Cambridge City Council

Civic Affairs Committee Summary

For the year ended 31 March 2015

Audit Results Report – ISA (UK and Ireland) 260

9 September 2015

Mark Hodgson
Executive Director
mhodgson@uk.ey.com

Tony Poynton
Assistant Manager
tpoynton@uk.ey.com

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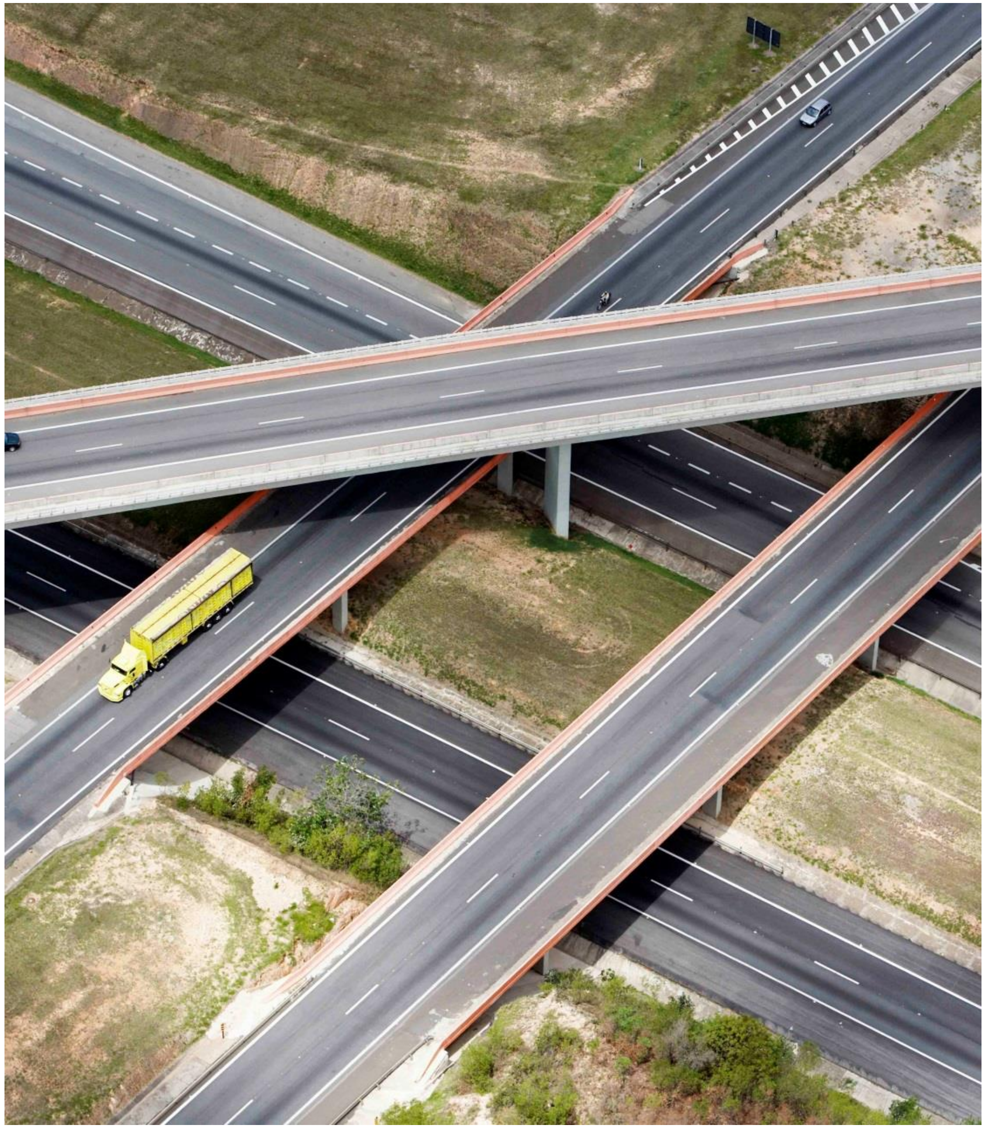

Section 1

Executive summary

Executive summary – key findings

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 and any governance issues that we identified. This report summarises the findings from the 2014/15 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 2015, 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.
- The Council now has a strong and well established accounts production process. This process delivered draft accounts available for audit as agreed on 1 July 2015 and a high standard of working papers to support them. Officers have answered our audit queries promptly and effectively. This has allowed us to reach the reporting and completion stage of our audit earlier than last year.
- We have worked with your finance team throughout the year to discuss the specific risk areas for this year's audit, as well as those likely to impact in the future, and the Council has addressed the issues appropriately. In our view, the Council is well placed to meet the earlier timetable for the production and audit of the accounts, which will be introduced in 2017/18.

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 are not required to report to the National Audit Office (NAO) regarding the Whole of Government Accounts, as the Council falls below the threshold for audit work.

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.

Section 2

Extent and purpose of our work

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 2014/15 financial statements and the consistency of information included in the Annual Report and the Introduction to the Statement of Accounts.
  - Report on an exception basis on the Annual Governance Statement.
  - 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).
  - Discharge the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice.

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

As a component auditor, we also follow the NAO group instructions and report the results on completion of the WGA work through the Assurance Statement to the NAO and to the Council.

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.

Section 3

Addressing audit risks

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.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Audit risk identified within our audit plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
Property Asset Valuation Valuation of property assets and capital expenditure are significant accounting estimates that have material impact on the financial statements. Changes in the assumptions and the basis of valuation can have a material impact on the reported figures. 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. The fixed asset register and supporting spreadsheets hold a high volume of data. These are used to derive the journal entries to bring the external valuations into the accounts. Errors in the formulae could lead to errors in the accounting entries.	Our approach focussed on: ► Reliance on management's experts and review of the instructions given to that valuer ► Consideration of the accounting treatments and basis of valuation as required by the Code ► Test of detail if required ► Test of the journals, supporting spreadsheets and derivation of accounting entries.	► Our assessment of management's valuation experts found them to be competent and objective and their work was adequate for our purposes. ► We considered whether the Council's property assets were valued appropriately and reasonably, including the choice of valuation technique and the presentation of gains and impairments in the Statement of Comprehensive Income as required by the Code. ► We sample tested valuation balances to ensure that they were correctly accounted for within the financial statements. ► We reviewed and tested journal entries to ensure that the valuation balances tested above were accurately disclosed within the financial statements. We did not identify any significant issues that we wish to bring to your attention in this regard.

Addressing audit risks – significant audit risks (cont'd)

- 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
Significant audit risks (including fraud risks)		
Risk of management override As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. One area which may be susceptible to manipulation is whether expenditure is defined as capital or revenue and the allocation of assets between the general fund and the Housing Revenue Account.	Our approach focussed on: ► Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ► reviewing accounting estimates for evidence of management bias; and ► evaluating the business rationale for any significant unusual transactions; ► testing the additions to the Property Plant and Equipment balance to ensure they were properly allocated between the general fund and the Housing Revenue Account. Our testing of revenue expenditure included consideration of whether this was appropriately classified.	Our audit testing has not identified any instances of misstatement due to fraud and error.

Addressing audit risks – other 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
Other audit risks		
Investment valuation The Council has invested £10 million in a CCLA property fund. The council intends to use an external expert (Sector) to value the investment at the year end.	Our proposed approach focussed on: ► reliance on management's expert.	The property fund is a publicly quoted investment and there was no need therefore to revert to a valuation expert.

Section 4

Financial statements audit – issues and findings

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. We will provide an update of progress at the Civic Affairs Committee meeting:
  - Receipt of a Letter of Representation
  - Final Manager and Director review, closing procedures and sign off
- Subject to the satisfactory resolution 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.

Corrected misstatements

- Our audit identified a number of misstatements which our team highlighted to management for amendment. These were all corrected during the course of our work. The majority related to disclosure notes.
- We do not consider any of these to be significant in financial reporting terms, but we have provided further details of the material corrected misstatements in Appendix A.

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 Authority'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;
  - Any significant difficulties encountered during the audit; and
  - Other audit matters of governance interest

We have no matters we wish to report.

Financial statements audit – application of materiality

Our application of materiality

- When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	
Planning Materiality and Tolerable error	We determined planning materiality to be £2.4 million (2014: £2.5 million), which is 2% of the gross expenditure reported in the financial statements (£119.4 million). We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council. We set a tolerable error for the audit. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion. We have set tolerable error at the upper level of the available range because there were no significant errors, corrected or uncorrected, in the Council's 2013/2014 financial statements.
Reporting Threshold	We agreed with the Civic Affairs Committee that we would report to the Committee all uncorrected audit differences in excess of £0.12 million (2014: £0.12 million)

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas,. The areas identified and audit strategy applied include:

- Remuneration disclosures including any severance payments, exit packages and termination benefits.
  Strategy applied: review and test transactions to supporting evidence and approvals.
- Related party transactions.
  Strategy applied: review disclosure for completeness, testing to supporting evidence

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Financial statements audit – internal control, written representations and 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.
- This request was for standard representations, we are not requesting any specific representations in relation to this engagement.

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.
- We have concluded our work in this area and are not required to report to the National Audit Office as the Council falls below the threshold for such reporting.

  There are therefore no matters to report.

Section 5

Arrangements to secure economy, efficiency and effectiveness

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 Authority 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 identified the following significant risk in relation to this criteria at the initial planning phase of our audit which we reported in our Audit Plan dated 17 March 2015 presented to the June 2015 Civic Affairs Committee:

  "*In recent years the Council has responded well to the financial pressures arising from the recent economic downturn, and reductions in the level of central government funding to local government. These factors and the Council's current other strategic plans will impact on the Council's budget and Medium Term Financial Strategy during the current and forthcoming financial years*."

- We have undertaken a review of the medium term financial plan and the assumptions included within it. We have also assessed the level of reserves (both general fund and earmarked) that the Council has at the 31 March 2015.

  The Council's medium term financial plan is predicated on a certain level of uncertain central government funding (New Homes Bonus and Business Rate growth). However, we are comfortable that the level of reserves held by the Council adequately covers the potential uncertainty of the funding.

Criteria 2 – arrangements for securing economy, efficiency and effectiveness

- 'Whether the Authority 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.
- Our work did not identify any other matters relating to aspects of your corporate performance and financial management framework which are not covered by the scope of the two specified criteria above.

Section 6

Independence and audit fees

Independence and audit fees

Independence

- We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 17 March 2015.
- We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code 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 16 September 2015.
- 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 and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements were set out in our Audit Plan of 17 March 2015.

Audit fees

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

	Proposed final fee 2014/2015	Scale fee 2014/2015	Variation comments
	£	£	
Audit Fee: Code work	69,305	69,305	N/A
Certification of claims and returns	16,000	16,000	See * below

- 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 is ongoing, the final fee will be reported to you in the Annual Certification Report for 2014/15.
- We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

Section 7

Appendices

Appendix A – corrected audit misstatements

- The following misstatements, have been identified during the course of our audit and in our professional judgement warrant communicating to you.
- These items have been corrected by management within the revised financial statements.

Disclosure	Description of misstatement
Note 4: Movement in Reserves Statement – Adjustments between Accounting Basis and Funding Basis under Regulations	The presentation of HRA depreciation within this note was not in line with the latest Code of Practice. Management agreed to move the HRA depreciation charge from ‘Adjustments primarily involving the Major Repairs Reserve’ to ‘Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement (CIES). This also affected the presentation of the transfer between the HRA and the Major Repairs Reserve.
Revaluation gains – Impact on Notes 3, 4, 15, 32 and HRA Notes 3 and 9.	Management agreed to amend the split between revaluation gains on property plant and equipment and the HRA depreciation charge following a review of the accounting treatment in respect of the reversal of revaluation losses previously charged to the CIES. This reduced the depreciation charge in Council Dwellings by £1.7 million with an equivalent reduction in revaluation increases recognised in the surplus/deficit on the provision of services.
Note 34: Financial Instruments	Short term financial assets classified as loans and receivables within this note were reduced from £9.4 million to £3.7 million. The original amount was shown gross of £1.5m impairment provision and £3.2 million deferred capital proceeds which will be recovered via service provision rather than financial asset. Short term creditors and receipts in advance classified as financial liabilities at amortised cost were reduced from £18.1 million to £15.0 million. The original balance included £2.5 million of receipts in advance and £0.7 million of pension scheme creditors that did not constitute a financial instrument. This also affected the fair value table in the same note.

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Ernst & Young LLP

ED None

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com