

Annual Audit and Inspection Letter

Peterborough City Council

Audit 2007-2008

March 2009

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

Summary

Key messages

- 1 The Council met the deadline to publish its 2007/08 accounts by 30 September 2008, and we issued an unqualified audit opinion on them prior to that date. Despite some changes to local government accounting requirements this year, information was available on a timely basis, assisting the efficient completion of the audit. Financial Reporting remains an area of notable practice (paragraph 44).
- 2 The Council recorded an underspend of £2.4m, which was transferred to reserves, against its net revised revenue budget for the year (net of Dedicated Schools Grant passed to schools) of £132.6m. As reported in the Statement of Accounts, the overall position was underpinned by net underspends in Strategic Resources of £4.1m and Assistant Chief Executive's of £1.3m, and an overspend of £3.0m in Children's Services (paragraph 54).
- 3 As in the prior year, the Council has continued its policy of operating with a General Fund balance of £6.0m, representing 4.5% of the net 2007/08 budget (paragraph 56).
- 4 The Council has continued to make progress in its management arrangements relating to data quality. However, there are a number of elements that could be improved further. For example, ensuring that data quality arrangements affecting partnership working are fully embedded and that key actions identified in the Data Quality action plan have been fully implemented and embedded (paragraphs 90 to 94).
- 5 Our assessment covering aspects of the Council's use of resources as part of the most recent Audit Commission Comprehensive Performance Assessment (CPA) review identified continued improvements. The Council's assessed scores increased for five of the eleven 'key lines of enquiry'. Overall, the Council maintained its score of 'performing well' (paragraph 79).
- 6 In particular, arrangements in relation to Internal Control have improved significantly since 2007. Existing good practices in Financial Management and Financial Reporting have also been embedded (paragraph 80).
- 7 Significant changes are being made to the Use of Resources review for 2009 as the new Comprehensive Area Assessment is implemented, which the Council will need to prepare for (paragraphs 85 to 87).
- 8 The Council has many significant challenges in future years, including:
 - The current global economic downturn places the timetable of the city's ambitious growth and regeneration programme at risk. The Council is investigating innovative procurement strategies to deliver its growth agenda, which will require effective project management, including the identification and management of risks (paragraphs 61 and 62);

- In Children's Services, work is continuing to transform practices, to ensure that statutory obligations are met efficiently, and to deliver an improved service. The investments made in Children's Services have resulted in the service achieving a 2 star rating in the recent Ofsted Annual Performance Assessment (paragraph 61);
 - Successful completion of a number of significant capital schemes, notably, a number of schemes relating to the redevelopment of the city centre, the Waste Management Solution and the schools refurbishment programme (paragraph 61);
 - Translating achievements in improving processes into improved outcomes. In particular, whilst the Council can demonstrate that it has good processes in place to manage and improve Value for Money, it has not been able to demonstrate that these have translated into improved performance either consistently across the Council as a whole, or relative to comparator authorities (paragraphs 83 to 84);
 - The adoption from 2010/11 of International Financial Reporting Standards (IFRS) in local government, with comparative data required for 2009/10 (paragraph 61).
- 9** The Annual Governance Statement sets out key elements of the systems and processes that comprise the Council's governance framework, and the arrangements for reviewing its effectiveness. From this review, the Council identified a number of areas for ongoing improvement (paragraphs 63 to 67).
- 10** For 2008 the Peterborough City Council has been assessed as improving adequately. The following Direction of Travel summary highlights key issues:
- Outcomes are improving in some areas that matter most to residents. Improvements are being made in environmental services, particularly in recycling and composting and in reported incidents of fly-tipping and graffiti. There are areas where performance is below expectation and the overall rate of improvement has not reached the average for single tier authorities. For example, crime levels are reducing but still comparatively high. The Council is working effectively in partnership. This includes delivering multi-agency services in special schools, reducing under age drinking and improving the provision of English for speakers of other languages. The Council performs well in the use of resources.
- 11** Good progress is being made to implement plans to drive improvement. Key strategic plans are in place and there is alignment between Council and community plans. This is reinforced through the new performance management system. Capacity is being strengthened through a management restructure, the filling of key vacancies and by reinvesting savings in frontline services. Actions are addressing poorer performing services but are yet to achieve all planned improvements.

Recommendations

- 12** We have made the following recommendations on the basis of the key messages detailed above:

Summary

Recommendation
R1 <ul style="list-style-type: none">• The Council needs to continue to deliver improved outcomes in Children's Services (paragraph 61).
R2 <ul style="list-style-type: none">• The investment being made by the Council in respect of business transformation and service developments needs to be translated into performance outcomes (paragraph 83).
R3 <ul style="list-style-type: none">• Further improvements need to be made in respect of the Council's arrangements for ensuring Data Quality (paragraphs 93 and 94).
R4 <ul style="list-style-type: none">• Ensure that early steps are taken to plan for the adoption in local government accounting from 2010/11 of International Financial Reporting Standards (IFRS). Comparative data will be required for the 2009/10 year, meaning that the practical transition date to IFRS is 1 April 2009 (paragraph 61).
R5 <ul style="list-style-type: none">• Given the current financial climate, it will be important for the Council to closely monitor its own financial position, and to work with its partners to take action where appropriate (paragraph 61).
R6 <ul style="list-style-type: none">• The Council will need, as a priority, to prepare for the significant changes to the criteria and framework of the Use of Resources review that apply with the introduction of the Comprehensive Area Assessment from 2009 (paragraphs 62 to 87).
R7 <ul style="list-style-type: none">• Balances carried forward by schools at 31 March 2008 were £9.5m, an increase of £1.1m compared to 2006/07. In light of this, the Council, in conjunction with School Governors, should continue to keep the level of reserves under review and consider whether there is an appropriate balance between holding funds for future use and current expenditure (paragraph 57).
R8 <ul style="list-style-type: none">• Key areas for improvement arising from Direction of Travel assessment include:<ul style="list-style-type: none">– Improving revenues and housing benefits performance– Improving other currently poorly performing services

Purpose, responsibilities and scope

- 13** This Annual Audit Letter (the "letter") summarises the key issues arising from our work carried out during the year. We have addressed this letter to members as it is the responsibility of the Cabinet to ensure that arrangements are in place for the conduct of its business and that it safeguards and properly accounts for public money. We have made recommendations to assist the Cabinet in meeting its responsibilities.
- 14** The letter also communicates the significant issues to key external stakeholders, including members of the public. We will publish this letter on the Audit Commission website at www.audit-commission.gov.uk.
- 15** We have prepared this letter as required by the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission. This is available from www.audit-commission.gov.uk.
- 16** As your appointed auditor, we are responsible for planning and carrying out an audit that meets the requirements of the Audit Commission's Code of Audit Practice (the Code). Under the Code, we review and report on:
- the Council's accounts; and
 - whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 17** Also, the Audit Commission uses our assessments to provide scored judgements for the Healthcare Commission to use as part of its Annual Health Check.
- 18** This letter summarises the significant issues arising from both these areas of work and highlights the key recommendations that we consider the Council should be addressing. We have listed the reports issued to the Council relating to the 2007/08 audit at the end of this letter.

How is Peterborough City Council performing?

19 The Audit Commission's overall judgement is that Peterborough City Council is improving adequately and we have classified Peterborough City Council as [zero/one/two/three/four star] in its current level of performance under the Comprehensive Performance Assessment. These assessments have been completed in all single tier and county councils with the following results.

Figure 1 Overall performance of councils in CPA



Source: Audit Commission

Our overall assessment - the CPA scorecard

Table 1 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving adequately
Previous corporate assessment/capacity to improve, as included in overall CPA judgement	3 out of 4
Current performance	
Children and young people*	2 out of 4
Social care (adults)*	3 out of 4

How is Peterborough City Council performing?

Element	Assessment
Use of resources*	3 out of 4
Housing	3 out of 4
Environment	3 out of 4
Culture	3 out of 4
Benefits	4 out of 4

(Note: * these aspects have a greater influence on the overall CPA score)
(1 = lowest, 4 = highest)

The improvement since last year - our Direction of Travel report

- 20** The Audit Commission's overall judgement is that Peterborough City Council is Improving Adequately
- 21** Outcomes are improving in some areas that matter most to residents. Improvements are being made in environmental services, particularly in recycling and composting and in reported incidents of fly-tipping and graffiti. There are areas where performance is below expectation and the overall rate of improvement has not reached the average for single tier authorities. For example, crime levels are reducing but still comparatively high. The Council is working effectively in partnership. This includes delivering multi-agency services in special schools, reducing under age drinking and improving the provision of English for speakers of other languages. The Council performs well in the use of resources.
- 22** Good progress is being made to implement plans to drive improvement. Key strategic plans are in place and there is alignment between Council and community plans. This is reinforced through the new performance management system. Capacity is being strengthened through a management restructure, the filling of key vacancies and by reinvesting savings in frontline services. Actions are addressing poorer performing services but are yet to achieve all planned improvements.

What evidence is there of the Council improving outcomes?

- 23** The Council has made improvements against its priorities which are:
- plan and deliver a safe, attractive and environmentally friendly city;
 - achieve the best possible health and well being;
 - make Peterborough a better place in which to live and work; and
 - provide high quality opportunities for learning and ensuring children are healthy and safe;
- with the underpinning driving principle to:
- be accessible, effective and efficient.

How is Peterborough City Council performing?

- 24** There is evidence of improvement in a number of priority areas including, environmental services, adult social care and transport. Overall performance as measured by performance indicators is less positive, with 54 per cent of Council performance indicators improving in the last year. This is below the national average for single tier authorities, where over 61 per cent of indicators improved. 69 per cent of indicators improved over the last three years which is above the average range for all single tier authorities. The Council has 24 per cent of its indicators in the top 25 per cent of councils compared to a national average of 30 per cent.
- 25** The Council continues to improve most environmental services. Recycling and composting levels are amongst the best 25 per cent of councils nationally, achieving 46.6 per cent, and further increases are being achieved through the additional collection of glass. The introduction of more frequent cleansing schedules has contributed to reduced reported incidents of fly-tipping and graffiti and performance is amongst the best 25 per cent of councils. However, perception indicators about increased levels of litter have increased and are above average. This is now being tackled through the 'My Street' agenda. The amount of waste collected is amongst the worst 25 per cent of councils.
- 26** Improvement in outcomes for children and young people are mixed. Ofsted found that the Council delivers only minimum requirements for children. The management of children's services are adequate. Progress has been made in the area of staying safe. There has been year on year reduction in NEET levels between 2005/06 and 2007/08. The Council is making satisfactory progress in responding to the recommendations of the last Ofsted report published in November 2007. The standards of attainment reached by some children and young people in Peterborough are lower than those in similar councils and nationally. Performance is below the national average for achieving five or more GCSEs, grades A-G. Outcomes for looked after children and young people in care are good but remain low for young people with learning difficulties and/or disabilities and those from the Gypsy/Roma and Travelling community. Performance in 2008/09 (unaudited data) has improved across the majority of children's care indicators.
- 27** Overall adult social care performance is good. The CSCI annual performance assessment of social care services for adults reported 'good' performance for 2007/08. But indicator performance is inconsistent. The Council is amongst the best 25 per cent of councils for helping adults with mental health problems and adults with a learning disability to live at home. But it is amongst the worst 25 per cent of councils for the percentage of new assessments of older people.
- 28** Progress against some priorities is mixed. Crime levels are reducing, but from a low base with all but one indicators amongst the worst 25 per cent of councils. This is a key area of focus for the future. Performance of the Youth Offending Service continues to be effective with a significant reduction in first time entrants. The Council has recently been awarded transport authority of the year which complements its Beacon Status for accessibility to public transport. Through effective working with the local major bus operator a 12 per cent increase in public transport passengers has been achieved.
- 29** The Council contributes proactively to wider community outcomes. Significant improvements have been made in reducing under age drinking. Enforcement targeted

How is Peterborough City Council performing?

at underage sales of alcohol has contributed to a significant decrease in sales reducing to 0 per cent during the last operation conducted in July 2008. Multi-agency licensing visits to pubs have enabled partners to make a number of checks. For example this has included weights and measures, fire exits and the smoking ban. The Nene Gate School for children with behavioural, emotional and social difficulties, opened in January 2008. This provides a range of multi-agency services including health professionals fully engaged in its development and ongoing operation.

- 30** Overall the Council has a good focus on its vulnerable citizens, but performance in some areas, including housing benefits, is poor. The Council has achieved level three of the Local Government Equality Standard. The city's population has grown significantly since 2005. There are now over 100 languages spoken in a city of 163,300 residents. The Council is responding to this rapid change in its population. 24 community groups have been formed as the City Council strive to engage with its new and ever changing communities. But the major barrier for new arrivals and also for some excluded groups in older migrant communities is language. The Council's provision for English for Speakers of Other Languages (ESOL) training provision is not able to cope with the overwhelming recent rise in demand. The Council is talking to major employers to identify how they can support English language teaching projects, is working with Muslim communities to identify ways of helping women to learn English and support their inclusion in the wider community and is talking to current providers about expanding services. This is work in progress and improvements in language skills are yet to be seen. A recent Ofsted study was positive about initiatives for inclusion of children and young people.
- 31** Revenues and benefits services performance is mixed. Although the service has retained a maximum CPA rating score of four, processing times, in 2007/08, for new housing benefit claims and NNDR collection rates are amongst the worst 25 per cent of councils nationally. Processing times for housing benefit changes in circumstances, accuracy of housing benefit processing and Council Tax collection rates are below average. Some progress has been made on improving revenues and benefits service in 2007/08 and 2008/09. The Council has restructured the service, has made staff responsibilities more generic, developed a business support unit and is focusing on improving performance management.
- 32** Performance in 2007/08 is poor for the percentage of invoices paid and in the speed of delivering planning applications. The planning function has been fundamentally reviewed with the objective of delivering significant and sustained improvement in support of the growth aspirations for the City. The introduction of a new system to manage invoices has made an efficiency saving of £1 million.
- 33** Overall the Council achieved a score of three for the 2007/08 Use of Resources judgement, meaning that it is performing well. Performance continues to be adequate in the delivery of value for money. The Council has achieved significant savings through its business transformation programme.

How much progress is being made to implement improvement plans to sustain improvement?

- 34** Strategic plans for improvement are in place. The Corporate Plan sets out the Council's commitment to deliver the priorities contained within the sustainable

How is Peterborough City Council performing?

community strategy. The priorities have been consulted on with the citizens' panel. Other key plans are in place including plans for the future growth of the city. The Integrated Growth Study launched in February 2008 is the largest of its kind in the UK. This Peterborough-wide project analyses over 400 existing studies and documents and draws on extensive professional expertise and innovative techniques to determine the optimum pattern of housing and employment up to 2026. This is being used to inform vital strategies such as the draft Core Strategy. The study is supported by linked plans which consider development, transport, culture, water use and energy use. Council priorities are clear from its key strategies.

- 35** Some plans to deliver improvement in specific services are in place with improved outcomes planned to be delivered in 2009/10. Business planning has been transformed but this is the first year and its robustness has not yet been tested. The revenues and benefits service plan sets out required actions to achieve improvement but whilst these are being implemented performance has not yet reached target levels. A transition plan to deliver improvements identified through an external review of development control and planning services are being implemented but the impact of this is at an early stage. In HR a number of revised and new policies are being developed.
- 36** Improvement actions are implemented. The Council has monitored progress against recommendations made on its children's services following the Corporate Assessment in 2007.
- 37** Performance management is being strengthened. Its balanced scorecard looks at the performance of the Council including against corporate priorities, Local Area Agreement (LAA) targets, financial targets and the leadership agenda. A dashboard has been created around this. Services are at different stages of developing their own dashboards and performance management. Performance is a fixed item on the Corporate Management Team (CMT) agenda on a fortnightly basis where officers present performance information across the Council, linking areas which had previously been reported on a silo basis. There is a strong focus on performance management of partnerships. A Performance Hub for the Greater Peterborough Partnership (LSP) brings together performance specialists and analytical capacity across partners to provide collective analysis of performance data and wider delivery intelligence provided by delivery partners.
- 38** Capacity continues to be strengthened. The Council has made savings of over £3 million in the last year through its business transformation programme. These savings have been reinvested in frontline services. Effective partnership working is beginning to address poor performance in some areas. Through a Solution Centre approach the Council and its LSP partners are undertaking detailed analysis of specific services and developing innovative solutions. Initial trialling on teenage conceptions has proved successful and identified solutions are about to be piloted in 'at risk' areas across the city. Capacity in Children's services has improved though successfully appointing social workers and maintaining low level vacancies. Co-location of teams in one building has reduced building costs and improved joint working and communication between teams. The Council is making innovative staff appointments such as seconding the former police divisional commander to be Director of Operations and a

senior management restructure aims to make CMT less operational and more strategic.

- 39** Service prospects for improvement are positive. The CSCI annual performance assessment of social care services for adults for 2007/08 reported 'promising' capacity to improve. The annual performance assessment of services for children and young people reported that capacity to improve; including the management of services for children and young people is 'adequate'.

Service inspections

Commission for Social Care Inspectorate

Summary report of 2007/08 annual performance assessment of social care services for adults services

Areas for judgement	Grade awarded
Delivering Outcomes	Good
Improved health and emotional well-being	Good
Improved quality of life	Adequate
Making a positive contribution	Good
Increased choice and control	Adequate
Freedom from discrimination and harassment	Good
Economic well-being	Good
Maintaining personal dignity and respect	Adequate
Capacity to Improve (Combined judgement)	Promising
Leadership	Promising
Commissioning and use of resources	Promising
Performance Rating	2 Stars

Annual Performance Assessment Children and Young People

Assessment judgement area	APA grade
Overall effectiveness of children's services	2
Being healthy	2

How is Peterborough City Council performing?

Assessment judgement area	APA grade
Staying safe	2
Enjoying and achieving	2
Making a positive contribution	3
Achieving economic well-being	2
Capacity to improve, including the management of services for children and young people	2

Overall effectiveness of children's services

Grade 2

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Audit of the accounts

- 40** As your appointed auditor, we issued an unqualified opinion on the Council's accounts on 23 September 2008.
- 41** The Audit Commission Code of Practice requires us to form an opinion as to whether the Statement of Accounts presents fairly the financial position of the Council and its income and expenditure for the year, and whether they have been properly prepared in accordance with relevant legislation and applicable accounting standards. This section of our Letter summarises the results of our audit work in relation to the Statement of Accounts for the year ended 31 March 2008.

Formal communication of relevant audit matters to those charged with governance (ISA 260 Report)

- 42** We are required to comply with the International Standard on Auditing (ISA) 260 - "Communication of audit matters to those charged with governance". This requires us to communicate the following matters to those charged with governance who, in the case of the Council, are deemed to be the Audit and Accounts Committee:
- Expected modifications to the auditors' report;
 - Unadjusted misstatements;
 - Material weaknesses in the accounting and internal control systems identified during the audit;
 - Views about the qualitative aspects of the entity's accounting practices and financial reporting;
 - Matters specifically required by other auditing standards to be communicated to those charged with governance; and
 - Any other relevant matters relating to the audit.
- 43** We presented our ISA 260 report to Members of the Audit and Accounts Committee on 23 September 2008. We were able to report that the accounts contained no unadjusted misstatements. Our report highlighted certain matters relating to accounting and control which are discussed in paragraphs 22 to 24 below.
- 44** The working papers provided by the Strategic Finance team were exemplary again this year, ready on the first day of the audit and prepared on a CD with clear links to the Statement of Accounts. We have reported the Council's working papers to the Audit Commission as an example of notable practice. No material adjustments were made to the accounts.
- 45** The ISA 260 report noted two significant matters relating to the Statement of Accounts:
- the 2007/08 Statement of Accounts included a prior period adjustment of £13.1m in relation to the investment properties included on the Balance Sheet; and

Audit of the accounts

- adjustments were made to the 2007/08 Statement of Accounts in relation to the Council's Private Finance Initiative ("PFI") schools to ensure that the accounting entries were appropriate.
- 46** We concluded that management's treatment of the above items in the 2007/08 Statement of Accounts was appropriate.
- 47** We also included detailed recommendations in the 'Report to Management 2007/08' which was issued to management in November 2008, focused on issues that arose during the final audit of the accounts. The more significant recommendations were that:
- the Council obtains more assurance over the value of the VAT shelter to be paid by Cross Keys Homes each year; and that
 - the Council reviews lease arrangements in place to determine whether these are the most suitable terms for the Council.
- 48** The Council has agreed to take action in respect of our recommendations and a detailed action plan has been prepared and is included within each report. We will consider progress in implementing these actions as part of our 2008/09 audit.
- 49** ISA 260 also requires us to communicate with those charged with governance regarding:
- The concept of materiality and its connection to our audit approach;
 - Our approach in addressing the risk of material misstatement;
 - Our approach to the assessment of, and reliance on, internal controls;
 - Intended reliance on the work of internal audit;
 - The work to be undertaken by any other firms of auditors, and how we will obtain assurance over the procedures of other auditors; and
 - The independence and objectivity of the audit team.
- 50** These matters were included within the 2007/08 Audit Plan which was presented to the Audit and Accounts Committee in March 2007. In our ISA 260 report we reported that there had been no changes since that time. In particular, we confirmed that we remain independent of the Council within the requirements of ethical and auditing standards.

Liaison with the Council during the year

- 51** During the course of the year we have held regular meetings with the Chief Executive, Director of Strategic Resources, Monitoring Officer and the Head of Strategic Finance to discuss emerging issues and priorities facing the Council, matters arising from audit work and areas in which we may be able to assist the Council. These meetings have been valuable in ensuring a shared understanding of key issues and priorities for the Council and have allowed for discussion of more significant matters arising from audit work.
- 52** We have also held quarterly meetings with the Council's internal audit service. These meetings have formed the basis of joint planning and cooperation designed to ensure

that duplication is avoided and that we work effectively together. There are a number of examples where we have been able to place reliance on the work of internal audit and also where we have worked effectively together.

Financial Standing

53 In this section we comment upon the Council's general financial standing taking into account both its performance during the last year and its ability to meet known financial obligations.

Overall financial performance in 2007/08

54 As set out in the Explanatory Foreword to the 2007/08 Accounts, the Council's revised net revenue budget for the year was £132.6m (net of Dedicated Schools Grant passed to schools), against which actual spending totalled £130.2m. The Statement of Accounts highlighted that the overall position was underpinned by net underspends in Strategic Resources of £4.1m and Assistant Chief Executive's of £1.3m, and an overspend of £3.0m in Children's Services.

55 The key factors causing the underspends were the result of interest receipts from investments being £1.2m higher than budget and £2.9m received from the VAT Shelter arrangement with Cross Keys Homes, which had previously been budgeted for as a capital rather than a revenue receipt. The key factor for the overspend in Children's Services was the demand led Looked After Children budget.

56 At 31 March 2008, total reserves available for use (earmarked reserves and General Fund balances) stood at £38.6m. Of this, £23.1m was earmarked for specific purposes, with a further £9.5m under the control of locally managed schools and £4.5m held to cover insurance risks. General Fund balances of £6.0m represented 4.5% of the net 2007/08 budget.

57 In light of the year-on-year increase of £1.1m in reserves under the control of locally managed schools, the Council, in conjunction with School Governors, should continue to keep the level of reserves under review and consider whether there is an appropriate balance between holding funds for future use and current expenditure.

Outlook for 2008/09 and beyond

58 The Council approved the budget for 2008/09 on 4 February 2008, as part of the Medium Term Financial Plan. The budget requirement for 2008/09 was £128.4m (being £237.0m less Dedicated Schools Grant of £108.6m), a 6.6% increase compared to the 2007/08 base budget. Funding for the capital programme for the year totalled £76.0m.

59 The latest financial position for 2008/09, as reported to Cabinet in February 2009, based on financial information to the end of December 2008, highlighted that overall the budget position is showing a forecast year-end underspend of £50,000.

60 We note that the Council had invested £3m in Icelandic banks and that management continue to report the latest position regarding these monies to as part of monthly budgetary control reports to the Council and Cabinet. We note that this investment was in line with the Council's treasury management policy at that time. The treasury

Audit of the accounts

management policy is regularly updated and has been reviewed and considered by the Council in the light of a globally deteriorating credit market.

- 61** There are a number of significant challenges facing Peterborough in future years. For example:
- The impact on the Council and the local economy of the general economic downturn. For example the current budget for the 2011/12 financial year shows a deficit of £2.7m. The Council is monitoring the potential impact on both its revenue and capital budgets;
 - The Council is continuing to oversee a number of significant capital schemes, notably, a number of schemes relating to the redevelopment of the city centre, the Waste Management Solution and the schools refurbishment programme. The economic downturn places the timetable of the city's ambitious growth and regeneration programme at risk. The Council is investigating innovative procurement strategies to deliver its growth agenda;
 - The investments made in Children's Services have resulted in the service achieving a 2 star rating in the recent Ofsted Annual Performance Assessment. A zero based budgeting exercise has also been undertaken as part of improvements in financial management in the service. Work is continuing to transform practices in the service, to ensure that statutory obligations are met efficiently, and to deliver an improved service; and
 - The adoption in local government accounting of International Financial Reporting Standards (IFRS) applies from 2010/11. Comparative data will be required for the 2009/10 year, meaning that, the practical transition date to IFRS is 1 April 2009.
- 62** The successful completion of these major initiatives and programmes of work will require effective operational and financial management, including the identification and management of risks relating to the schemes.

Annual Governance Statement

- 63** New reporting requirements for 2007/08 were introduced by CIPFA, in conjunction with the Society of Local Authority Chief Executives (SOLACE), through which local authorities were required to produce an Annual Governance Statement (AGS). This replaced and extended the previous requirements for a Statement on Internal Control.
- 64** Authorities were required to report publicly in the AGS on the extent to which they comply with their own local code of governance, how they have monitored the effectiveness of their governance arrangements in the year, and any planned changes in the coming period.
- 65** In its AGS for 2007/08, the Council reported that it had approved and adopted a Code of Corporate Governance, which is consistent with the principles of the framework established by CIPFA / SOLACE. It also confirmed that its governance framework had been in place and operated throughout the year.
- 66** The AGS sets out key elements of the systems and processes that comprise the Council's governance framework, and the arrangements for reviewing its effectiveness.

From this review, the Council concluded that the framework provided satisfactory assurance on the effectiveness of its governance arrangements, but identified a number of areas for ongoing improvement, for example around:

- Management of the Private Finance Initiative schemes at the Jack Hunt and Ken Stimpson schools;
- Development of Local Area Agreements and the establishment of robust governance arrangements for partnerships;
- Ensuring that services that are required to develop and test business continuity plans do so;
- Safeguarding electronic data following a review of the Council's Information and Communication Technology infrastructure; and
- Weak data quality arrangements.

67 The AGS confirmed that the first two issues had been addressed and that actions were ongoing to address the other issues. We reviewed the AGS to consider whether it complied with relevant guidance and whether it was consistent with other information known to us from our audit work. We found no areas of concern to report in this context. It will be important for the Council to continue to monitor and support the implementation of the planned actions to address the identified areas for improvement.

Certification of grant claims

68 We worked with the Council to certify the relevant claims and returns required by grant paying bodies for 2007/08. Due to changes in recent years to the Audit Commission certification requirements, the number of claims subject to audit was further reduced.

69 To date we have audited seven grant claims. One has been qualified (the National Non Domestic Rates Return). The Council should review the reason for qualification in this claim, and take steps to ensure relevant matters are addressed in future years.

Whole of Government accounts

70 Central government embarked on a programme leading to the preparation of consolidated accounts for the 'whole of government', including local government. The Council is required to submit a 'consolidation pack' to Communities and Local Government and we are required, as your auditor, to undertake a range of procedures and report on the pack.

71 We issued an unqualified opinion on the return stating that "the consolidation pack is consistent with the statement of accounts for the year ended 31 March 2008 on which we have entered our opinion in accordance with section 9 of the Audit Commission Act 1998".

Other work

- 72** In addition to our audit under the Code, we have also undertaken other work for the Council during 2007-08 (which was reported to the Cabinet in our 2006/07 Audit and Inspection Letter in March 2008):
- 73** We undertook a Business Process Mapping exercise at the request of the Director of Strategic Resources.
- 74** We also supported the Council in the development of a business case which secured revenue and capital funding for the Neighbourhood Investment Plan and John Mansfield Community Centre in Peterborough from the East of England Development Agency (EEDA) via the Investing in Communities Programme (IiC).
- 75** PwC has also been engaged by the East of England Regional Assembly to conduct a Performance Improvement Programme for the benefit of the Great Peterborough Partnership (GPP), the Local Strategic Partnership for Peterborough. This partnership comprises a wide range of local organisations, including the Council as lead member.
- 76** No other work in addition to our responsibilities under the Code has been undertaken during the 2008/09 financial year.

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Use of resources

- 77** External auditors are required by the Audit Commission to conduct a Use of Resources review at all Local Authorities, including the Council. The work involves assessing the Council's performance in five theme areas, using eleven criteria (or "Key Lines of Enquiry") specified by the Audit Commission. The outcomes contribute to the Council's overall CPA score.
- 78** Councils are awarded a score on a scale of one to four for each area and for their performance as a whole. These scores are based on the following scale:
- 1 = below minimum requirements – inadequate performance
 - 2 = only at minimum requirements – adequate performance
 - 3 = consistently above minimum requirements – performing well
 - 4 = well above minimum requirements – performing strongly
- 79** We undertook our most recent Use of Resources review in the period August to October 2008. The results of that review, and for the previous review undertaken in 2007, are shown in the table below. The Council's assessed scores increased for five of the eleven 'key lines of enquiry'. Overall, the Council maintained its score of level three 'performing well'.
- 80** In particular, arrangements in relation to Internal Control have improved since 2007. Existing good practices in Financial Management and Financial Reporting have also been embedded.
- 81** The scores awarded to the Council are summarised in the table below:

Theme	2007 Score	2008 Score
Financial Reporting	4	4
Financial Management	3	3
Financial Standing	3	3
Internal Control	2	3
Value for Money	2	2
Overall score	3	3

- 82** The Council should continue to implement the issues raised and recommendations made last year in order to demonstrate continuous improvement. We recognise that the Council has continued to improve its Financial Management and Financial Standing (especially in relation to Debt Management) practices since 2007, although the overall scores for these criteria have remained at Level 3.

Use of resources

- 83** In respect of areas for improvement, as of 31 March 2008, it remained unclear how the investment being made by the Council in respect of business transformation and service developments translated into performance outcomes, despite some areas of key work (for example the Solutions Centre and analysis of performance information with partners on areas such as teenage pregnancies).
- 84** The Council's Value for Money score remained at Level 2 in 2008 as the Council needed to demonstrate further relative improvements in performance. For example, in educational achievement and in its ranking compared to comparator authorities. These need to be allied to demonstrable efficiencies, as well as building on performance achieved within other priority areas, for example, children in care.
- 85** In addition, the Council needs to be aware of, and prepare for, the revised requirements of the 2008/09 Use of Resources assessment that move away from the achievement of criteria to 'characteristics of performance'.
- 86** The revised Use of Resources assessment will be broader in scope and embrace wider resource issues such as people, workforce planning and the use of natural resources. In addition it will consider and assess the Council's approach to mainstreaming the themes of:
- Partnership working;
 - Data quality;
 - Equalities; and,
 - Sustainable development.
- 87** The forthcoming assessment will place more emphasis on considering outcomes for local people and it is particularly important that the Council recognises that the revised KLoE are more strategic and focus much more explicitly than previously on value for money achievements, rather than on processes. In particular the Council will be required to demonstrate:
- Whether arrangements are working effectively in practice;
 - What difference they are making;
 - Whether they are achieving expected outcomes; and,
 - Value for money.

National Fraud Initiative

- 88** The National Fraud Initiative ("NFI") is a data matching exercise that compares sets of data to identify inconsistencies or other circumstances that might indicate fraud or error. It also helps auditors to assess the arrangements that audited bodies have put in place to deal with fraud.
- 89** The Council has used the NFI web based application to identify data matches, which have been reviewed and addressed as they have arisen.

Data Quality

- 90** The overall score reported to the Audit Commission in October in respect to this stage of the audit was “3”. This is an improvement on the prior year when the Council achieved an overall score of “2”.
- 91** The Council will need to ensure that data quality arrangements affecting partnership working are both fully embedded, and clearly demonstrable, for the 2009 assessment. Consideration should also be given to ensuring that partner bodies are fully involved and the development and updating of future data quality policies, procedures and guidance notes.
- 92** Evidence will be required for the 2009 assessment to demonstrate that key actions/processes identified in the Data Quality action plan have been fully implemented and embedded.
- 93** The Council's current data sharing guidance provides information on sensitivity of data and council information and primarily addresses the Council's way of sending information externally. However, this does not detail whether and/or how the Council validates data from third parties. The proposed Information Management Policy should identify and take account of all instances where data is shared and also the types of data being shared.
- 94** Furthermore, the Council should:
- monitor and report on the interventions made by the Strategic Improvement Division and Performance Management Development Group as appropriate, as this would provide an indication of the state of data quality within the Council, and not just Best Value Performance Indicator data; and,
 - assess the extent and quality of training provided across all departments to ensure that relevant officers have the necessary skills to ensure the effective collection, recording, analysis and reporting of data.

Specific risk-based work

- 95** We conducted three further performance reviews in 2007/08. These were:
- a review of the Council's Internal Audit service;
 - a review of the project management arrangements and methodology in respect of identifying, challenging and evidencing efficiencies arising from the Council's benefit realisation plans; and,
 - a review of the Council's project and performance management arrangements.
- 96** We reported to management on these reviews in July 2007. The detailed recommendations in respect of these projects were reported in the 2006/07 Audit and Inspection Letter presented to the Cabinet in March 2008.
- 97** We have conducted follow-up reviews in respect of the above during the 2008/09 financial year. The review of Project Management Arrangements was reported in May

Use of resources

2008. We noted that the Council had made broad progress across the range of issues and matters arising from the July 2007 report.

- 98 The follow-up review of the Internal Audit service has been issued to management in draft for comment and the Benefits Realisation review is currently being undertaken.
- 99 We also completed our follow-up review of our Debt Management Report, which was reported to management in November 2008. We noted that debt recovery procedures had improved and that central oversight of debt recovery had been strengthened.

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Closing remarks

- 100** We have discussed and agreed this letter with the Chief Executive and the Director of Strategic Resources. We will present this letter at the Cabinet meeting on 30 March 2009 and will provide copies to all Council members.
- 101** Further detailed findings, conclusions and recommendations on the areas covered by our audit are included in the reports issued to the Council during the year.

Table 2 Reports issued

Report	Date of issue
Audit plan	June 2007
Internal Audit review	July 2007
Benefits realisation review	July 2007
Programme and Project Management review	July 2007
Programme and Project Management review follow - up	May 2008
Report to those charged with governance	September 2008
Opinion on financial statements	September 2008
Value for money conclusion	September 2008
Report to management on the 2007/08 Statement of Accounts audit	November 2008
Debt management review follow-up	November 2008
Annual audit letter	March 2009

- 102** The Council has taken a positive and constructive approach to audit and inspection work, and I wish to thank the Council's staff for their support and cooperation during the audit.

Availability of this letter

- 103** This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Council's website.

Nigel Smith

CAAL

March 2009