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Peterborough City Council

Annual Audit Letter

2014/15

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Government and
Public Sector

October 2015

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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. Our audit does not ordinarily identify all such matters.

Introduction

The purpose of this letter

This letter summarises the results of our 2014/15 audit work for members of the Authority.

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

- Audit opinion for the 2014/15 financial statements, incorporating conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- Report to those charged with Governance (ISA (UK&I) 260); and
- Annual Certification Report (to those charged with governance) for 2013/14.

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.

Our 2014/15 audit work has been undertaken in accordance with the Audit Plan that we issued in March 2015 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

We met our responsibilities as follows:

| Audit Responsibility | Results |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Perform an audit of the accounts in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).</i> | <p>We reported our findings to the Audit Committee on 21 September 2015 in our 2014/15 Report to those charged with governance (ISA (UK&I) 260).</p> <p>On 30 September 2015 we issued an unqualified audit opinion.</p> |
| <i>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.</i> | <p>We reported to the National Audit Office that the consolidation return was consistent with the audited statutory accounts.</p> |
| <i>Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.</i> | <p>We issued an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 30 September 2015.</p> |

| Audit Responsibility | Results |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|
| <p><i>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.</i></p> | <p>We had no matters to report following our review of the Council's Annual Governance Statement.</p> |
| <p><i>Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.</i></p> | <p>We had no matters to report in the public interest.</p> |
| <p><i>Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.</i></p> | <p>We identified no other action to be taken in relation to our responsibilities under the Audit Commission Act.</p> |

| Audit Responsibility | Results |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|
| <p><i>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.</i></p> | <p>We issued our audit completion certificate on 30 September 2015.</p> |

Audit Findings

Accounts

We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit opinion on 30 September 2015.

Our Report to Those Charged with Governance (ISA (UK&I) 260), detailing the findings from our audit, was presented to the Audit Committee on 21 September 2015. We wish to draw the following points, included in that report, to your attention in this letter.

Lack of reconciliation of Gross Internal Area (GIA) documentation

The Authority's property valuer, Wilks Head & Eve LLP ("WHE"), prepare their valuation of certain properties based on the gross internal area (GIA) of that property. This information is provided to WHE by the Authority and therefore any errors in this could impact the valuation and ultimately the amounts included in the Balance Sheet.

Our testing noted differences in the GIAs on the valuation certificates compared to supporting documentation (e.g. information on the Authority's asset register, floor plans and lease documentation) for 4 of the 6 properties tested.

Investigation identified that the Council's fixed asset register was not appropriately up-to-date with the relevant GIA information. However, our work in this area concluded that the amounts on the valuation certificates were appropriate and no adjustments were required to the accounts as a result of this matter.

We raised an internal control recommendation within our ISA 260 report in relation to this matter.

Accounting for schools' non-current assets

In accordance with the Code of Practice on Local Authority Accounting 2014-15 ('the Code') and LAAP Bulletin 101 CiPFA's Local Authority Accounting Panel (LAAP) bulletin 101, the Authority reviewed its treatment on accounting for schools' non-current assets.

In summary, the guidance requires schools' non-current assets to be included on the Authority's Balance Sheet if they are controlled by the Authority. Control over the asset must be based on rights that are either legal or substantive.

The Authority concluded that it did not have control of non-current assets in relation to all Voluntary Aided / Voluntary Controlled Schools as it did not own these schools and had no substantive rights over the assets.

Our review and testing of this conclusion identified the following matters in relation to 5 schools with a total net book value of £9.5m:

- For one school, no title documents could be located to confirm the legal owners of the assets and assess the legal rights over the asset; and
- For 4 voluntary aided/voluntary controlled schools, title deeds confirmed that the Authority is legal owner of the assets.

We have considered the judgements and assumptions made by the Authority within its assessment of these 5 schools. It is the Authority's view that legal ownership should reside with, and is in the process of transferring to, the governing

bodies of the schools, who have substantive control over these assets. Therefore, the Authority does not have control over the assets and has not included these assets in the balance sheet. We have reviewed supporting evidence for this view, including relevant legislation, provided by the Authority's legal team.

We are satisfied with the conclusions made by the Council not to recognise these assets. However, we requested disclosure of this matter, including the net book value of the non-current assets of £9.5m, in a note to the accounts.

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 Council had in place, for 2014/15, proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In line with Audit Commission requirements, our conclusion was based on two criteria:

- that the organisation has proper arrangements in place for securing financial resilience; and
- that 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, which included:

- Obtaining and reviewing the Council's Medium Term Financial Strategy, including the assumptions utilised in identifying the funding gaps arising;
- Considering and discussing the emerging savings options with officers, in order to understand the current plans to address the funding gap;

- Considering the Council's historic record in delivering savings; and
- Considering the monitoring and reporting arrangements, together with governance structures in place in relation to savings and efficiencies.

We issued an unqualified conclusion, on 30 September 2015.

The ongoing achievement of savings, together with the impact of future financial settlements should remain a key focus for the Council given:

- The Council has significant funding gaps within its Medium Term Financial Strategy - our review of the Strategy presented to the Council in March 2015 noted that total recurrent savings required over the first five years of the strategy amounted to £19.5m; and
- Since March 2015, other financial pressures have emerged – largely as a result of further estimated reductions in grant funding for 2016/17. As a result of this, and additional in-year pressures, the forecast deficit for 2016/17 had increased from £10.1m to £18.3m as at September 2015.

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 National Audit Office. 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 2013/14 to those charged with governance on 2 February 2015. We certified 1 claim worth £74.1 million. A qualification letter was required to set out the issues arising from the certification of the claim. The significant details were also set out in our Annual Certification Report for 2013/14.

We will issue the Annual Certification Report for 2014/15 in December 2015.

An audit is not designed to identify all matters that may be relevant to those charged with governance. Our audit does not ordinarily identify all such matters.

Other matters reported to those charged with governance

These are the matters we consider to be most significant for the Authority and have been raised with those charged with governance. Other, less significant recommendations have been brought to the attention of the Director of Finance.

As detailed within the audit findings section of this report, we identified a control deficiency within the accounting for property, plant and equipment in relation to Gross Internal Areas. This is set out in the table below. We also identified a deficiency in relation to IT general controls which we was first raised in 2011/12. The management response was agreed at that point in time, however as the issue had not been resolved we re-raised this matter within our ISA 260 report and also wish to bring it to your attention.

| Recommendation | Management Response | Target Implementation Date |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|
| <p>We recommend that the Authority liaise with WHE to improve the quality of GIA information stored on its fixed asset system in relation to its properties. This information should be fully reconciled and up-to-date.</p> <p>In addition, the Authority should understand the reasons for and consider the appropriateness of any large differences in the GIA recorded on the valuation certificate and the information held by the Authority.</p> | <p>Agreed.</p> <p>Action: Strategic Property will review and update working practices to implement this recommendation. The Asset Register year end checklist will be updated to include review of any large differences in the GIA recorded on the valuation certificate and the information held by the Authority.</p> | <p>In time be to be effective on the Statement of Accounts 15/16</p> |

Access to data files and super user access to applications

Access to data files should be restricted to non-operational personnel i.e. segregation of duties should be maintained between data base access and application access.

This recommendation will require review when we move to the new finance system (Agresso) with its inherently different controls. The FSS team currently have the ability to carry out system wide set up changes to the look, feel and configuration of the finance system including the tasks listed below:

- User access
- User access levels and limitations
- Approval hierarchies
- Transactional processing formats and fields
- System security and controls
- System tolerances
- Configuration changes

This access is restricted to a system administration and superuser level of access so that control can be provided over these changes. Any changes are only made when the required audit trail and necessary approval is received.

To be reviewed on implementation of Agresso.

Final Fees

Final Fees for 2014/15

We reported our fee proposals in our audit plan 2014/15.

We have undertaken additional work this year as a result of accounting issues identified during the course of our audit and targeted work on the use of resources. Our fees will therefore be in excess of the scale fee and we are currently in the process of agreeing the final amount with the Council and Public Sector Audit Appointments Ltd. We will report the final position in due course.

Our fee for certification of claims and returns is yet to be finalised for 2014/15 and will be reported to those charged with governance in December 2015 within the 2014/15 Annual Certification Report



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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