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Peterborough City Council

Annual Audit Letter

2012/13

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Government and Public Sector

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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.

An audit 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.

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Introduction

The purpose of this letter

This letter summarises the results of our 2012/13 audit work for members of Peterborough City Council ("the Authority").

We have already reported the detailed findings from our audit work to the Audit Committee in the following reports:

- Audit plan for 2012/13;
- Audit opinion for the 2012/13 financial statements, incorporating conclusion on the proper arrangements to secure economy, efficiency and effectiveness in its use of resources;
- Report to those charged with Governance (ISA (UK&I) 260); and
- Annual certification report for 2011/12.

The matters reported here are the most significant for the Authority.

Scope of Work

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We met our responsibilities as follows:

Audit Responsibility	Results
Perform an audit of the accounts in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).	We reported our findings to the Audit Committee on 23 September 2013 in our *Report to the Audit Committee of the Authority on the audit for the year ended 31 March 2013 (ISA (UK&I) 260)*. On 25 September 2013, we issued an unqualified audit opinion.
Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	On 25 September 2013, we reported to the National Audit Office that the consolidation return was consistent with the audited statutory accounts.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 25 September 2013, we issued an unqualified value for money conclusion.

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Audit Responsibility	Results
Consider the completeness of disclosures in the Authority's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	There were no issues to report in this regard.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	There were no issues to report in this regard.
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	There were no issues to report in this regard.

Audit Responsibility	Results
Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	We issued our completion certificate on 25 September 2013.

The main accounting issues relate to:

- ***Accounting for new academy schools;***
- ***Valuation of property; and***
- ***Accounting for the Local Authority Mortgage Scheme.***

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Audit Findings

We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit opinion on 25 September 2013.

We are pleased to report that management proactively seek to discuss accounting matters with us throughout the year and the three matters, below that we wish to draw to your attention, were all discussed in this way:

1. Accounting for the construction of new academy schools;
2. Valuation of property; and
3. Accounting for the Local Authority Mortgage Scheme.

1. Accounting for the construction of new Academy schools

During the year, the Authority has been constructing two new academy schools, which will transfer to Greenwood Dale Academies Trust upon completion in June 2014. The Authority initially capitalised this expenditure and then impaired this to nil, as the assets will be owned by the Authority only until the transfer date, and they will not receive the economic benefit from the assets.

We have reviewed the substance of each transaction and determined that in accordance with the CIPFA Code the capital expenditure incurred in relation to the academies should instead be treated as Revenue Expenditure Funded from Capital Under Statute (REFCUS). REFCUS would be recognised within the Comprehensive Income and Expenditure Statement in the period in which it is incurred. A transfer is then made from the Capital Adjustment Account so there is no impact on the balance of the General Fund.

We have also considered whether the arrangements should be considered as the Authority constructing property, plant & equipment (PP&E) and which is then leased to the Academy or whether this should be considered as a construction contract to build an asset for the Department of Education group. Either approach could have been adopted by the Authority depending of the substance of the transaction, however the pattern of income recognition would be different under the two approaches.

The Authority determined that the substance of each transaction was to recognise as PP&E, with the expenditure treated as REFCUS and the grant income recognised in full in the period.

This is one of the discussed approaches and we were therefore not minded to challenge the adjustment made to the accounts.

2. Valuation of property

The Authority utilised the expertise of an external valuation expert in evaluating the valuation of the Authority's PP&E and investment properties.

Our internal valuation experts reviewed the assumptions and methodologies used by the Authority's external valuation expert and we discussed these with management and the external valuation expert. Management were comfortable that the assumptions and methodology adopted by the external valuer did not materially misstate the financial statements.

We considered the approach adopted by the external valuer and the Authority and, in the context of the truth and fairness of the accounts as a whole, were not minded to challenge the valuations recorded in the accounts.

However, we recommended that management, the external valuers, and our internal valuers, discuss the approach to be adopted for the 2013/14 valuations.

3. Accounting for the Local Authority Mortgage Scheme

The Authority 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 Authority providing a cash backed indemnity of up to 20 per cent as additional security. The Authority then earns interest on this amount. As at 31 March 2013, the Authority had paid £1m to Lloyds TSB, with a further £1m paid in July 2013 and plans for a further £2m approved by Council for 2013/14.

The Authority has treated its payment of £1m to Lloyds as capital expenditure applying regulation 25(1)(b) of the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003. We noted that the Council has obtained advice from the Monitoring Officer in relation to entering into the scheme. The Council has also taken advice from external advisers in respect of its consideration of the appropriate accounting treatment.

We considered that an alternative interpretation of statute may be appropriate as, although the lender would not have made its loan to the borrower without the Authority having placed money on deposit with it, the Authority may not have a relationship with the borrower making the house purchase that is sufficient for regulation 25(1)(c) to be effective. An alternative accounting treatment would treat the commitment that the Authority makes to the lender as meeting the definition of a financial guarantee.

However, we recognised 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 Authority 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 Authority and the borrower that is sufficient to constitute the giving of a loan by the Authority to the lender for use by the borrower in acquiring a property.

While we included this as an unadjusted misstatement, given that the value of the amount paid into LAMS at 31 March 2013 was not material in the context of the truth and fairness of the accounts as a whole, there was no impact on our audit opinion.

This view will need to be considered again in the light of any further advances, as accountancy practice and the interpretation of statute in this area develops.

Use of Resources

We carried out sufficient, relevant work in line with the Audit Commission's guidance, so that we could conclude on whether the Authority had in place, for 2012/13, proper arrangements to secure economy, efficiency and effectiveness in the use of the Authority's resources.

In line with Audit Commission requirements, our conclusion was 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.

To reach our conclusion, we carried out a programme of work that was based on our risk assessment.

We issued an unqualified conclusion in respect of the two criteria set out above.

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Annual Governance Statement

Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by CIPFA/SOLACE. The AGS accompanies the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Whole of Government Accounts

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the Audit Commission. The audited pack was submitted on 25 September 2013. We found no areas of concern to report in this context.

Certification of Claims and Returns

We presented our most recent Annual Certification Report for 2011/12 to those charged with governance in February 2013. We certified 3 claims worth £175 million. In 2 cases, a qualification letter was required to set out the issues arising from the certification of the claim. These details were also set out in our Annual Certification Report for 2010/11. We will issue the Annual Certification Report for 2012/13 in February 2014.

Summary of Recommendations

We have no significant matters to raise other than those above. We have discussed a separate annual summary of recommendations to the Director of Finance and his team, which will be presented to the Audit Committee in February 2014.

Final Fees

Final Fees for 2012/13

We reported our fee proposals in our audit plan. These were as follows:

	2012/13 fee proposal	2011/12 final outturn
Audit work performed under the Code of Audit Practice: **- Statement of Accounts** **- Conclusion on the organisation's arrangements to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources** **- Whole of Government Accounts**	163,640	239,400
Certification of Claims and Returns	19,700	36,300
Non Audit Work	-	-
TOTAL	**183,340**	**275,700**

The Audit Commission provided indicative audit fee levels for the 2012/13 financial year. The base fee scale for the Authority's audit was £143,640 (excluding VAT). Our proposed fee includes a budget of £20,000 to cover additional work (for example, invest to save, matters raised with us as auditors requiring consideration, the prior year adjustment and change to the adult social care system). The total £163,640 compares to the outturn fee of £239,400 for 2011/12. The fee for 2011/12 is not directly comparable with the 2012/13 fee as it included a mandatory recharge payable to the Audit Commission that is no longer required to be made.

We are currently in the process of agreeing the fee over and above the scale element with the Audit Commission and will report the final position in due course.

Our fee for certification of claims and returns is yet to be finalised for 2012/13 and will be reported to those charged with governance on February 2013 within the 2012/13 Annual Certification Report.

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