cambridgeshire PCT has commissioned advisory support (on behalf of the local health economy) from PwC to support the development of a proposed implementation plan for transforming services for vulnerable older people. The Council has agreed to participate in this health economy wide review as such it is appropriate for us to consider the threats to our auditor independence. We understand the work will take place between April to December 2012, will cost £49,000 (excluding VAT) and will be payable by Cambridgeshire PCT. The scope of the work is that PwC will assist in:

- Building agreement around the high value systems approach and its initial application to the care of vulnerable older people; and
- Developing an implementation plan for the transformation of care for vulnerable older people.

The PwC audit team for Cambridgeshire PCT has sought approval from the Audit Commission given the scale of the fee and the proposed scope impacting a number of our Audit Commission audit appointments. This approval has been granted.

The main threats to our auditor independence (and the safeguards applied) in undertaking this work are as follows:

Management decisions

In delivering the work, PwC will be facilitating discussions with organisations and describing a range of options that clinicians may wish to consider. All decision-taking will remain with Cambridgeshire PCT (“the PCT”) and any significant decisions about changes to clinical services will be taken after completion of PwC’s work. PwC will not therefore be taking any management decisions.

The PCT has acknowledged in the engagement proposal, its responsibility for determining its strategy and making all management decisions and has designated a competent employee within senior management to be responsible for evaluating the results of PwC’s work and making management decisions.

Self-review threat

PwC will be presenting a range of options for the PCT to consider. It will remain the PCT’s responsibility to assess financial and operational impact, and to prepare any Prospective Financial Information (PFI) or other

impact assessment for the organisation. PwC will not be commenting on financial controls or processes, nor are we preparing PFI and hence there is no self-review threat in respect of our work as external auditors on the financial statements opinion of these bodies. PCT management retain full responsibility for all decisions, which will be based only in part on our options assessment.

Advocacy

In carrying out this work, PwC is not advocating the PCT's position (to a regulator or any other third party). PwC will be helping define a range of options which the PCT will discuss with other parties. Any description of options will be objective with any information clearly described.

Familiarity

The PwC team running this work will retain appropriate distance and objectivity from the PCT. We will also maintain segregation and confidentiality between all audit teams and the consulting team.

Self-interest threat

The estimated final fees are not sufficiently large, in the context of the overall fee income of either PwC or of any of the relevant assignment engagement leaders, to affect our behaviour in completing the audit assignments such that our independence, objectivity or judgement would be impaired.

Fees

The analysis of our audit and non-audit fees for the year ended 31 March 2012 is included on page 12. In relation to the non-audit services provided, none included contingent fee arrangements.

Services to Directors and Senior Management

PwC does not provide any services e.g. personal tax services, directly to directors, senior management

Rotation

Rotation of audit engagement partners, key partners involved in the audit and other staff in senior positions is reviewed on a regular basis by the lead audit engagement partner. This includes partners and staff involved in the audit of the group entity and any component's of the group.

Gifts and hospitality

We have not identified any significant gifts or hospitality provided to, or received from, a member of Group's board, senior management or staff.

Conclusion

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

We ask the Audit Committee to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.

Accounting systems and systems of internal control

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. As auditors, we review these arrangements for the purposes of our audit of the financial statements and our review of the annual governance statement.

We report internal control issues separately to the Audit Committee and action plans have been agreed with officers. Our Internal Control Report, issued in September 2011, has been approved and the Council is working

actively to address the recommendations raised. We shall provide an update on the progress made by the Council and new control issues identified as part of the 2011/12 audit as a report to the Audit Committee in November.

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 the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

In accordance with guidance issued by the Audit Commission, in 2011/12 our conclusion is 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.

As in 2010/11, we have determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. We have assessed the risk that the Authority did not have adequate arrangements in place, informed by the criteria and our statutory responsibilities. Our work has consisted of meeting with the Executive Directors at the Council to understand and evaluate the significant risk and projects that they are managing. We also discussed with them the nature of the savings that they have had to implement and their views on issues relating to future savings requirements. We then reviewed appropriate documentation to support the information obtained from them.

As well as the matter in relation to Adult Social Care described on Page 4, we consider that the following recommendations should be made to the Council:

- **Children's Services** – that the Council continues to work towards improving performance management arrangements in Children's Services, and that this work ensures that improvements put in place are both robust and sustainable.
- **Adult Social Care** – that the work the Council is doing to re-integrate Adult Social Care is maintained and that appropriate scrutiny continues to be applied to the performance (both financial and non-financial) of the service.
- **Risk Management** – that arrangements are put in place to ensure risk management is appropriately embedded at a corporate level, so that the Corporate Management Team has the necessary information to manage 'corporate' risks.

We anticipate issuing an unqualified Value for Money 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.

Fees update

Fees update for 2011/12

We reported our fee proposals as part of the Audit Plan for 2011/12. Our actual fees (£239,400) are currently in line with our proposals.

Our fee for certification of grants and claims is yet to be finalised for 2011/12 and will be reported to those charged with governance in January 2013 within the *Grants Report to Management* in relation to 2011/12 grants.

Recent developments

Future of public audit

On 13th August 2010 the Department for Communities and Local Government announced that the Audit Commission will be disbanded and on 28 July 2011 the Department confirmed that the work previously carried out by the Commission's in-house Audit Practice would be outsourced to the private sector.

The Commission confirmed the appointment of external auditors for a period of 5 years starting in 2012/13 in July 2012.

The Government also consulted on its proposals for a new local public audit framework and published its response in January 2012. The draft Local Audit Bill has been published by the Department for Communities and Local Government for consultation and pre-legislative scrutiny. The consultation closed on 31 August 2012.

The draft Bill sets out the proposed new audit framework for local public bodies, the process for the appointment of auditors, and the regulatory framework for local public audit.

We have recently received confirmation from the Commission that we have been appointed as your auditors for the five years starting with the 2012/13 financial year.

Appendix 1 – Letter of Representation

[Peterborough City Council letterhead]

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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 2012 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 2011/12 and the Service Reporting Code of Practice 2011/12.

My responsibilities as Executive Director, Strategic Resources, 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 2011/12; 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.

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- 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 2011/12 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 2011/12.

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 CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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.

Bank accounts

I confirm that we have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

Other matters

I have taken appropriate legal advice to satisfy myself that the accounting treatment adopted for the Local Authority Mortgage Scheme does not contravene the requirements of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.

Provisions

Provisions for depreciation and diminution in value including obsolescence have been made against property, plant and equipment on the bases described in the financial statements and at rates calculated to reduce the net book amount of each asset to its estimated residual value by the end of its probable useful life in the authority's business. In this respect I am satisfied that the probable useful lives have been realistically estimated and that the residual values are expressed in current terms.

Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments (in particular in relation to redundancy plans) and contingencies where the items are expected to result in significant loss. Other such items, where in my opinion provision is unnecessary, have been appropriately disclosed in the financial statements.

As minuted by the Audit Committee at its meeting on 24 September 2012

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Executive Director, Strategic Resources
For and on behalf of Peterborough City Council

Date

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.

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