

# Cambridge City Council

Year ending 31 March 2013

Annual Audit Letter

15 October 2013



Building a better  
working world

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The Members  
Cambridge City Council  
The Guildhall  
Cambridge  
CB2 3QJ

15 October 2013

Dear Members,

## **Annual Audit Letter**

The purpose of this Annual Audit Letter is to communicate to the Members of Cambridge City Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of Cambridge City Council in the following report:

2012/13 Audit results report for the  
Cambridge City Council

Issued 19 September 2013

The matters reported here are the most significant for the Council.

I would like to take this opportunity to thank the officers of Cambridge City Council for their assistance during the course of our work.

Yours faithfully

Mark Hodgson  
Director  
For and behalf of 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.

# 1. Executive summary

Our 2012/13 audit work has been undertaken in accordance with the Audit Plan we issued on 20 March 2013 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

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 an annual basis 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.

As auditors we are responsible for:

- ▶ forming an opinion on the financial statements;
- ▶ reviewing the Annual Governance Statement;
- ▶ forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- ▶ undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

<p>Audit the financial statements of Cambridge City Council for the financial year ended 31 March 2013 in accordance with International Standards on Auditing (UK &amp; Ireland)</p>	<p>On 23 September 2013 we issued an unqualified audit opinion in respect of the Council.</p>
<p>Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources.</p>	<p>On 23 September 2013 we issued an unqualified value for money conclusion.</p> <p>We reported a significant weakness in relation to Internal Control but this did not modify our opinion.</p>
<p>Issue a report to those charged with governance of the Council (the Civic Affairs Committee) communicating significant findings resulting from our audit.</p>	<p>On 19 September 2013 we issued and presented our report in respect of the Council to the Civic Affairs Committee.</p>
<p>Report to the National Audit Office on the accuracy of the consolidation pack the Council is required to prepare for the Whole of Government Accounts.</p>	<p>We reported our findings to the National Audit Office on 23 September 2013</p>
<p>Consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.</p>	<p>No issues to report.</p>

Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	We did not issue such a report.
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	We did not take such action.
Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	On 23 September 2013 we issued our audit completion certificate.
Issue a report to those charged with governance of the Council summarising the certification (of grants claims and returns) work that we have undertaken.	We plan to issue our annual certification report to those charged with governance with respect to the 2012/13 financial year by 31 January 2014.

## 1.1 Audit fees

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

	Planned fee	Scale fee	Final
Code audit work	£86,405	£68,405	£86,405
Certification of claims and returns	£12,900	£12,900	see note below
Non-Code work	£16,700	N/A	£16,700

Our actual fee is in line with the agreed fee for the Code audit work and includes an additional fee of £18,000 agreed to address the audit risk in relation to the budget setting control weakness.

Work on the certification of claims and returns is not yet complete. We will report our final fee for the certification work in our report to be issued by 31 January 2014.

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 further investigate the error in the budget setting process. The total agreed fee of £21,000 for this work has been split across 2012/13 and 2013/14.

## 2. Key findings

### 2.1 Financial statement audit

We audited the Council's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 23 September 2013.

In our view, the quality of the process for producing the accounts, including the supporting working papers was good, which was reflected in the low number of errors reported.

The main issues identified as part of our audit were:

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#### Significant risk 1: Valuation of property assets and capital expenditure

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We concluded that valuations of non-current assets are free from material misstatement and that non-current asset additions were capital in nature.

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. This resulted in an overstatement of the asset values by £6.065m and the financial statements have been amended for this error.

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#### Other key findings:

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Our audit identified a limited number of numerical and disclosure errors. All of these were adjusted during the course of our work.

Other than the error in the accounting treatment and classification of social housing designated for redevelopment described above, we did not identify any other material misstatements during our audit.

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### 2.2 Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2012/13 our conclusion was 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.

We issued an unqualified value for money conclusion on 23 September 2013. However, we did report a significant internal control weakness identified in relation to budget setting and reported this as an exception. This did not modify our overall conclusion. Further details of the weakness are given in section 3.

The following is a brief summary of our findings against each of these criteria.



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## Criteria and findings

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### 1. Financial resilience

The Council has a strong financial history of setting a balanced budget and operating within it, maintaining a low council tax, and healthy reserves. The General Fund had a balance of £7.99 million at 31 March 2013, exceeding the minimum level of £5million and earmarked reserves were £20.3million.

As reported in section 3, a budget setting error was highlighted during the setting of the 2013/14 budget, but related to the 2012/13 financial year. The level of reserves for 2013/14 onwards before the budget error was identified were projected at being £5.000m going forward. However, after adjusting for the £2.3m error, the reduced reserve levels are forecast of £3.730million in 2013/14 and £3.975million in 2014/15, 2015/16, 2016/17. Savings planned for 2014/15 and 2015/16 are projected to get the reserves back up to £5.000million in 2017/18.

The Council is debt free except for the HRA self-financing.

The Council's financial plans demonstrate a thorough understanding of the challenges and risks facing the Council.

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### 2. Securing economy efficiency and effectiveness

The Council has a strong track record in delivering its ambitions and strategic priorities.

The Council has continually taken a proactive approach to achieving its priorities over the long term. Therefore, the Council has reviewed its objectives and priorities and it is actively researching a number of ways to make savings in the short, medium and long term, particularly through strategic partnerships, procurement initiatives, shared services and asset management.

The Council is actively examining cost and performance information across the organisation through a number of initiatives to assess the delivery of savings plans (Key Performance Indicators and income levels are monitored at Member level). Business process re-engineering and LEAN techniques are adopted to investigate ways to reduce costs, without impacting upon service quality

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## 2.3 Whole of government accounts

We reported to the National Audit office on 23 September 2013 the results of our work performed in relation the accuracy of the consolidation pack the Council is required to prepare for the whole of government accounts. We did not identify any areas of concern.

## 2.4 Annual governance statement

We are required to consider the completeness of disclosures in the Council's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance.

We completed this work and did not identify any areas of concern

## 2.5 Certification of grants claims and returns

We have not yet completed our work on the certification of grants and claims.

We will issue the Annual Certification Report for 2012/13 in January 2014.

### 3. Control themes and observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal of internal control we are required to communicate to those charged with governance at the Council any significant deficiencies in internal control.

#### Internal Control Weakness

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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 the Councils 2012/13 financial statements.

We concluded that this weakness was relevant to our consideration the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources and reported it as an exception to the overall value for money conclusion.

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Key findings

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