

Government and Public Sector

Peterborough City Council

2010/11 Audit Plan

March 2011



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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,

A handwritten signature in blue ink, appearing to read 'Julian Rickett', with a long horizontal flourish extending to the right.

Julian Rickett

For and on behalf of
PricewaterhouseCoopers LLP

Contents

Introduction	1
Risk assessment	2
Our approach to the audit	5
Our team and independence	8
Communicating with you	10
Audit budget and fees	11

Appendices

Appendix A: Other engagement information

13

14

In March 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 and on the Audit Commission's [website](#).

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 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, setting out our indicative fees for 2010/11, on 30 April 2010, in accordance with Audit Commission requirements. 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. It is our responsibility 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.

Period covered by this plan

This plan outlines our audit approach for the period 1 April 2010 to 31 March 2011, including the 2010/11 final accounts audit which we will undertake in summer 2011.

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 March 2010. This is supported by the Statement of Responsibilities of auditors and of audited bodies (the Statement) which was updated in March 2010. Both documents are available from the Chief Executive or the Audit Commission's [website](#).

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 significant risks relevant to our audit responsibilities and our response to those risks. Significant risks are those risks requiring special audit attention in accordance with auditing standards.

In addition, we also identify other risks affecting the Council and our response to these 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.

Risk assessment results

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

Significant Risks	Audit approach
<p>Revenue Recognition</p> <p>There is a risk that the Council could adopt accounting policies or treat income and expenditure transactions in such a way as to lead to material misstatement in the reported revenue position.</p>	<p>We will understand and evaluate controls relating to this risk and:</p> <ul style="list-style-type: none"> • seek to place reliance on internal audit work on key controls • test key controls to confirm they are operating effectively. <p>We will consider the accounting policies adopted by the Council and subject income and expenditure to the appropriate level of testing to identify any material misstatement.</p>
<p>Override of normal financial control processes</p> <p>In any organisation, there exists a risk that management and some staff could have the potential ability to process transactions or make adjustments to the financial records outside of the normal financial control processes. Such issues could potentially lead to a material misstatement in the financial statements.</p>	<p>To address this risk we will:</p> <ul style="list-style-type: none"> • document and test the key internal controls that address the significant risks we have identified in this audit plan; • test balances and transactions within the accounts for completeness; and • perform additional audit procedures on material journal entries.
<p>2010/11 – the first year of reporting under IFRS</p> <p>The transition to IFRS involves both new and considerably revised financial statements and an increase in the depth of disclosures required in the notes to the accounts. There is a risk of material errors in the restatements and reclassifications required in preparing the accounts in their new format and of material omissions of information required to be disclosed by the new Code of Practice on Local Authority Accounting.</p>	<p>We are working 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.</p> <p>We will perform a review of restated statements to identify disclosure issues at the planning stage of the audit. We will communicate the results of this review to management so they may take action to address issues in advance of the final audit.</p> <p>At the final audit stage we will perform an independent 'hot review' of the financial statements and disclosures.</p>
<p>Leases</p> <p>IFRS requires building and land elements of leases to be analysed separately, increasing the possibility that the land element may need to be classified separately as an operating lease. The lease accounting rules have also been extended to cover arrangements that have the substance of a lease even though they do not have the legal form of a lease. There is a risk that relevant agreements might not be identified and classified correctly and that income and expenses relating to the agreements might be accounted for inappropriately.</p>	
<p>Component Accounting</p> <p>The new Code requires the separate depreciation of components of an item of Property, Plant and Equipment whose cost is significant in relation to</p>	

Significant Risks

Audit approach

the total cost of the item and which have a shorter useful life than the item as a whole. Where items have been insufficiently broken down into their component parts, there is a risk that depreciation charges might be materially understated.

Group Accounts

There is a risk that IFRS could extend the boundary for group accounts. This is particularly so in relation to the identification of associates, where it is now sufficient for an authority to have the power to exercise significant influence over another entity rather than actually to be exercising this power.

Accruals for Employee Benefits

The new Code has more rigorous requirements for the accrual of employee benefits earned during a year but untaken by the year-end (particularly leave entitlements and flexitime) and for the disclosure of termination benefits.

Other risks

Audit approach

Increased pressures on budgets

The Council is experiencing increased pressures on many of its budgets as economic conditions have worsened. Budget holders may feel under pressure to try to push costs into future periods, or to miscode expenditure to make use of resources intended for different purposes.

Local government bodies are expected to make significant efficiency savings over the next three years. There is a risk that savings plans may not be robust or based on long term solutions which could result in short term, year-end actions to ensure that the targets are met.

There are also risks in relation to financial reporting, that the requirement to report particular financial results overrides best financial reporting practice.

We will review the Council's budget monitoring processes to identify any areas of concern. We will also bear these risks in mind when carrying out cut-off testing.

As part of our use of resources work as well as our work on financial standing, we will consider the entity's savings plans and consider their robustness.

We will also consider the accounting implications of any savings plans and would welcome early discussion of any new and unusual proposals. In particular, we will consider the impact of the efficiency challenge on the recognition of both income and expenditure.

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
- Use of Resources.

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

Accounts

Our audit of your accounts is carried out in accordance with the Audit Commission's Code objective, which requires us to comply with International Standards on Auditing (ISAs) (UK & Ireland) issued by the Auditing Practices Board (APB). These standards have recently been fully updated and revised to improve their clarity and in some cases this is accompanied by additional audit requirements. We are required to comply with them for the audit of your 2010/11 accounts.

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 overall materiality for the Council is calculated as a percentage of income; this represents the level at which we would consider qualifying our audit opinion.

However, ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are "clearly trivial". Matters which are clearly trivial are matters which we expect not to have a material effect on the financial statements even if accumulated. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial.

We propose to treat misstatements less than £100,000 as being clearly trivial. We will include a summary of any uncorrected misstatements identified during our audit in our year-end ISA (UK&I) 260 report.

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.

We plan our work to have a reasonable expectation of detecting fraud where the potential effects would be material to the financial statements of the Council.

Based on the level of management's control procedures, we consider whether there are any significant risks of fraud that may have a material impact on the financial statements and adapt our audit procedures accordingly. We also consider the risk of fraud due to management override of controls and design our audit procedures to respond to this risk.

Our audit approach is based on understanding and evaluating your internal control environment and where appropriate validating these controls, if 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.

We plan to rely on the work of internal audit for key controls in the following areas:

- Payroll;
- Housing benefits; and
- Council tax and NNDR income.

Our Risk Assurance specialists will undertake a review of the general IT controls. The scope of this review will include Oracle, Academy and Resourcelink and will focus on the following four key domains:

- Program changes;
- Computer operations;
- Access to programs and data; and
- Program development.

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

Use of Resources

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.

In accordance with recent guidance issued by the Audit Commission, in 2010/11 our conclusion will be based on two criteria:

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Unlike in previous years, we will not be required to reach a scored judgement in relation to these criteria and the Audit Commission will not be developing 'key lines of enquiry' for each criteria. Instead, we will be carrying out sufficient work to allow us to reach a conclusion on your arrangements.

The Audit Commission will be issuing further information on the scope of the criteria and guidance to auditors. We will review that guidance to determine the exact scope of our work and we will communicate that to you.

Our team and independence

Audit Team	Responsibilities
Engagement Partner <i>Julian Rickett – 4th year on the audit</i> <i>Tel: 020 7804 0436</i> <i>Email: julian.c.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, ISA (UK&I) 260 report and Annual Audit Letter, the quality of outputs and signing of opinions and conclusions. Also responsible for liaison with the Chief Executive and Members.
Engagement Senior Manger <i>Chris Hughes – 8th year on the audit</i> <i>Tel: 020 7804 3392</i> <i>Email: 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, ISA (UK&I) 260 report and Annual Audit Letter.
Audit Manager: Accounts <i>Jacqui Short – 2nd year on the audit</i> <i>Tel: 01223 552340</i> <i>Email: 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 Manager: Use of Resources <i>Howard Burton – 9th year on the audit</i> <i>Tel: 01603 883253</i> <i>Email: howard.burton@uk.pwc.com</i>	Manager on the audit responsible for coordinating 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 Peterborough City Council 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. Members 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 (revised) '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 2010
	Audit Plan	March 2011
Audit findings	Internal control issues and recommendations for improvement	September 2011
	ISA (UK&I) 260 report incorporating specific reporting requirements, including: <ul style="list-style-type: none"> • Any expected modifications to the audit report • Uncorrected misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust • Material weaknesses in the accounting and internal control systems identified as part of the audit • Our views about significant qualitative aspects of your accounting practices including accounting policies, accounting estimates and financial statements disclosures. • Any significant difficulties encountered by us during the audit; • Any significant matters discussed, or subject to correspondence with, Management; • Any other significant matters relevant to the financial reporting process; and • Summary of findings from our use of resources audit work to support our value for money conclusion. 	September 2011
Audit reports	Financial Statements including Use of Resources	September 2011
Other public reports	Annual Audit Letter A brief summary report of our work, produced for Members and to be available to the public.	December 2011

Audit budget and fees

The Audit Commission has provided indicative audit fee levels for Councils for the 2010/11 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 £278,074.

While the Council continues to produce robust financial statements and working papers for audit purposes, due to the implementation of IFRS in 2010/11, and the level of work we were required to carry out in respect of the Use of Resources element of our work in February – May 2010, we categorise the Council as low to medium risk.

We have also included within the proposed fee of £266,000 a budget of £15,000 for Value for Money studies. If none are undertaken, the total fee will be **£251,000**, a decrease of £14,800 compared to 2009/10.

In our audit fee letter dated 30 April 2010, we therefore agreed an audit fee of £266,000, which is broken down as follows:

	2010/11	2009/10
Accounts	185,000	175,000
Use of Resources	81,000	81,000
Total planned audit fee	266,000	256,000
Elector's Questions and consideration of other matters brought to our attention	0	9,800
Total	266,000	265,800

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 following work of inspectors and internal audit in respect of our use of resources 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 2011; and
- Our use of resources 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 Head of Strategic Finance and his team.

Appendices

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, NE1 8HW, or Richard Sexton, UK Head of Assurance, at our office at 1 Embankment Place, London, WC2N 6RH. 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 (revised) 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 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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