

Government and Public Sector

January 2010

# Peterborough City Council

## 2009/10 Audit Plan

The Members  
Peterborough City Council  
Town Hall  
Bridge Street  
PETERBOROUGH  
PE1 1HG

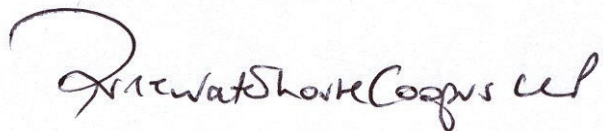
January 2010

Ladies and Gentlemen,

We are pleased to present to you our Audit Plan, which includes an analysis of key risks, our audit strategy, reporting and audit timetable and other matters. Discussion of our plan with you ensures that we understand your concerns and that we agree on our mutual needs and expectations to provide you with the highest level of service quality. Our approach is responsive to the many changes affecting Peterborough City Council.

We would like to thank Members and officers of the Council for their help in putting together this Plan. If you would like to discuss any aspect of our Audit Plan please do not hesitate to contact either Julian Rickett or Chris Hughes.

Yours faithfully,



PricewaterhouseCoopers LLP

# Contents

Introduction .....4

Risk assessment .....5

Our approach to the audit.....8

Our team and independence ..... 10

Communicating with you ..... 12

Audit budget and fees..... 13

Appendix A: Other engagement information ..... 16

*In April 2008 the Audit Commission issued a revised version of the ‘Statement of responsibilities of auditors and of audited bodies’. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.*

# Introduction

## **The purpose of this plan**

Our Audit Plan has been prepared to inform the officers and Members of Peterborough City Council (“the Council”) about our responsibilities as your external auditors and how we plan to discharge them.

We issued our audit fee letter on 22 April 2009 in accordance with Audit Commission requirements, which set out our indicative fees for 2009/10. This plan sets out in more detail our proposed audit approach for the year.

Every Council is accountable for the stewardship of public funds. The responsibility for this stewardship is placed upon the Members and officers of the Council. Our principle objective is to carry out an audit in accordance with the Audit Commission’s Code of Audit Practice (the Code).

Based upon discussion with management and our understanding of the Council and the local government sector, we have noted in the next section recent developments and other relevant risks. Our Plan has been drawn up to consider the impact of these developments and risks.

We would like to thank officers of the Council for their help in putting together this Plan.

## **Period covered by this plan**

This Plan outlines our audit approach for the period 1 April 2009 to 31 March 2010, including the 2009/10 final accounts audit which we will undertake in

summer 2010.

## **Code of Audit Practice and Statement of responsibilities of auditors and of audited bodies**

We perform our audit in accordance with the Audit Commission’s Code of Audit Practice (the Code) which was last updated in July 2008. This is supported by the Statement of responsibilities of auditors and of audited bodies (the Statement) which was updated in April 2008. Both documents are available from the Chief Executive.

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 audit letters follow the Statement and are in line with the Code. Although Annual Audit Letters and reports may be addressed to officers or members of the Council, they are prepared for the sole use of the audited body. Auditors do not have responsibilities to officers or members in their individual capacities or to third parties who choose to place reliance upon the reports from auditors.

# Risk assessment

## Planning of our audit

We have considered the Council's operations and have assessed the extent to which we believe there are potential business and audit risks that need to be addressed by our audit. We have also considered our understanding of how your control procedures mitigate these risks. Based on this assessment we have determined the extent of our financial statements and use of resources audit work.

It is your responsibility to identify and address your operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we assess the significant operational and financial risks that are relevant to our responsibilities under the Code and the Audit Commission's Standing Guidance. This exercise is only performed to the extent required to prepare our Plan so that it properly tailors the nature and conduct of audit work to your circumstances. It is not designed to identify all risks affecting your operations nor all internal control weaknesses.

In this Plan we detail those areas which we consider to be risks relevant to our audit responsibilities and our response to those risks.

Our response includes details of where we are intending to rely upon internal controls, other auditors, inspectors and other review agencies and the work of internal audit, if applicable.

## 2010/11 – the first year of reporting under IFRS

The implementation of IFRS in the local government sector will occur in 2010/11. Therefore, the 2010/11 financial statements will be prepared in accordance with IFRS.

The 2009/10 financial statements will continue to be prepared in accordance with UK GAAP, however balances and transactions appearing in them will need to be restated under IFRS as comparatives in the 2010/11 financial statements. In order for this to happen, opening balances as at 1 April 2009 will need to be restated. Preparation for conversion is already be underway at the Council, as recommended in CIPFA's LAAP Bulletin 80, published in March 2009.

As the implementation of IFRS requires the financial statements to be prepared in accordance with a new set of financial standards, there is an increased risk that the accounts could be misstated. We will therefore work closely with the Council to ensure that you are aware of the main differences between IFRS and UK GAAP and to resolve any accounting issues on a timely basis.

## Risk assessment results

The following table summarise the results of our risk assessment and our planned response.

Risks	Audit approach
<p><b>Growth Agenda</b></p> <p>The recent global economic downturn places the timetable of the city's ambitious growth and regeneration programme at risk. The Council has numerous initiatives in place to allow it to pursue the growth agenda, including:</p> <ul style="list-style-type: none"> <li>• considering whether existing priorities are appropriate;</li> <li>• investigating innovative procurement strategies and methods of delivery; and</li> <li>• re-configuring Opportunity Peterborough to focus on economic development and the Peterborough 'brand'.</li> </ul> <p>These initiatives will require effective project management, including the identification and management of risks and appropriate governance arrangements.</p>	<p>We will continue to discuss the wider growth agenda with the Chief Executive, Monitoring Officer and the Executive Director of Strategic Resources, and consider the impact on our approach where appropriate</p>
<p><b>Children's Services</b></p> <p>The Council's transformation programme has made a significant investment in Children's Services. Key areas of focus for this programme included embedding a new structure, removing waste, improving procurement practices, bringing the performance management system in line with the corporate model, improving budgetary control and integrating the commissioning of services.</p> <p>Significant improvements have been made in Children's Services. It is important that effective governance arrangements remain in place to ensure the delivery of the Council's continued improvement plans for the service.</p>	<p>We will meet at least twice a year with the Director of Children's Services to discuss progress in this area and will review the work of Inspectors to inform our Value for Money opinion on the Council's Use of Resources.</p>
<p><b>City Services and Waste Management Solution</b></p> <p>The Council is currently running a procurement process to determine which elements of City Services will be sold. The Council will need to determine which are the most appropriate elements of the service to be sold, and which should remain "in-house".</p> <p>The Council will need to consider the impact on the accounts, both in terms of group accounts, the treatment of the pension liability in relation to those staff that transfer from the Council and the ongoing treatment of any 'dividends' due to the Council.</p>	<p>We will continue to discuss progress with City Services and the Waste Management Solution with management and understand the governance arrangements that the Council has put in place to deliver the waste management solution.</p>

<p><b>Managed IT service</b></p> <p>In October 2009 the Council entered into a managed IT service contract with SERCO. Common risks in outsourcing arrangements such as a managed IT service include environmental risks (will the contract be able to adapt to changing circumstances), asset risks (in relation to the capacity, condition and performance of assets that are managed by the contractor) and data risks (will existing data be maintained appropriately).</p> <p>Contracts of this nature are successful when Councils:</p> <ul style="list-style-type: none"> <li>• provide for sufficient client-side management capacity and performance management;</li> <li>• create incentives for partnership working;</li> <li>• operate effective governance arrangements;</li> <li>• encourage partnership behaviours.</li> </ul>	<p>We will carry out audit procedures on the Council's general IT controls as part of our 2009/10 audit of the statement of accounts. We will consider the impact of the managed IT service on control arrangements and discuss with management how the contract is being managed.</p>
<p><b>Accounting for the Private Finance Initiative ("PFI")</b></p> <p>The 2009 CIPFA Statement of Recommended Practice ("SORP") requires that Local Authorities assess PFI schemes under the new accounting standard IFRIC 12. It is likely that the application of this standard will lead to the Council's PFI scheme falling to be accounted for as "on balance sheet". Accounting for a PFI scheme as "on balance sheet" is complex and will have a significant impact on the accounts.</p>	<p>We will carry out audit procedures on the Council's workings in relation to its PFI scheme as part of our audit of the 2009/10 statement of accounts.</p>
<p><b>International Financial Reporting Standards ("IFRS")</b></p> <p>IFRS will be adopted by Local Government in full in 2010/11 and will represent a significant change for the way the Council prepares its statement of accounts. Significant work will be required by the Council to gather and analyse the information required for first-time adoption of the new accounting standards. The risk of non-compliance is a modified or qualified audit opinion.</p>	<p>We will discuss the Council's progress in preparing for the conversion to IFRS in regular meetings with the Head of Strategic Finance.</p>

# Our approach to the audit

## Code of Audit Practice

Under the Audit Commission's Code there are two aspects to our work:

- Accounts including a review of the Annual Governance Statement; and
- The arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources (Value for Money Conclusion)

We are required to issue a two-part audit report covering both of these elements.

## Accounts

Our Accounts audit is carried out in accordance with our Accounts Code objective, which requires us to comply with International Standards on Auditing (ISAs) (UK & Ireland) issued by the Auditing Practices Board (APB). We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

Our audit approach is based on a thorough understanding of your business and is risk-driven. It first identifies and then concentrates resources on areas of higher risk and issues of concern to you. This involves breaking down the

accounts into components. We assess the risk characteristics of each component to determine the audit work required.

Our audit approach is based on understanding and evaluating your internal control environment and where appropriate validating these controls, where we wish to place reliance on them. This work is supplemented with substantive audit procedures, which include detailed testing of transactions and balances and suitable analytical procedures.

We also aim to rely on the work done by internal audit wherever this is appropriate. We will ensure that a continuous dialogue is maintained with internal audit throughout the year. We receive copies of all relevant internal audit reports, allowing us to understand the impact of their findings on our planned audit approach.

## Whole of government accounts

Work on the Whole of Government Accounts consolidation pack is included in the scope of the accounts audit.



### Value for Money Conclusion

Our Use of Resources Code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether you have put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources (the Value for Money Conclusion).

This conclusion is based on relevant criteria, covering particular areas of the Council's arrangements which the Audit Commission have specified under the Code. The criteria cover three themes, Managing Finances, Governing the Business and Managing Resources, and are set out in Key Lines of Enquiry. The applicable criteria are specified by the Audit Commission each year, but where a 'no' judgement is made in one year, that criterion automatically applies in the following year, whether or not it is specified.

When forming our opinion we will seek to rely on:

- Any self assessment you have performed against the criteria;
- Your internal control mechanisms;
- Any relevant work of internal audit, inspectors and other review agencies;
- Work performed in respect of other Code requirements and mandatory work required by the Audit Commission; and
- Targeted audit work to address specific risks and validate arrangements in place at the Council.

As noted above, our conclusion will be issued as part of the audit opinion on your 2009/10 financial statements.

### Mandatory work for 2009/10

#### Use of Resources Assessment

From April 2009, the Audit Commission implemented comprehensive area assessment (CAA), jointly with the other public service inspectorates.

The audit year 2009/10 will therefore be the first full year of CAA. As part of the transition to CAA the scope of the use of resources assessment was broadened to reflect 'new' areas such as commissioning. It also now encompasses a wider definition of resources, covering natural resources, people and information technology.

Our use of resources judgements in 2009/10 will therefore serve two purposes: as a basis for Value for Money conclusions and as an input into the results of CAA which will be reported in autumn 2010.

#### Data Quality work

We will be required to undertake audit work in relation to data quality to support our Use of Resources Assessment.

# Our team and independence

Audit Team	Responsibilities
<b>Engagement Partner</b> <i>Julian Rickett – 3<sup>rd</sup> year on the audit</i> <i>Tel: 01603 883332</i> <i>E-mail: julian.rickett@uk.pwc.com</i>	Engagement Leader responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the Audit Plan, Audit Memorandum and Annual Audit Letter, approving the quality of outputs and signing of opinions and conclusions. Also responsible for liaison with the Chief Executive and Members.
<b>Engagement Manger</b> <i>Chris Hughes – 7<sup>th</sup> year on the audit</i> <i>Tel: 020 7804 3392</i> <i>E-mail: chris.hughes@uk.pwc.com</i>	Senior Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Completion of the Audit Plan, Audit Memorandum and Annual Audit Letter.
<b>Audit Manager: Accounts</b> <i>Jacqui Short – 1<sup>st</sup> year on the audit</i> <i>Tel: (01223) 55 2340</i> <i>E-mail: jacqui.a.short@uk.pwc.com</i>	Manager on the assignment responsible for managing our accounts work, including the audit of the statement of accounts, and governance aspects of the use of resources.

Audit Team	Responsibilities
<b>Audit Senior Manager: Use of Resources</b> <i>Howard Burton – 8<sup>th</sup> year on the audit</i> <i>Tel: 01603 883253</i> <i>E-mail: howard.burton@uk.pwc.com</i>	Manager on the audit responsible for co-ordinating the use of resources audit programme including preparing and presenting reports.

## Our team members

It is our intention that, wherever possible, staff work on the audit each year, developing effective relationships and an in depth understanding of your business. We are committed to properly controlling succession within the core team, providing and preserving continuity of team members.

We will hold periodic client service meetings with you, separately or as part of other meetings, to gather feedback, ensure satisfaction with our service and identify areas for improvement and development year on year. These reviews form a valuable overview of our service and its contribution to the business. We use the results to brief new team members and enhance the team's awareness and understanding of your requirements.

**Independence and objectivity**

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters. There are no matters which we perceive may impact our independence and objectivity of the audit team.

**Relationships and Investments**

Senior officers should not seek or receive personal financial or tax advice from PwC. Non-executives who receive such advice from us (perhaps in connection with employment by a client of the firm) or who also act as

director for another audit or advisory client of the firm should notify us, so that we can put appropriate conflict management arrangements in place.

**Independence conclusion**

At the date of this plan we confirm that in our professional judgement, we are independent accountants with respect to the Council, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

# Communicating with you

## Communications Plan and timetable

ISA (UK&I) 260 'Communication of audit matters with those charged with governance' requires auditors to plan with those charged with governance the form and timing of communications with them. We have assumed that 'those charged with governance' are the Audit Committee. Our team works on the engagement throughout the year to provide you with a timely and responsive service. Below are the dates when we expect to provide the Audit Committee with the outputs of our audit.

Stage of the audit	Output	Date
Audit planning	Audit Fee letter	April 2009
	Audit Plan	December 2009
Audit findings	Use of resources and preliminary conclusion for discussion	April 2010
	Internal control issues and recommendations for improvement	June 2010
Audit reports	<b>Audit Memorandum incorporating specific reporting requirements under Auditing Standard (ISA (UK&amp;I) 260), including:</b> <ul style="list-style-type: none"> <li>Any expected modifications to the audit report</li> <li>Uncorrected misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust</li> <li>Material weaknesses in the accounting and internal control systems identified as part of the audit</li> <li>Our views about the qualitative aspects of your accounting practices and financial reporting</li> <li>Any other relevant matters of governance interest and</li> <li>Summary of findings from our use of resources audit work to support our value for money conclusion.</li> </ul>	September 2010
	Opinion on the Financial Statements including Value for Money Conclusion	September 2010
	Auditor Use of Resources Assessment	October 2010
Other public reports	Annual Audit Letter	December 2010

# Audit budget and fees

The Audit Commission has provided indicative audit fee levels for Councils for the 2009/10 financial year, which depend upon the level of expenditure and potential risk. Based on your expenditure, the indicative fee scale for audit for the Council is £264,500. This can be decreased to £185,150 or increased to £343,850, depending on our risk assessment of the Council. In setting the fee at the level below, we have allowed for work required to:

- audit PFI schemes as “on balance sheet”, as per the suggested requirement of the draft CIPFA Statement of Recommended Practice; and
- monitor initiatives at the Council (for example the Business Transformation programme, Children’s Services, the proposed ALMO in City Services and the Growth Agenda).

We have also included within the proposed fee of £271,000 a budget of £15,000 for Value for Money studies. If none are undertaken, the total fee will be £256,000, a decrease of £20,500 compared to 2008/09.

We categorise the Council as medium risk. In our audit fee letter dated 22 April 2009 we therefore agreed an audit fee of £271,000, which is broken down as follows:

	2009/10	2008/09
Accounts	175,000	178,000
Use of Resources	96,000	98,500
<b>Total</b>	<b>271,000</b>	<b>276,500</b>

Our fee for accounts work includes the following:

- Audit of the financial statements for 2009/10
- Work on whole of government accounts for 2009/10

Our fee for use of resources work includes the following:

- Use of Resources assessment, supporting the Comprehensive Area Assessment (CAA)
- Value for Money Conclusion
- Targeted value for money studies; and
- Follow up of previous work.

We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to place reliance, as planned, upon the work of internal audit;
- We are able to draw comfort from your management controls;
- We are able to place reliance on the work of inspectors and internal audit in respect of our Value for Money conclusion:
- No significant changes being made by the Audit Commission to the use of resources criteria on which our conclusion will be based;
- An early draft of the Annual Governance Statement being available for us to review prior to 31 March 2010; and
- Our Value for Money conclusion and accounts opinion being unqualified.

If these prove to be unfounded, we will seek a variation order to the agreed fee, to be discussed in advance with you.

### **Certification of grant claims**

Our fee for the certification of grant claims is based on the amount of time required to complete individual grant claims at standard hourly rates. We will discuss and agree this with the Director of Finance and his team.

### **Local Government Electors**

Our fee does not include any work considering and responding to matters raised with us by Local Government Electors.

# Appendix A: Other engagement information

The Audit Commission appoint us as auditors to Peterborough City Council and the terms of our appointment are governed by:

- The Code of Audit Practice; and
- The Standing Guidance for Auditors

There are five further matters which are not currently included within the guidance, but which our firm's practice requires that we raise with you.

## **Electronic communication**

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure, virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use.

PwC partners and staff may also need to access PwC electronic information and resources during the engagement. You agree that there are benefits to each of us in their being able to access the PwC network via your internet connection and that they may do this by connecting their PwC laptop computers to your network. We each understand that there are risks to each of us associated with such access, including in relation to security and the transmission of viruses.

We each recognise that systems and procedures cannot be a guarantee that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.



We shall each be responsible for protecting our own systems and interests and you and PwC (in each case including our respective directors, members, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information or our use of your network and internet connection.

The exclusion of liability in the previous paragraph shall not apply to the extent that such liability cannot by law be excluded.

### **Access to audit working papers**

We may be required to give access to our audit working papers to the Audit Commission or the National Audit Office for quality assurance purposes.

### **Quality arrangements**

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE99 1PL, or Richard Sexton, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6NN. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

### **Events arising between signature of accounts and their publication**

ISA (UK&I) 560 places a number of requirements on us in the event of material events arising between the signing of the accounts and their publication. You need to inform us of any such matters that arise so we can fulfil our responsibilities.

If you have any queries on the above, please let us know before approving the Audit Plan or, if arising subsequently, at any point during the year.

### **Freedom of Information Act**

In the event that, pursuant to a request which the audited body 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. The audited body agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the audited body shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the audited body 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.

©2010 PricewaterhouseCoopers LLP. All rights reserved. PricewaterhouseCoopers refers to the United Kingdom firm of PricewaterhouseCoopers LLP (a limited liability partnership) and other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.