

# Cambridge City Council

## Civic Affairs Committee Summary

For the year ended 31 March 2013

Audit results report – ISA 260

19 September 2013



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' 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 2012/13 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 19 September 2013, we expect to issue an unqualified opinion on the financial statements.

#### **Value for Money**

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources but will report an exception in respect of arrangements for maintaining a sound system of internal control.

#### **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 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

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## 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 they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their 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 2012/13 financial statements
- Report on any exception on the governance statement or other information included in the foreword
- As a component auditor, 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
- 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)
- This report contains our findings related to the areas of audit emphasis, our views on the Council's accounting policies and judgments and material internal control findings.
- 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 this specified parties.

# Addressing audit risks

## Significant Audit risks

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
<b>Significant audit risks</b>		
<p><b>Valuation of property assets</b></p> <p>This is a significant accounting estimate. The high values of property mean that the impact of inappropriate or erroneous assumptions in the valuation of properties could lead to a material error in the financial statements.</p>	<p>We sought to place reliance on the valuations obtained by the Council from external valuers (management's expert). We:</p> <ul style="list-style-type: none"> <li>• Evaluated the competence , capabilities and objectivity of management's experts;</li> <li>• Obtained an understanding of the work of management's experts</li> <li>• Evaluated the work of management's experts</li> <li>• Concluded whether the work of management's experts was adequate for our purposes.</li> </ul>	<p>We concluded that work of management's experts was adequate for our purposes and we could rely on the external valuers.</p> <p>Our audit discussions with officers identified an issue with the accounting treatment and classification of social housing designated for redevelopment which resulted in the need for those properties to be valued on different basis .</p> <p>This resulted in an overstatement of the asset values by £6.065m and the financial statements have been amended for this error.</p>
<b>Other audit risks</b>		
<p><b>Material misstatements arising from fraud</b></p> <p>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. 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>Based on the requirements of auditing standards our approach focused on:</p> <ul style="list-style-type: none"> <li>• Identifying any fraud risks during the planning stages.</li> <li>• Inquiry of management about risks of fraud and the controls put in place to address those risks.</li> <li>• Understanding the oversight given by the Civic Affairs Committee, as those charged with governance, of management's processes over fraud.</li> <li>• Consideration of the effectiveness of management's controls designed to address the risk of fraud.</li> <li>• Determining an appropriate strategy to address those identified risks of fraud.</li> <li>• Performing mandatory procedures regardless of specifically identified fraud risks.</li> </ul>	<p>Our audit procedures and testing have not identified any instances of misstatements arising from fraud.</p>

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# Financial Statements audit

## *Issues and errors arising from the audit*

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### **Progress of our audit**

- ▶ The following areas of our work programme remain to be completed. We will provide an update of progress at the Audit Committee meeting:
  - ▶ Receipt of a Letter of Representation.
  - ▶ Whole of Government Accounts
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

### **Corrected Errors**

Our audit identified a limited number of numerical and disclosure errors which my team have highlighted to management for amendment. All of these have been adjusted during the course of our work.

We consider a number of these errors to be significant and we set out the context and nature of them in Appendix 1 to this report.

### **Uncorrected Errors**

There remain no unadjusted errors for your consideration.

### **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;
- ▶ 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.
- ▶ Other audit matters of governance interest

We have no matters we wish to report.

# Findings and issues

## Internal Control

### 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 me to complete my 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.

### Internal Control Weakness

In December 2012, the Council notified us of an issue with the 2013/14 budget setting process and an identified gap within the budget and the Medium Term Financial Plan.

We identified this as a significant risk to the Value for Money conclusion (financial resilience and underlying criteria of budget setting / internal control).

We carried out additional work in relation to the Council's budget setting process and reported our findings to the Chief Executive on 23 January 2013 and 19 February 2013.

We found that the budget gap of £2.3m had occurred as a result of an unidentified error in the opening reserve figure. The internal control framework was not operating as it was designed and adequate scrutiny and review of the budgets had not taken place and version control was weak, so that the error was not identified.

The council has now put in place an action plan to address the weaknesses identified

We have concluded that this weakness did not increase the risk of a material error in your 2012/13 financial statements.

We have concluded that this weakness is relevant to my consideration the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and intend to report it as an exception to my overall conclusion.

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# Findings and issues

## *Written Representations & Whole of Government Accounts*

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### **Request for written representations**

We have requested a management representation letter to gain management's confirmation in relation to a number of matters, for which we do not currently have sufficient audit evidence. We have not requested any non standard representations.

### **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 my report are specified by the National Audit Office.

We are currently concluding our work in this area and will report any matters that arise to the Audit Committee.



# 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 identify a significant risk in relation to this criteria as a result of the potential control weaknesses in the budget setting process.
- ▶ We have concluded that the Council's arrangements for securing financial resilience are adequate.

## 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.

## Other Considerations

- In meeting our responsibility relating to economy, efficiency and effectiveness, the Audit Commission Code of Audit Practice requires auditors to review and, where appropriate, examine evidence that is relevant to the audited body's underlying corporate performance and financial management arrangements.
- We have concluded that the significant internal control weaknesses identified in relation to budget setting should be reported as an exception. This does not modify our overall conclusion.
- The exception wording of our Value For Money (VFM) conclusion is shown at Appendix 2.

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# Independence

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## Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 20 March 2013.
- ▶ We complied with the Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance and 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 Audit Committee on 19 September 2013.
- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (ISA) 260. Our communication plan to meet these requirements were set out in our Audit Plan 20 March 2013.

# Audit Fees

## Audit fees

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

	Proposed final fee 2012/13	Scale fee 2012/13	Variation comments
	£s	£s	
Total Audit Fee - Code work	86,405	68,405	Additional fee of £18,000 agreed to address risk of budget setting control weaknesses (Phase 1).
Certification of claims and returns	12,900	12,900	Work not yet complete
Non-Audit work	21,000	n/a	Phase 2 work in relation to the Budget Setting issue.

- ▶ Our actual fee is in line with the proposed final fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ We confirm that we have undertaken work outside of the Audit Commission's Audit Code requirements (non-code). We were engaged by the Council to investigate the error in the budget setting process, as set out in the table opposite.

# Appendix 1 - Adjusted Audit errors

The following adjustments, which are greater than £0.148m, have been identified during the course of our audit.

These adjustments have been made by management within the revised financial statements

Item of Account	Nature of Error	Error Type	Statement of Comprehensive Income & Expenditure		Balance Sheet	
			Debit	(Credit)	Debit	(Credit)
Property, Plant and Equipment	Valuation basis change	F				(5,882,274)
Short Term Assets Held for Sale	Valuation basis change	F				(183,000)
Revaluation Reserve	Valuation basis change	F			5,071,122	
Non Distributed Costs	Valuation basis change	F	1,330,872			
Other Operating Expenditure	Valuation basis change	F		(336,720)		
<b>Balance sheet totals</b>					<b>5,071,122</b>	<b>(6,065,274)</b>
Income effect of corrected adjustments			1,330,872	(336,720)		
Cumulative effect of uncorrected misstatement			<i>NIL</i>			

## Key

- ▶ F – Factual error
- ▶ P – Projected error based on audit sample error and population extrapolation
- ▶ J – Judgemental error

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# Appendix 2 – Modified VFM Conclusion

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

### *Respective responsibilities of the Authority and the auditor*

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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves 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 us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

### *Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources*

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, 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 us to consider under the Code of Audit Practice in satisfying ourselves 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 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we 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 our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are 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 ended 31 March 2013.

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

### Report by exception

The Audit Commission's guidance also requires us to report by exception on any other significant additional matters that come to our attention and which we consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

Such a matter has come to our attention relating to a significant weakness in Cambridge City Council's arrangements for ensuring appropriate internal control over the preparation of the 2013/14 budget. The Council has set out this matter within its Annual Governance Statement on page XXII of the financial statements.

Our conclusion above, that we are 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 ended 31 March 2013, is not modified by this finding.

## Ernst & Young LLP

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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.

