

Government and Public Sector

January 2009

Peterborough City Council Statement of Accounts 2007/08

Report to Management



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Dear John

Peterborough City Council: Report to Management 2007/08

Please find enclosed our Report to Management, summarising those issues arising from the Statement of Accounts audit in 2007/08.

Yours faithfully

PricewaterhouseCoopers LLP

Enclosures

Copies to:

Gillian Beasley, Chief Executive
John Blair, Head of Strategic Finance
Mandy Bretherton, Corporate Accounting Manager
Steve Crabtree, Head of Internal Audit

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

In April 2008 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

This report has been prepared for the officers of Peterborough City Council in relation to the final audit of the Statement of Accounts for 2007/08.

This is the final report in a series issued as part of the audit process for 2007/08. This report sets out our findings from both the interim and final stages of the audit. The purpose of this report is as follows:

- To provide officers with the findings from our interim audit and final audits, that took place in February and July to September 2008. A number of these issues were raised in our *2007/08 Report to those charged with governance*. This report expands further on those issues and gives management the opportunity to formally respond to the points raised in that report. Our findings are shown in Appendix 1 of this report.
- Secondly, this report follows-up our issues that were identified as part of the 2006/07 audit, as described in our report *Final Audit of Statement of Accounts 2006/07*. Our findings are shown in Appendix 2 of this report.

During the year, we have issued a number of other reports. These comprised the *Review of Internal Audit effectiveness* (August 2007), *Business Process Mapping* (June 2008) and *Debt Management: follow-up report* (August 2008). We have not repeated any of the recommendations or findings from these other reviews in this report.

Summary of key findings

We are pleased to note that the Council maintained the high standards of Financial Reporting set during the 2006/07 audit. The quality of working papers and officers' prompt responses to queries have contributed to ensuring an efficient audit process, enabling us to issue an unqualified audit opinion on the Statement of Accounts on 24 September 2008.

We are pleased to note that no high priority issues have arisen from our audit. However, we have identified some medium priority issues that have resulted in the following recommendations:

- Further assurance could be obtained over the value of the VAT shelter to be paid each year to provide greater assurance to the Council;
- A review should be undertaken of property lease arrangements in place to determine whether these are the most suitable terms for the Council, and if not, whether it is possible that the Council can exit the lease;
- The Council should undertake a review of the fixed asset register once depreciation charges have been calculated to ensure that assets with negative values are not included;
- A mechanism should be introduced that makes it a requirement of the contract signing process for the Legal Department to be automatically sent a copy of the contract;
- The Council should make use of the repeat invoice facility whenever possible and ensure that all debts are written-off in line with the Standing Orders; and
- Internal Audit recommendations should be implemented on a timely basis

These recommendations are expanded further in Appendix A of this report.

Explanation of priorities

The importance of issues identified during our work has been classified as follows:

High – major issue for the attention of senior management

Immediate action is required to address a serious weakness in control or accounting.

Medium – important issues to be addressed by management in their areas of responsibility

Action should be taken within an appropriate timeframe to address a significant weakness in control or accounting.

Low – problems of a more minor nature which provide scope for improvement

Action is desirable to strengthen or supplement existing controls or accounting arrangements. Management should take action as resources permit.

This report

This report is not intended to be a fully comprehensive review of the system of internal financial control at the Council. We have instead focused our testing on key risk areas and carried out our audit in accordance with International Standards on Auditing.

We have prepared this report solely for use by yourselves and within your organization and, therefore, we believe that it would not be appropriate for it to be made available to third parties. If such a third party were to obtain a copy without our prior written consent, we would not accept any responsibility for any reliance they might place upon it.

Acknowledgement

We are grateful for the help and support provided by relevant officers during our audit.

Appendix A: Matters arising from the 2007/08 Statement of Accounts audit

	OBSERVATION AND RISK	RECOMMENDATION AND PRIORITY	MANAGEMENT RESPONSE AND TIMETABLE FOR IMPLEMENTATION
1	<p>VAT shelter</p> <p><i>Observation</i></p> <p>The Council is in an agreement with Cross Keys Homes (CKH) that results in the Council receiving a payment each year based on VAT savings on future capital works (known as the 'VAT shelter'). These savings are made by CKH and it pays 50% of any savings made to the Council.</p> <p>The Council is informed of the level of payment it is due to receive by CKH, and includes this in the accounts. For 2007/08, the amount recognised in the accounts was £2.885m. However, the Council does not seek further assurance over the figures notified by CKH.</p> <p><i>Risk</i></p> <p>There is a risk that that the figures notified to the Council by CKH are not in line with the terms of the agreement or that the figure to be paid is inaccurate.</p>	<p>We recommend that the Council obtains more assurance over the value of the VAT shelter to be paid by CKH each year.</p> <p>This could be achieved by an annual meeting with CKH to discuss the processes CKH have carried out to calculate the payment due.</p> <p>Medium priority</p>	<p>The Council will liaise with CKH in order to gain more assurance over the value of the VAT Shelter. Corporate Accounting Manager, April 2009.</p>

	OBSERVATION AND RISK	RECOMMENDATION AND PRIORITY	MANAGEMENT RESPONSE AND TIMETABLE FOR IMPLEMENTATION
2	<p>Leases – value for money</p> <p><i>Observation</i> Our review of property leases revealed a lease dating back to 1980 on an industrial unit for £156k. This property is owned by the Council which leases it to a third party for a nominal amount, which in turn leases it back to the Council. The Council has an agreement in place that it will pay at least 75% of the market value of rent for the property to the third party.</p> <p><i>Risk</i> There is a risk that the Council may not be achieving value for money by being a party to this arrangement.</p>	<p>We recommend that the Council reviews lease arrangements in place to determine whether these are the most suitable terms for the Council, and if not, whether it is possible that the Council can exit the lease.</p> <p>Medium priority</p>	<p>Leases will be the subject of a detailed review in preparation for International Financial Reporting Standards (IFRS). Value for Money will be incorporated into this review. Corporate Accounting Manager, During 2009/10.</p>
3	<p>Assets with a negative net book value</p> <p><i>Observation</i> Our review of the fixed asset register identified £532,000 of assets carried at a negative value. This was due to incorrect charges for depreciation being made against these assets. This resulted in an immaterial misstatement in the accounts.</p>	<p>We recommend that the Council undertakes a review of the fixed asset register once depreciation charges have been calculated to ensure that assets with negative values are not included.</p> <p>Medium priority</p>	<p>Additional checks are being built into the process for 2008/09 closure of accounts. Corporate Accounting Manager, Feb 2009.</p>
3	<p>Completeness of contract register</p> <p><i>Observation</i> Legal Services should be advised of any new contracts the Council enters into, and rely on Officers making them aware of any new contracts entered into. However, there</p>	<p>The Council should implement a mechanism that makes it a requirement of the contract signing process for Legal Services to be automatically sent a copy of the contract. For example, a contract</p>	<p>Current contract regulations already require that contracts over £50K should be referred to legal, as reflected in the Council's interactive procurement Guide.</p>

	OBSERVATION AND RISK	RECOMMENDATION AND PRIORITY	MANAGEMENT RESPONSE AND TIMETABLE FOR IMPLEMENTATION
	<p>is no formal mechanism in place to ensure that all contracts are reported to Legal Services, and completeness checks are not carried out.</p> <p><i>Risk</i> There is a risk that all contracts may not be identified and included on the register. This is particularly an issue given the new accounting rules for financial instruments, which require that the Council has a complete list of contracts to assist in identifying any such instruments,</p>	<p>completion checklist could be introduced, with the requirement that documentation is sent to Legal Services.</p> <p>Medium priority</p>	<p>The Council is introducing a new contracts register which will capture all contracts over £10K. Procurement Project Director, January 2009</p>
4	<p>Accounts receivable testing</p> <p><i>Observation</i> The following issues were identified as part of our accounts receivable controls testing undertaken at the interim audit:</p> <ul style="list-style-type: none"> • Oracle has the facility for repeat invoices to be raised. Repeat invoices are those raised for the same amount over a set period of time (for example, 1/12th of an annual contract invoiced each month). However, in some cases we identified that the repeat invoice facility within Oracle was not being effectively utilised. Instead, repeat invoices were being raised manually; and • As part of our testing of bad debts, we identified a small number of instances where write-offs 	<p>The Council should make use of the repeat invoice facility whenever possible, to reduce the need to raise manual invoices.</p> <p>The Council should also ensure that all debts are written-off in line with the Standing Orders.</p> <p>Medium priority</p>	<p>Currently invoices by instalments are raised where appropriate. Users will be reminded that this facility exists within Oracle. Financial Controller, January 2009.</p> <p>The policy for write off debts was changed at Full Council in May 2008. Amounts £5k - £10k can now be written off by Executive Director of Resources. The Financial Regulations will be fully updated on implementation of the Senior Management Review. Financial Controller, April 2009.</p>

	OBSERVATION AND RISK	RECOMMENDATION AND PRIORITY	MANAGEMENT RESPONSE AND TIMETABLE FOR IMPLEMENTATION
	<p>have not been authorised in line with the Standing Orders. These state that for individual debts below £5,000, these must be approved by the Director of Strategic Resources and, above £5,000, by the Cabinet member for Finance. However, in some cases we found that the write-offs of debts below £5,000 had been authorised by the Strategic Finance Business Manager or Financial Controller.</p> <p><i>Risk</i></p> <p>There is a risk that by not making use of facilities such as the repeat invoice system, repeat invoices may not be raised accurately or on a timely basis. Moreover, as raising manual invoices is a more labour intensive process, failure to use the repeat facility is not the most efficient use of officers' time and resources.</p> <p>In addition, where write-offs are not made in line with the Council's Standing Orders, there is a risk that debts may be written-off without sufficient scrutiny as to reason or recoverability.</p>		
5	<p>Barclaycard purchasing cards</p> <p><i>Observation</i></p> <p>As part of our accounts payable controls testing undertaken at the interim audit, we reviewed the controls surrounding the issuing of Barclaycard purchasing cards. The Accounts Payable Team maintains a spreadsheet of</p>	<p>We recommend that the Council periodically reviews the data held on cardholders, to ensure that this is accurate and the delegated rights for individual officers are still deemed appropriate.</p>	<p>Purchasing Cards will be reviewed. Financial Controller, quarter one 2009/10.</p>

	OBSERVATION AND RISK	RECOMMENDATION AND PRIORITY	MANAGEMENT RESPONSE AND TIMETABLE FOR IMPLEMENTATION
	<p>those holding cards, showing name and authorised limits.</p> <p>As part of our testing, we agreed data on this spreadsheet to the initial cardholder request form, completed for each cardholder and authorised by their line manager or Business Manager. When agreeing the details of limits from the spreadsheet to the initial request form, two of the five cardholders reviewed had different authorisation limits on the spreadsheet than that shown on the original form.</p> <p>Further investigation revealed that the card limits had been legitimately amended since the original authorisation form was completed. However, in both cases, no amendment forms could be found.</p> <p><i>Risk</i> There is a risk that the monitoring and management of purchasing card use will be made problematic if discrepancies exist between documents held on cardholders.</p>	<p>Low priority</p>	
6	<p>Internal Audit review of Information Technology General Controls (ITGCs)</p> <p><i>Observation</i> The Council's Internal Audit team have completed a number of IT related reviews over the past two years. We reviewed these reports and noted the progress made on implementing recommendations.</p> <p>Internal Audit have carried out a follow up of the</p>	<p>Internal Audit recommendations should be implemented on a timely basis.</p> <p>Medium priority</p>	<p>Internal Audit recommendations will be implemented in accordance with the management action plan for each audit. Head of ICT.</p>

	OBSERVATION AND RISK	RECOMMENDATION AND PRIORITY	MANAGEMENT RESPONSE AND TIMETABLE FOR IMPLEMENTATION
	<p>recommendations raised within the Change Quality Assurance, Internet and Network Management reports from 2006/07 and identified that although progress has been made, there are still several issues that remain outstanding, a number of which are 'high priority' recommendations.</p> <p>In particular, we noted one high risk recommendation which was to be implemented immediately according to the management action plan within the report but which remained outstanding as the time of our review. A number of issues also remain outstanding in relation to IT security.</p> <p><i>Risk</i> Failure to implement Internal Audit IT related recommendations on a timely basis may expose the Council to unnecessary risks.</p>		
7	<p>Payroll testing</p> <p><i>Observation</i> Testing of payroll controls at the interim audit identified that of 25 starters selected for review, 1 starter form could not be located. Of 25 leavers selected for review, 4 leaver forms could not be located.</p> <p><i>Risk</i> There is a risk that employees are incorrectly established or removed from the payroll system.</p>	<p>We recommend that the Council reminds staff of the importance of retaining documents relating to employees. In the longer term, the Council may wish to consider alternative methods of storing data.</p> <p>For example, introducing a system to scan in documents, as seen in the Accounts Payable and Revenue and Benefits departments, may help to improve the processes relating to the management of payroll data.</p>	<p>The HR Shared Services Manager will remind all staff of the importance of retaining documents and filing promptly in personal files by 30th November 2008.</p> <p>HR Shared Services Manager has begun work with Business Transformation to review and implement where appropriate electronic means of data storage. This work is in its infancy and on-going.</p>

	OBSERVATION AND RISK	RECOMMENDATION AND PRIORITY	MANAGEMENT RESPONSE AND TIMETABLE FOR IMPLEMENTATION
		Low priority	
8	<p>Financing of capital spend note</p> <p><i>Observation</i> The Council has a complex and detailed financing of capital spend note, showing each grant awarded to the authority to support the capital programme.</p> <p>Testing revealed that in some cases it was difficult to trace grant income to supporting documentation from the relevant Department.</p> <p><i>Risk</i> There is a risk that this disclosure note may be misstated.</p>	<p>We recommend that, if the Council wishes to continue including such a detailed note in its accounts, it ensures that supporting documentation is available for all grants.</p> <p>Alternatively, it may wish to consider another format for the note; for example, one that does not show individual grants.</p> <p>Low priority</p>	<p>This note will be reviewed, in conjunction with the External Auditors, as part of the closure of accounts process. Corporate Accounting Manager, March 2009.</p>
9	<p>Finance lease calculations</p> <p><i>Observation</i> When reviewing the finance lease calculations included in the accounts, it was noted that the effective interest rate calculated by the Council was incorrect.</p> <p>The correct calculation would be including payments applied in advance. The Council was, however, calculating these in arrears. This resulted in a trivial misstatement to the accounts.</p> <p><i>Risk</i> There is a risk that finance lease figures are misstated.</p>	<p>The Council should review its method for calculating interest lease payments, and ensure that the correct method is being used to calculate effective interest rates.</p> <p>Low priority</p>	<p>This will be reviewed as part of the closure of accounts process. Corporate Accounting Manager, March 2009.</p>

Appendix B: Follow up of prior year issues

The following table lists issues raised in the prior year audit that have not yet been resolved and were not covered by our *Review of Internal Audit effectiveness* (August 2007), *Business Process Mapping* (June 2008) and *Debt Management: follow-up report* (August 2008):

	ORIGINAL RECOMMENDATION	ACTION TAKEN AND FURTHER RECOMMENDATIONS	MANAGEMENT RESPONSE / TIMETABLE FOR IMPLEMENTATION
1	<p>Fixed assets</p> <p>We recommend that the Council completes its exercise to cleanse the data in its balance sheet so that assets with a value of zero are written out of fixed assets, or are revalued to reflect their carrying amount.</p> <p>We also recommend that the Council completes its exercise to identify all material fixed assets with non-specific descriptions, and that procedures are put in place to ensure that all subsequent capital expenditure is recorded with sufficient detail in the fixed asset register.</p>	<p>The Council removed £8.4m worth of assets with a nil net book value or non-specific descriptions from its fixed asset register during the 2007/08 financial year. In addition, we noted that where assets have been put onto the register in the year, sufficient narrative and references have been included to enable the asset to be easily identified.</p> <p>However, our testing did reveal a number of assets included in the asset register with negative depreciation. We have raised an issue relating to this in Appendix A.</p> <p><i>Issue partially resolved</i></p>	<p>Additional checks are being built into the process for 2008/09 closure of accounts. Corporate Accounting Manager, Feb 2009.</p>

	ORIGINAL RECOMMENDATION	ACTION TAKEN AND FURTHER RECOMMENDATIONS	MANAGEMENT RESPONSE / TIMETABLE FOR IMPLEMENTATION
2	<p>Cash flow statement</p> <p>The Council should review its methodology for completing the Cash Flow Statement and prepare one that I) correctly strips out accruals and prepayments or that II) uses the “direct method” to completely identify all non-cash transactions.</p>	<p>This issue was raised in the prior year due to the inclusion of a balancing figure of £1.3m in the notes to the Cash Flow Statement. We note that a balancing figure of £0.76m is included in the current year notes.</p> <p>It was clear that effort has been made this year to reduce the value of the balancing figure through detailed analysis of accounts and balances by the officer responsible for compiling the Cash Flow Statement. We recommend that the Council continues to strive to eliminate this balancing figure.</p> <p><i>Issue partially resolved</i></p>	<p>Further work will be undertaken as part of the closure 2008/09 in order to reduce this balancing figure. Corporate Accounting Manager, May 2009</p>

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