



Public Document Pack

Cambridge City Council

CIVIC AFFAIRS

AGENDA

5 AUDIT COMMISSION ANNUAL GOVERNANCE REPORT AND APPROVAL OF STATEMENT OF ACCOUNTS

Appendix 1: Annual Governance Report

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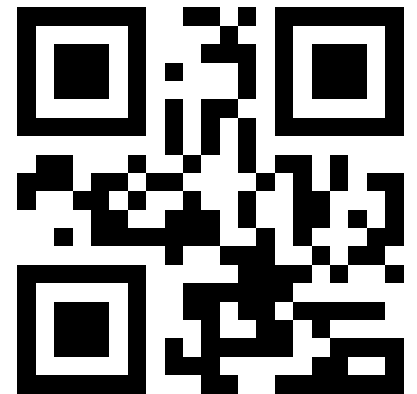
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Annual governance report

Cambridge City Council

Audit 2010/11

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Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	My findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

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Audit opinion and financial statements

- The audit is substantially complete and upon member approval of the final version of the accounts and receipt of the letter of representation I propose to issue an unqualified opinion.
- The Council successfully met the challenge posed by the move to International Financial Reporting Standards (IFRS).
- The accounts submitted for audit contained no material errors.
- The documentation and working papers supporting the accounts were of an excellent standard, as they have consistently been in previous years.
- In response to questions raised from a member of the public I considered that the Council had exercised their powers reasonably in respect to charges to be recovered from taxi licence fees.

- I have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements

Value for money

The Council has:

- a Medium Term Strategy (MTS) based on a 25-year business plan;
- clear linkages in the MTS and budget to strategic objectives;
- robust scrutiny of financial proposals, budgets and accounts;
- a sophisticated system of financial modelling;
- a Clear financial training scheme;
- a track record of delivery of required services within budget;
- implemented an approach that focuses resources to priority areas;
- an inclusive approach to external stakeholders;
- a strong understanding of partnership resources and the opportunities they can offer; and
- challenging service planning processes.

I therefore propose to issue an unqualified conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

Before I complete my audit

I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) – Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

As a result of considering questions raised by a member of the public, an additional audit fee will be levied on completion of the audit.

I ask you to confirm to me

I ask the Civic Affairs committee to:

- take note of the adjustments to the financial statements which are set out in this report (appendix 2); and
- approve the letter of representation, provided in appendix 4 on behalf of the Council before I issue my opinion and conclusion.

Financial statements

The audit is substantially complete and subject to member approval of the accounts and receipt of the letter of representation, I propose to issue an unqualified opinion.

Opinion on the financial statements

The audit is substantially complete and upon member approval of the final version of the accounts and receipt of the letter of representation I propose to issue an unqualified opinion. Appendix 1 contains a copy of my draft report.

Errors in the financial statements

The move to IFRS set all councils the difficult task of reviewing their past accounting policies and accounts and restating them in the format required by IFRS, as well as preparing the current year accounts in that format. The Council adopted a proactive approach to this challenge and engaged at an early stage with my staff. The accounts submitted for audit contained no material errors, with only two non-trivial errors, reflecting the success of the approach adopted. This is an excellent performance in comparison to other bodies nationally.

The two non-trivial errors are set out in detail in appendix 2 and relate to the accounting for:

- impairment losses; and
- revaluation gains.

Neither adjustment impacted on the usable reserves of the Council.

There were no non-trivial errors which management declined to adjust.

Financial statements

The Council’s financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk and my findings

Key audit risk

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1. International Financial Reporting Standards (IFRS)

The introduction of IFRS as the basis for the preparation of local government accounts is a significant change. It requires detailed analysis and retrospective adjustments to a number of accounting policies, practices and comparatives. The Council will have to apply IFRS to its 2010/11 financial statements, including the restatement of prior years.

Finding

The Council successfully dealt with the significant challenge posed by the adoption of IFRS as commented earlier.

2. Economic downturn

Risks arising from a fluctuating economic climate and the resultant impact on the value of land and buildings, investments and pension deficits.

The Council has fully reflected the impact of the changing economic climate within their statement of accounts.

Financial statements

Significant weaknesses in internal control

I have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements

Quality of your financial statements

I considered aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. The documentation and working papers supporting the accounts were of an excellent standard. A number of trivial amendments were made to the text in disclosure notes to aid clarity. Therefore there are no significant matters I need to bring to your attention.

Questions from a member of the public

During the course of the audit a series of questions were raised in respect of the legality of the Council recovering certain costs and charges through licence fees as part of the reasonable costs of its taxi licensing function. The consideration and response to these questions required specialist legal advice as well as work by my audit team. I will therefore levy a supplementary fee on completion of the audit.

Having reviewed the relevant documentation and comments from Council officers, I have concluded that the Council exercised its powers reasonably and there is no further action for me to take.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. A copy of a letter of representation is included in appendix 4.

Value for money

I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for money criteria and my findings

Criterion

1. Financial resilience

The organisation has proper arrangements in place to secure financial resilience.

Focus for 2010/11:

The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

Findings

The leadership team clearly understands the significant and rapidly changing financial management challenges and risks facing the organisation and is taking appropriate action to secure a stable financial position. Key to this assessment are the:

- Regular financial briefings by the Director of Resources who is a member of the senior leadership team;
- MTS, which was updated prior to the full settlement announcement, includes detailed analysis of the impact of the recession; and is based on a 25-year business plan;
- Use of a series of decision papers in the initial stages of the budget preparation;
- Clear linkages in the MTS and budget to strategic objectives; and
- Detailed scrutiny of financial proposals, budget and accounts via Civic Affairs Committee, Strategy and Resources Committee and full Council.

To support effective financial management the Council has a:

- Varied and proportionate financial training programme in place for both members and staff;
- Audit committee function, as carried out by the Civic Affairs Committee, which continues to be adequately discharged;
- Treasury Management Strategy which sets out a balance between security, liquidity and yield. This is regularly monitored against pre set benchmarks, with the situation in respect of Icelandic banks subject to separate analysis;
- System of financial modelling that has taken account of such issues as:
 - Future levels of grant;
 - Changes in concessionary fares funding and responsibility;
 - HRA self financing;
 - Proposed boundary changes; and
 - Sensitivity analysis.
- Identification of a target level for reserves which is actively managed; and
- Move to Portfolio Plans, supported by operational plans in 2011/12.

The Council has a track record of delivering within budget despite the changing financial pressures of recent years.

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

The Council has a specific mechanism to divert resources to priority areas, namely the Priority Policy Fund (PPF) which currently has a provision of £500k per annum. Additionally, the Efficiency Fund that is used to pump prime change initiatives is working well and is facilitating ongoing revenue savings. Further increases have been possible in the Climate Change Fund which is also providing revenue saving now and ongoing whilst delivering sustainability changes.

External stakeholders are involved in financial planning process to deliver organisational and shared objectives. Public consultations via postal questionnaire have been undertaken since 2001 and include gauging stakeholder views on spending and saving priorities.

Strong understanding of partnership resources and targets and all are subject to careful control and assessment. The Council carries out regular review of existing partnership arrangements as well as carrying out opportunity assessment of potential new areas. It has moved forward in joint working in areas such as:

- Interpretation and translation services;
- Legal services; and
- Joint Internal Audit.

The Council is also one of the 11 Total Assets Pathfinder areas as part of the CLG's Total Place Initiative. Making Assets Count (MAC) is undertaking an asset mapping exercise of all the public sector assets within Cambridgeshire covering local government, health, police, fire and central government. It is seen as a prerequisite to rationalisation and identifying opportunities for shared services. The Seymour Court initiative which involved the Council, Cambridgeshire County Council and the Primary Care Trust illustrates the benefit of such initiatives.

The service planning process identifies any forthcoming shortfall or change in the required level of resources. It also considers any underlying cost pressures resulting from any change to the service provision, any potential risks to service provision and identifies bids for funding to realise efficiencies or meet changing legislation.

Appendix 1 – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CAMBRIDGE CITY COUNCIL

Opinion on the Authority accounting statements

I have audited the accounting statements of Cambridge City Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and Collection Fund, and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Cambridge City Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Resources and auditor

As explained more fully in the Statement of the Director of Resources' Responsibilities, the Director of Resources is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the annual report and the introduction to the statement of accounts to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Cambridge City Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the annual report and the introduction to the statement of accounts for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Page 12 Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Cambridge City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Tag Certificate

I certify that I have completed the audit of the accounts of Cambridge City Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Paul King
Officer of the Audit Commission
Audit Commission,
3rd Floor,
Eastbrook,
Shaftesbury Road,
Cambridge CB2 8BF
September 2011

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Adjusted misstatement	Nature of adjustment	Comprehensive income and expenditure statement (CIES)		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Due in part to a lack of clarity within the Code of Practice, the reduction in value on council dwellings following enhancement work was treated as de-recognition of components. As council dwellings are only deemed to have two components, building and land, the cost of £693,000 should have been treated as an impairment. Some £24,000 can be charged to the Revaluation Reserve.	<ul style="list-style-type: none"> HRA –depreciation and impairment increases by £669,000; Statement of Movement on HRA balance – net revaluation losses increase credit by £669,000; CIES – LA Housing (HRA) CIES –losses on disposal. 		669		
	Consequential adjustments to:		693		
	• Capital Adjustment Account				24
	• Revaluation Reserve			24	
	• Movement in Reserves Statement (MIRS);				
	• Balance Sheet				
	• Notes 3,4,6,9,16,34, HRA 4				

Adjusted misstatement	Nature of adjustment	Comprehensive income and expenditure statement (CIES)		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
A number of revaluation gains on HRA council dwellings were netted off impairments reducing the charges to the income and expenditure accounts.	<ul style="list-style-type: none"> HRA – depreciation and impairment increases by £37,000; Statement of Movement on HRA balance – net revaluation losses increase credit by £37,000; CIES – LA Housing (HRA). 				
	Consequential adjustments to:	37			
	<ul style="list-style-type: none"> Capital Adjustment Account Revaluation Reserve MiRS; Balance Sheet Notes 3,4,9,16,34, HRA 4 			37	37

Appendix 3 – Glossary

Annual governance statement

Governance is about how a Council ensures that it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, cultures and values, by which the Council is directed and controlled and through which it accounts to, engages with and where appropriate, leads its community.

The annual governance statement is a public report by the Council on the extent to which it complies with its own governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term 'materiality' applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified opinion.

Appendix 4 – Letter of representation

To:
Paul King
District Auditor
Audit Commission,
3rd Floor,
Eastbrook,
Shaftesbury Road,
Cambridge CB2 8BF

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Cambridge City Council – Audit for the 2010/11 year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers and members of Cambridge City Council, the following representations given to you in connection with your audit of Cambridge City Council's financial statements for the 2010/11 year ended 31 March 2011. All representations cover the Council's accounts included within the financial statements.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 based on International Financial Reporting Standards (IFRS) which give a true and fair view of the financial position and financial performance of Cambridge City Council, for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions undertaken by Cambridge City Council have been properly reflected and recorded in the financial statements.

Irregularities

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

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. Cambridge City Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of Cambridge City Council related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Contingent liabilities

I confirm that there are no contingent liabilities that have not been disclosed in the financial statements but should have been. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Cambridge City Council

I confirm that this letter has been discussed and agreed by the Civic Affairs Committee of Cambridge City Council on 14 September 2011.

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Signed:

Signed:

David Horspool
Director of Resources

Councillor Boyce
Chair of Civic Affairs Committee

Date:

Date:

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



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