

## CAMBRIDGE CITY COUNCIL

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REPORT OF: Head of Finance

TO: Civic Affairs Committee

17/9/2014

WARDS: None directly affected

### **ERNST & YOUNG EXTERNAL AUDIT CONCLUSIONS AND APPROVAL OF STATEMENT OF ACCOUNTS**

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#### **1 INTRODUCTION**

- 1.1 The external audit of the Statement of Accounts for 2013/14 by Ernst & Young is underway and is expected to be concluded by mid-September. Before giving their formal opinion on the accounts there is a requirement to present their audit findings and to obtain a letter of management representation signed by both the Head of Finance and a member on behalf of 'those charged with governance.' Under the Council's Constitution, this responsibility rests with the Civic Affairs Committee.
- 1.2 Ernst & Young will be at the meeting to present and discuss their audit findings.
- 1.3 The Accounts and Audit Regulations require that the accounts be approved by resolution of a committee of the Council (or the full Council) by 30 September. Under the Council's Constitution, this responsibility rests with the Civic Affairs Committee.

#### **2. RECOMMENDATIONS**

- 2.1 That the Committee receive the audit findings presented by Ernst & Young.
- 2.2 That the Statement of Accounts for the year ending 31 March 2014 be approved.

- 2.3 That the Chair of the meeting be authorised to sign the Letter of Representation and audited Statement of Accounts for the financial year ending 31 March 2014 on behalf of the Council.

### **3. BACKGROUND**

- 3.1 Approval of the Statement of Accounts for 2013/14 by the Civic Affairs Committee and publication of those accounts is required by 30 September 2014, in line with the Accounts and Audit Regulations.
- 3.2 The Civic Affairs Committee reviewed the draft Statement of Accounts for 2013/14 on 25 June 2014. Ernst and Young have since been carrying out their audit. Changes made to the accounts since the draft was reviewed by the Committee in June are discussed in section 4 below. The revised version of the Annual Report and Statement of Accounts, incorporating these changes, is provided at Appendix A.
- 3.3 International Auditing Standard (UK and Ireland) 260 requires auditors to communicate a number of matters to those charged with governance, before issuing their audit opinion.
- 3.4 International Auditing Standard (UK and Ireland) 580 requires the auditor to have received a Letter of Representation drawn up by the Council that provides written confirmation on matters that might be relevant or significant to the statement of accounts. This letter is signed as near as possible to the date of the auditor issuing his opinion. The auditing standard requires that the letter is 'discussed and agreed by those charged with governance and signed on their behalf..... to ensure that all those charged with governance are aware of the representations on which the auditor intends to rely in expressing the auditor's opinion on those financial statements'. Ernst and Young therefore requires the Letter of Representation to be signed by the Head of Finance and by the Chair of Civic Affairs Committee. A draft of the letter is included at Appendix B.

### **4. CHANGES TO THE ACCOUNTS SINCE CIVIC AFFAIRS REVIEW IN JUNE**

- 4.1 There have been a number of changes made to the accounts, since presentation of the draft to Civic Affairs in June 2014.

- 4.2 Prior to commencement of the audit, Officers reviewed the reporting of Council Tax and Business Rate balances. In the draft financial statements other government bodies' shares of the net business rate and council tax balances were shown gross of their share of the surplus or deficit on the relevant fund. As a result of the review the accounts were adjusted to net off balances. The impact is a reduction in both debtors and creditors of £4.9 million.
- 4.3 The external audit identified an error made in a manual creditor raised for new car park equipment. Officers have corrected this error in the statement of accounts resulting in an increase in the value of property, plant and equipment and creditors of £168k as at the 31 March 2014. This capital project is funded from earmarked reserves, so there has been a corresponding decrease in the value of these reserves as at 31 March 2014.
- 4.4 The Council continues to monitor the carrying amount of the LBI Icelandic deposits in light of current information and as a result has amended the value as at 31 March 2014 from £2.2 million to £2.0 million.
- 4.5 The Valuation Office Agency has recently notified the Council, along with other Councils affected, of the results of an appeal in respect of the valuation of telecommunications equipment for business rates purposes. The reduction in rateable value is significant and backdated to 1 April 2010 and as it provides further evidence of a condition that existed at 31 March 2014 is treated as an adjusting post balance sheet event. The provision for business rates appeals in the Collection Fund is increased by £494k.
- 4.6 This increases the Council's 40% share of the deficit from business rates for the year by £198k. This reduction in income for the Council is offset by an increase in the safety net grant payment from central government. As this government grant is reflected in the General Fund in 2013/14, but the deficit will not be paid by the General Fund until 2014/15, the grant has been appropriated to the business rates earmarked reserve as at 31 March 2014.
- 4.7 As detailed in the Movement in Reserves Statement on Page 9 of the Statement of Accounts, usable reserves now total £79.7 million at 31 March 2014. The composition of usable reserves and the changes from the draft accounts presented in June are presented below:

	<b>Draft Accounts June 2014</b>	<b>Final Accounts September 2014</b>
	<b>£'000</b>	<b>£'000</b>
General Fund Balance	(9,176)	(8,990)
Housing Revenue Account Balance	(8,880)	(8,880)
Earmarked General Fund Reserves	(23,943)	(23,973)
Earmarked HRA Reserves	(4,320)	(4,320)
Capital Receipts Reserve	(17,593)	(17,593)
Major Repairs Reserve	(4,919)	(4,919)
Capital Grants Unapplied	(11,058)	(11,058)
<b>Total Usable Reserves</b>	<b>(79,889)</b>	<b>(79,733)</b>

4.8 Further detail on the earmarked reserves can be found in Note 5 to the Statement of Accounts.

4.9 A number of other adjustments have been made to correct typographical errors or to disclosure notes following the external audit. These include:

- correction of the split of the surplus or deficit on the disposal of non-current assets between the General Fund and the HRA
- amendments to the disclosures of the value of financial instruments to exclude some pension creditors included in error
- revisions to the estimated commitments for HRA new build properties in the capital commitments disclosure note to reflect the value of land implicit in these schemes.

## 5. SUMMARY STATEMENT OF ACCOUNTS

5.1 The audited Statement of Accounts is required to follow a largely prescribed format as laid down by The Code of Practice on Local Authority Accounting in the United Kingdom.

5.2 A brief summary of the accounts, designed to be easier for the general public to interpret, together with the annual report has been drafted and is provided at Appendix C for information. This document will be published on the Council's website together with the full version.

## 6. IMPLICATIONS

- (a) **Financial Implications** Included in the report above
- (b) **Staffing Implications** None
- (c) **Equality & Poverty Implications** None
- (d) **Environmental Implications**

None. Paper copies of the Annual Report and Statement of Accounts and the Summary document will only be produced on request. Electronic versions will be available on the Council's website.

- (e) **Procurement** None

- (f) **Consultation and communication**

The full and summary accounts will be published on the Council's website. A notice advertising that the audit of the accounts has been concluded will be published in the Cambridge News and on the website.

- (g) **Community Safety** None

**BACKGROUND PAPERS:** The following are the background papers that were used in the preparation of this report:

Annual Report and Statement of Accounts 2013/14

To inspect these documents contact Charity Main on extension 8152

The author and contact officer for queries on the report is Charity Main on extension 8152 .

Report file:

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