

Peterborough City Council

2008/09 Report to those charged with governance

The Audit Committee
Peterborough City Council
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Peterborough
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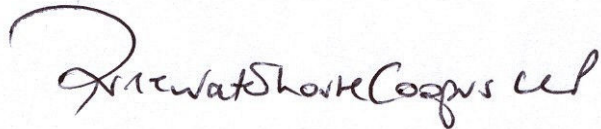
September 2009

Ladies and Gentlemen

2008/09 Report to those charged with governance

We are pleased to present our report on the results of our audit work for 2008/09. We hope that the information contained in this report provides a useful source of reference for members.

Yours faithfully



PricewaterhouseCoopers LLP

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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' which applies to the 2008/09 audit. 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 summarises the results of our audit work from our 2008/09 audit of accounts.

It includes the issues arising from our audit of the financial statements and those issues which we are formally required to report to you under the Audit Commission's Code of Audit Practice and International Standard of Auditing (UK & Ireland) (ISA(UK&I)) 260 - "Communication of audit matters with those charged with governance".

It also includes the results of the work we have undertaken on 'Value for Money in the Use of Resources' under the Code of Audit Practice, to support our formal conclusion in this area.

Our work during the year was performed in line with the plan that we presented to you in July 2008. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate. A list of these reports is included at Appendix A to this letter.

We have set out below the most important issues and recommendations that we have discussed with you in the course of our work.

Financial Statements

We were pleased with the quality of the draft accounts and the working

papers provided to support them. This ensured that the audit process itself was efficient.

At the time of preparing this report there are a small number of areas of audit work to be completed, but subject to those and your adoption of the accounts in due course, our intention would be to issue an unqualified opinion on the 2008/09 accounts.

Arising from this work there are a number of matters that we wish to bring to your attention. These matters are set out in more detail in the section of the report titled "Financial Statements"

The more significant matters to bring to your attention concern:

- An exceptional cost of £1.5m has been recognised in the Income & Expenditure Account. This relates to an impairment loss incurred on the Council's investments.
- Due to an error in the calculation of the bad debt provision for National Non-Domestic Rates (NNDR), the provision is overstated by £352k.
- An adjustment of £1.3m has been made in the current year to correct a prior year error in relation to the Council's PFI scheme.
- We identified assets with a negative book value of £325k.

These matters have been set out in more detail within the Financial Statements section of this report.

We would like to take this opportunity to thank all officers who have assisted us during the audit process, and, in particular, for the prompt responses from officers to queries raised.

Financial Standing

No issues in relation to financial standing arose from the 2008/09 audit.

Use of Resources

Under the Audit Commission Code of Practice, we are also required to form a conclusion on the Council's Use of Resources. This is arrived at following an assessment of the Council against a set of criteria issued by the Audit Commission.

We have completed our assessment against these criteria and anticipate issuing an unqualified conclusion.

Financial statements

Accounts

We have completed the audit of the Authority's accounts in line with the Code of Audit Practice and Auditing Standards. We anticipate issuing an unqualified audit opinion on the financial statements.

Accounting Issues

i) Impairment of Investment in Icelandic Banks

In October 2008 the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed. Their UK subsidiaries, Heritable and Kaupthing Singer and Friedlander went into administration. The Council had £1m invested in the Heritable Bank and £2m in Kaupthing Singer & Friedlander Ltd.

The Council has correctly applied CIPFA's Local Authority Accounting Panel ("LAAP") Bulletin 82 to account for an impairment of its investments of £1.5m based on the currently expected realisation value of these investments.

The Council will need to assess whether this impairment remains appropriate up to the date the accounts are signed.

ii) NNDR Provision

Due to an error in the calculation of the NNDR bad debt provision, the provision at 31 March 2009 is overstated by £352k. Management have

acknowledged the error in the calculation, but believe that on the grounds of materiality and in the current economic climate, the overprovision should be not be adjusted. This is included in the summary of unadjusted misstatements (Appendix B).

iii) Accounting for PFI schemes

In the 2007/08 accounts, an error was made with regard to the treatment of the Council's PFI schemes.

An adjustment of £1.3m has been included in the Loss/ (Gain) on disposal of assets line in the 2008/09 accounts to correct this error. This adjustment has no effect on Council Tax Payers as it is reversed through the Statement of Movement on the General Fund Balance. Management have not made a prior period adjustment for this; we agree that a prior period adjustment is not necessary due to the nature and magnitude of the correction.

iv) Assets with a negative book value

We noted that some assets had been over-depreciated, to the extent that assets with a total negative book value of £325k are held on the fixed asset register. This is included in the summary of unadjusted misstatements (Appendix B). This error may be in part due to the complexity of the fixed asset register, which has been raised as an internal control point below.

We are required to report to you all unadjusted misstatements which we

have identified during the course of our audit, other than those of a trivial nature. These misstatements are set out in Appendix B to this report.

Systems of internal control

We are required to report to you any material weaknesses in the accounting and internal control systems identified during the audit. We have set out below details of the control weaknesses that we have identified as part of our audit.

- There is no formal process in place to ensure the periodic review of user access rights for the Oracle Financials application. This increases the risk of inappropriate, unauthorised or fraudulent activity within the Oracle Financials systems.
- There was no evidence of review for five VAT returns and additionally both completion and review was performed by the same individual on one VAT return. There is a risk that incomplete details may be recorded and submitted on the VAT returns without independent review.
- The monthly creditor control account reconciliations are not performed and reviewed in a timely manner. Failure to complete the control account reconciliations in a timely manner will delay the identification of variances and make resolving such variances more difficult.
- We noted one instance where approval rights for the authorisation of an invoice had been delegated to a junior Officer. We understand that following an internal review, this process has stopped.
- The fixed asset register is currently maintained in an Excel spreadsheet. Given the complex accounting requirements for fixed assets and capital accounting, the spreadsheet has grown in size significantly. This makes the maintenance, review and audit of the fixed asset register more difficult and increases the chance of an error occurring and not being identified. We understand that management are investigating a new system for recording the fixed asset register.

These points have been discussed with the Director of Strategic Resources

and will be formally documented in our report to management.

Accounting practices

We are also required to report to you our view on qualitative aspects of the Authority's accounting practices and financial reporting and have set out below our observations on key issues affecting the Authority.

In 2010/11 the Council will need to prepare its financial statements in accordance with International Financial Reporting Standards (IFRS). The Council is already considering how this will affect the financial statements; it reports regularly to the Audit Committee and has engaged PwC to perform an impact assessment.

Other matters

i) Internal Audit

We have maintained a good working relationship with the Council's internal audit service during 2008/09. We hold regular liaison meetings with the Head of Internal Audit, reviewed the 2008/09 Internal Audit plan and where applicable to our audit approach, individual audit reports and working paper files.

ii) Legality and standards of financial conduct

No matters have arisen from our audit in relation to the legality of financial transactions to bring to your attention.

iii) Prevention and detection of fraud and corruption

We believe that a strong control environment exists to prevent and detect fraud and corruption. We are not aware of any occurrences of fraud or corruption based on our discussions with management and procedures performed.

iv) Elector's Questions

We have not been asked any question by electors relating to the 2008/09 accounts

Value for Money in the Use of Resources

Work performed

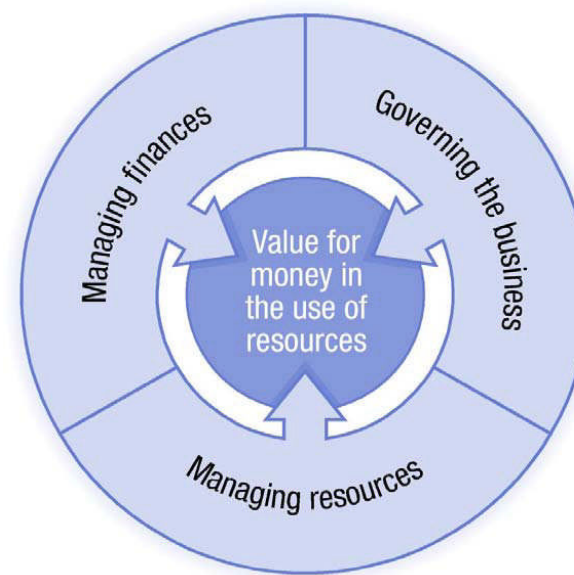
We have performed work to conclude on the Authority's arrangements for achieving economy, efficiency and effectiveness in its use of resources. Our work to support our conclusion comprised the following elements:

- Use of Resources assessment, supported by our conclusions on the key lines of enquiry (KLoEs) as specified by the Audit Commission
- Review of the Statement on Internal Control
- A follow up review of the Benefits Realisation study

Use of resources

From April 2009, the Audit Commission has been implementing comprehensive area assessment (CAA), jointly with the other public service inspectorates. The audit year 2008/09 is a year of transition to CAA. Our use of resources judgements in 2008/09 will therefore input into the first results of CAA which the Audit Commission will report on in autumn 2009 as well as acting as the basis for our value for money conclusion. The Audit Commission has therefore issued new Key Lines of Enquiry (KLoEs) for auditors to assess Local Authorities' arrangements against.

We have assessed the Authority's arrangements against a series of Key Lines of Enquiry (KLoEs) grouped into three themes which form the Use of Resources framework. The assessment has changed to focus on the Authority's achievements, outputs and outcomes rather than the Authority's processes. Auditors are therefore considering the Authority's strategies rather than the detailed processes that the Authority has put in place.



KLoEs are scored as follows:

- 1 – Failure to meet minimum requirements – inadequate performance;
- 2 – Meets only minimum requirements – performs adequately;
- 3 – Exceeds minimum requirements – performs well; or
- 4 – Significantly exceeds minimum requirements – performs excellently.

Value for Money Conclusion

Under the Code of Audit Practice we are required to provide a conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. This conclusion is reached by assessing the Authority's arrangements against a set of criteria issued by the Audit Commission. From 2008/09 the Key Lines of Enquiry for the scored use of resources assessment also form the criteria for the Use of Resources conclusion. They are listed in Appendix C. A score of Level 2 or higher under the KLoEs will usually result in an assessment of 'adequate' arrangements for the purposes of the Code criteria. In reaching our conclusions, we also consider whether the KLoE scores should be adjusted for other factors such as whether the arrangements have been in place for the whole financial year.

We intend to issue an unqualified value for money conclusion.

Details of our conclusion for each of the criteria specified by the Code of Practice are set out in Appendix C.

Targeted work

In July 2007, we issued a report reviewing the Council's current project management arrangements and methodology in respect of identifying, challenging and evidencing efficiencies arising from the Council's business transformation programme.

In July 2009, we issued a follow-up report that identified that the Council had been successful in implementing the majority of the actions outlined in the original action plan. However, while the Council can demonstrate progress in a number of areas, further actions were identified to assist in embedding the Business Transformation programme at the Council. The key recommendations were:

- The communications strategy should be updated to include reporting on how cost savings have been reinvested;
- Project managers should be encouraged to develop a detailed risk assessment in all cases; and

- Resources are required to establish how data can be captured centrally (e.g. to capture productivity and efficiency information) to enable non-cashable benefits to be effectively monitored.

We also completed an impact assessment in relation to IFRS, the accounting standards the Council will need to adopt in 2010/11. The key recommendation from this report was that the Council must address the new accounting standards in relation to its PFI schemes as soon as possible, as the IFRSs relevant to PFI schemes apply one year early, in 2009/10.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS) which is consistent with guidance issued by CIPFA / SOLACE. The AGS was included in the financial statements.

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

Audit plans and fee update

Audit Plan 2008/09

We issued our Audit Plan for 2008/09 and presented it to Members in July 2008.

We have performed appropriate reporting procedures for each of the risks identified in our Audit Plan of 2008/09. In this report we comment only on those areas where we believe we need to communicate with those charged with governance.

Audit fees update for 2008/09

We reported our fee proposals as part of the Audit Plan for 2008/09.

The fee proposal included a budget of £26,000 for targeted Use of Resources work during the period. Such work performed in the current year consisted of an IFRS impact assessment project which had an outturn of £14,500. We also incurred an additional £3,000 on the accounts audit in relation to IT controls work.

The impact of these changes resulted in the savings of £8,500 against the proposed fee.

	2008/09 Outturn	2008/09 Fee proposal
Accounts	£178,000	£175,000
Use of Resources	£98,500	£110,000
Total	£276,500	£285,000

Appendix A: Audit reports issued in relation to the 2008/09 audit year

The following audit reports have already been issued in relation to the 2008/09 audit year:

Report Title	Date issues/ to be issues
Audit Plan	June 2008
Internal control issues and recommendations for improvement	June 2008
Use of resources and preliminary conclusion for discussion	November 2008
Auditor Use of Resources Assessment to inform the Audit Commission CPA process	December 2008
Direction of Travel assessment	February 2009
Benefits Realisation follow up report	July 2009
Draft impact assessment of IFRS implementation	August 2009
Opinion on the Financial Statements and conclusion on the Councils arrangements for its use of resources	September 2009
Report on 2008/09 financial statements to those charged with governance (ISA 260)	September 2009
Report to management on the Statement of Accounts audit	September 2009
Annual Audit Letter	November 2009
Grants Report to Management in relation to 2008/09 grants	January 2010

Appendix B: Summary of unadjusted misstatements [and material adjusted misstatements]

We have identified the following errors during our audit of the financial statements that have not been adjusted by management. The Audit Committee are requested formally to consider the listed unadjusted errors and determine whether the accounts should be amended. If the errors are not adjusted we will require a written representation from you explaining your reasons for not making the adjustments.

Unadjusted Misstatement	Income and Expenditure Account		Balance Sheet	
	Dr	Cr	Dr	Cr
During the review of fixed assets, assets with negative net book values have been identified	SMGFB* £325k	Cost of services £325k	Accumulated depreciation £325k	Capital Adjustment Account £325k
During the review of the NNDR provision it was identified that the provision is overstated in the financial statements	-	Collection Fund – Movement on Provision £352k	NNDR Provision £352k	-

* SMGFB = Statement of Movement on the General Fund Balance

There are no material misstatements identified during our audit which management have adjusted which we consider should be communicated to you to assist you in fulfilling your governance responsibilities.

Appendix C: Value for Money Conclusion

The Audit Commission publishes Code of Practice criteria on which auditors are required to reach a conclusion on the adequacy of an audited body's arrangements for economy, efficiency and effectiveness in its use of resources.

We are currently in the process of completing our 2009 Use of Resources assessment. We have carried out sufficient work to confirm that a minimum Level 2 (adequate) will be reached for each KLoE.

The use of resources assessment considers how well organisations are managing and using their resources to deliver value for money and better and sustainable outcomes for local people. The assessment comprises three themes that focus on:

- sound and strategic financial management;
- strategic commissioning and good governance; and
- the management of natural resources, assets and people.

Managing Finances

Key Lines of Enquiry		Score
1.1	Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	3
1.2	Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	3
1.3	Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	3

Governing the Business

Key Lines of Enquiry		Score
2.1	Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	3
2.2	Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	2
2.3	Does the organisation promote and demonstrate the principles and values of good governance?	3
2.4	Does the organisation manage its risks and maintain a sound system of internal control?	3

Managing Resources

Key Lines of Enquiry		Score
3.1	Is the organisation making effective use of natural resources?	2
3.2	Does the organisation manage its assets effectively to help deliver its strategic priorities and service needs?	3

Appendix D: Summary of recommendations contained in this letter

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Page	Recommendation	Management Response	Target Implementation Date
7	Management should address the internal control weaknesses that have been identified to ensure the continued accuracy and reliability of the financial information and financial statements.		
The recommendations in the section below have arisen from our targeted Use of Resources work			
10	The communications strategy should be updated to include reporting on how cost savings have been reinvested.		
10	Project managers should be encouraged to develop a detailed risk assessment in all cases.		
10	Resources are required to establish how data can be captured centrally (e.g. to capture productivity and efficiency information) to enable non-cashable benefits to be effectively monitored.		
10	The Council must address the new accounting standards in relation to its PFI schemes as soon as possible, as the IFRSs relevant to PFI schemes apply one year early, in 2009/10.		

Appendix E

(Peterborough City Council letterhead)

[date] September 2009

To PricewaterhouseCoopers LLP
80 Strand,
London,
WC2R 0AF

This representation letter is provided in connection with your audit of the Statement of Accounts of Peterborough City Council for the year ended 31 March 2009.

Your audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts presents fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of Peterborough City Council as at 31 March 2009 and its income and expenditure and cashflows for the year then ended.

My responsibilities as Chief Financial Officer for preparing the Statement of Accounts are set out in the Statement of Responsibilities for the Statement of Accounts. I am also responsible for the administration of the financial affairs of the Authority. I also acknowledge that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of Peterborough City Council with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation, to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief and having made the appropriate enquiries, the following representations:

Accounting records

I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you (the Authority's auditors) are aware of that information, including that:

- All the accounting records, whether for the purposes of financial reporting or any other purpose, have been made available to you for the purposes of your audit and all the transactions undertaken by the Authority have been properly reflected and recorded in the accounting records.
- All other records and related information which might affect the fair presentation of, or necessary disclosure in, the Statement of Accounts, including minutes of the Council and relevant management meetings, have been made available to you and no such information has been withheld.

So far as I am aware, there is no relevant audit information of which you are unaware.

Accounting policies

I confirm that I have reviewed the Authority's accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the accounting policies and estimation techniques selected for use in the preparation of the Statement of Accounts are the most appropriate to present fairly the Authority's particular circumstances, as required by the 2008 Code of Practice on Local Authority Accounting in the United Kingdom (A Statement of Recommended Practice (the SORP)).

Related Party Transactions

I confirm that Authority has disclosed all related party transactions relevant to the Authority and that I am not aware of any other such matters required to be disclosed in the Statement of Accounts under the requirements of the 2008 SORP.

Employee benefits

I confirm that the Authority has made you aware of all employee benefit schemes in which employees of the Authority participate.

Contractual arrangements/agreements

All contractual arrangements (including side-letters to agreements) entered into by the Authority with third parties have been properly reflected in the accounting records or, where material (or potentially material) to the Statement of Accounts, have been disclosed to you.

Laws and regulations

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Authority conducts its business and which are central to the Authority's ability to conduct its business or that could have a material effect on the financial statements.

I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the financial statements.

Fraud

I acknowledge responsibility for the design and implementation of internal control to prevent and detect fraud.

I have disclosed to you:

- i) the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud
- ii) my knowledge of fraud or suspected fraud affecting the Authority involving:
 - members
 - management
 - employees who have significant roles in internal control, or
 - others where the fraud could have a material effect on the Statement of Accounts;
- iii) my knowledge of any allegations of fraud, or suspected fraud, affecting the Authority's Statement of Accounts communicated by members, employees, former employees, regulators or others.

Misstatements detected during the audit

I acknowledge my responsibility for the design and implementation of internal control to prevent and detect error.

I confirm that the financial statements are free from material misstatement, including omissions.

I confirm that the reasons why the misstatements that you have brought to the attention of those charged with governance as set out in attachment A to this letter have not been adjusted in the financial statements are is that those charged with governance believe their effect both individually and in aggregate is not material to the financial statements either taken as a whole or in connection with the ability properly to assess the performance and/or the financial position of the Authority.

Taxation

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken the Authority's benefit * or any other party's benefit.
- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the Authority for whose taxation liabilities the Authority may be responsible.

Subsequent events

There have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the financial statements or in the notes thereto.

As minuted by the Audit Committee at its meeting on 28 September 2009

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(Chief Financial Officer)

Date

For and on behalf of Peterborough City Council

Appendix 1: Summary of unadjusted misstatements

Unadjusted Misstatement	Income and Expenditure Account		Balance Sheet	
	Dr	Cr	Dr	Cr
During the review of fixed assets, assets with negative net book values have been identified	SMGFB* £325k	Cost of services £325k	Accumulated depreciation £325k	Capital Adjustment Account £325k
During the review of the NNDR provision it was identified that the provision is overstated in the financial statements	-	Collection Fund – Movement on Provision £352k	NNDR Provision £352k	-

* SMGFB = Statement of Movement on the General Fund Balance

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