

# Cambridge City Council

## Civic Affairs Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

9 September 2014



Building a better  
working world

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# Executive summary

## Key findings

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### **■** Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Civic Affairs Committee - on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

This report summarises the findings from the 2013/14 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

#### **Financial statements**

- ▶ As of 9 September 2014, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have to communicate, that the Council has prepared its financial statements well.

#### **Value for money**

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

#### **Whole of Government Accounts**

- ▶ We expect to issue an unqualified confirmation to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

#### **Audit certificate**

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

# Extent and purpose of our work

## The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## Purpose of our work

Our audit was designed to:

- Express an opinion on the 2013/14 financial statements
- Report on any exception on the governance statement or other information included in the foreword
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion)

In addition, this report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and significant deficiencies in internal control.

As a component auditor, we also follow the group instructions and send to the National Audit Office our group assurance certificate, audit results report and auditor's report on the consolidation schedule.

This report is intended solely for the information and use of the Council. It is not intended to be and should not be used by anyone other than the specified party.

# Addressing audit risks

## Significant audit risks

**I** We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
<p><b>Significant audit risks (including fraud risks)</b></p> <p><u>Fraud and management override risk</u></p> <p>ISA (UK&amp;I) 240 requires that we plan our audit work to consider the risk of fraud. This includes consideration of the risk that management may override controls in order to manipulate the financial statements. Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.</p> <p>Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.</p> <p>One area which may be susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's Capital programme.</p>	<ul style="list-style-type: none"> <li>• Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>• Reviewed accounting estimates for evidence of management bias and</li> <li>• Evaluated the business rationale for any significant unusual transactions</li> <li>• We reviewed and tested capital additions to ensure they were appropriately treated as capital.</li> </ul>	<p>Our audit procedures and testing have not identified any instances of misstatement due to fraud and error.</p>

# Addressing audit risks

## Significant audit risks (continued)

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
<p>Significant audit risks (including fraud risks)</p> <p><b>Localisation of business rates retention</b></p> <p>There have been significant changes in the arrangements for business rate arrangements from April 2013. The detailed accounting requirements for the new arrangement are not yet clear and this therefore presents a risk in terms of the financial statements.</p> <p>One of the main changes is that individual councils now need to provide for rating appeals. This includes not only claims from 1 April 2013 but claims that relate to earlier periods. As appeals are made to the Valuation Office, Councils may not be aware of the level or extent of claims. Councils may also find it difficult to obtain sufficient information to establish a reliable estimate for the appeal provision.</p> <p><b>Property asset valuations</b></p> <p>Valuation of property assets and capital expenditure are significant accounting estimates that have material impact on the financial statements.</p> <p>Changes in the assumptions and the basis of valuation can have a material impact on the reported figures.</p> <p>The upturn in the economy and the boom in development and property values in Cambridge mean that there may be significant movements in values from the prior year.</p> <p>The Council is entering into a number of developments where the valuation of properties could have commercial sensitivity. The council uses external valuers – but the Council instructs them on the basis of the valuation - so if the wrong accounting treatment is chosen the resultant valuation could be materially misstated.</p>	<p>We reviewed the detailed accounting for business rates to ensure the Council's accounts are materially accurate and compliant with the CIPFA Code of Practice (the Code).</p> <p>We reviewed the Council's provision for business rate appeals to ensure it was calculated on a reasonable basis in line with IAS 37. As part of this we ensured the provision is supported by appropriate evidence and that the level of estimation uncertainty is adequately disclosed in the accounts.</p>	<p>The accounts correctly reflected the necessary entries for business rates as required by the Code. The Council has reviewed and updated the estimation approach adopted for the provision in light of updated appeal information.</p>
	<p>Review and assessment of the work of external valuers used as experts by the Council.</p>	<p>Our assessment of management's valuation experts found them to be competent and objective and their work was adequate for our purposes. We had no issues from our testing of the valuations used.</p>

# Financial statements audit

## Issues and misstatements arising from the audit

### Progress of our audit

- ▶ The following areas of our work programme remain to be completed:
  - ▶ Receipt of a Letter of Representation
  - ▶ Final audit closing and review procedures

We will provide an update of progress at the Civic Affairs Committee meeting

- ▶ Subject to the satisfactory completion of the above items, we propose to issue an unqualified audit report on the financial statements.

### Uncorrected Misstatements

- Management have agreed to amend the misstatements identified by our audit. There are no uncorrected misstatements remaining.

We have no matters we wish to report.

### Corrected Misstatements

- Our audit identified a number of misstatements which our team have highlighted to management for amendment. All of these have been corrected during the course of our work. The majority of these related to disclosure notes.
- We do not consider any of these to be significant and therefore we have not provided further details of these corrected misstatements.

### Other Matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:

- Qualitative aspects of your accounting practices; estimates and disclosures;
- Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions; and,
- Any significant difficulties encountered during the audit; and
- Other audit matters of governance interest,

# Financial statements audit (continued)

## Internal Control, Written Representations & Whole of Government Accounts

### Internal Control

- It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.
- We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.
- We have reviewed the Annual Governance Statement and can confirm that:
  - It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
  - It is consistent with other information that we are aware of from our audit of the financial statements.
- We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

### Request for written representations

- We have requested a management representation letter to gain management's confirmation in relation to a number of matters.
- We have made a request for one specific representations. This relates to the additional information that has become available to the Council in relation to the outcome of one specific Business Rate appeal and for which the Council has updated its provision estimate.

### Whole of Government Accounts

- Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.
- The Council's WGA return fell below the threshold for a full audit. We therefore only undertook the limited procedures required in such circumstances.
- We have no matters to report



# Arrangements to secure economy, efficiency and effectiveness

*The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that Cambridge City Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.*

## Criteria 1 - Arrangements for securing financial resilience

▶ *“Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future”*

▶ We did not identify any significant risks in relation to this criteria.

▶ Our areas of focus were the pressures from the economic downturn, localisation of business rates and the introduction of local council tax support.

▶ We also followed up on the action plan put in place to address the Budget setting control weaknesses identified in 2012/13.

▶ We have no issues to report in relation to this criteria

## Criteria 2 - Arrangements for securing economy, efficiency and effectiveness

▶ *“Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.”*

▶ We did not identify any significant risks in relation to this criteria.

▶ We have no issues to report in relation to this criteria

▶ We have no other issues to report.

# Independence and audit fees

## Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 3 March 2014.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Civic Affairs Committee on 17 September 2014.

- ▶ We confirm that we have met the reporting requirements to the Civic Affairs Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements were set out in our Audit Plan of 3 March 2014.

## Audit fees

The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2013-14	Scale fee 2013-14	Variation comments
	£s	£s	
Total audit fee - Code work	68,405	68,405	-
Certification of claims and returns	12,700	12,700	-

- ▶ Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ Our work on certification of claims and returns is ongoing. We will report the final fee for this work in our Certification Report in January 2015.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

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