

CAMBRIDGE CITY COUNCIL

REPORT OF: Head Of Finance

TO: Civic Affairs Committee

15/02/2017

WARDS: None directly affected

EXTERNAL AUDIT 2015/16 AUDIT LETTER

1 INTRODUCTION

- 1.1 The attached Annual Audit Letter (Appendix 1) from Ernst & Young (EY) summarises the key issues arising from their 2015/16 audit.

2. RECOMMENDATIONS

- 2.1 That the contents of the Annual Audit Letter are considered and noted.

3. BACKGROUND

- 3.1 The Local Audit and Accountability Act 2014 requires a committee of the Council to consider the letter. For this Council that committee is Civic Affairs.
- 3.2 The letter was issued by EY in October 2016 and sent to members of Civic Affairs in early November.

4. IMPLICATIONS

- (a) **Financial Implications** None.
- (b) **Staffing Implications** None
- (c) **Equal Opportunities Implications** None
- (d) **Environmental Implications** None
- (e) **Procurement** None

(f) **Consultation and communication** None

(g) **Community Safety** None

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

N/A

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

Report file: O:\accounts\Committee Reports & Papers\Civic
Affairs\February 2017\External Audit 2015-16 Annual
Audit Letter.docx

Date originated: 26 January 2017

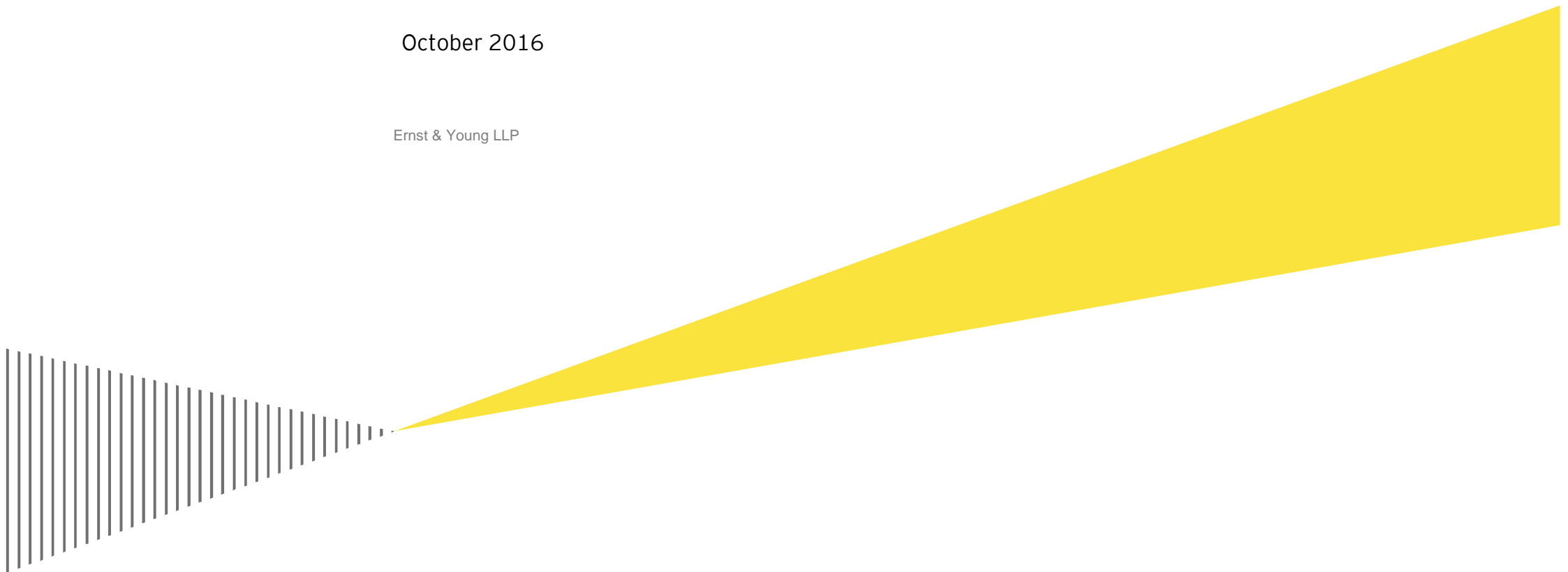
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Cambridge City Council

Annual Audit Letter for the year ended 31 March 2016

October 2016

Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued ‘Statement of responsibilities of auditors and audited bodies 2015-16’. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk)

The Statement of responsibilities serves as the formal terms of engagement between 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 ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter 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.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a laptop, and a white mug. A yellow rectangular box is overlaid on the left side of the image.

Executive Summary

Executive Summary

We are required to issue an annual audit letter to Cambridge City Council (the Council) following completion of our audit procedures for the year ended 31 March 2016.

Below are the results and conclusions on the significant areas of the audit process.

| Area of Work | Conclusion |
|--|---|
| Opinion on the Council's: ▶ Financial statements | Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2016 and of its expenditure and income for the year then ended |
| ▶ Consistency of other information published with the financial statements | Other information published with the financial statements was consistent with the Annual Accounts. |
| Concluding on the Council's arrangements for securing economy, efficiency and effectiveness | We concluded that you have put in place proper arrangements to secure value for money in your use of resources. |

| Area of Work | Conclusion |
|---|--|
| Reports by exception: ▶ Consistency of Governance Statement | The Governance Statement was consistent with our understanding of the Council. |
| ▶ Public interest report | We had no matters to report in the public interest. |
| ▶ Written recommendations to the Council, which should be copied to the Secretary of State | We had no matters to report. |
| ▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014 | We had no matters to report. |

| Area of Work | Conclusion |
|---|------------------------------|
| Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA). | We had no matters to report. |

As a result of the above we have also:

| Area of Work | Conclusion |
|---|---|
| Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit. | Our final Audit Results Report was issued on 27 th September 2016. |
| Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice. | Our certificate was issued on 27 th September 2016. |

In January 2017 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken.

We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Neil Harris

Director
For and on behalf of Ernst & Young LLP

Purpose



Purpose

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2015/16 Audit Results Report to the 27th September 2016 Civic Affairs Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.



Responsibilities

Responsibilities

Responsibilities of the Appointed Auditor

Our 2015/16 audit work has been undertaken in accordance with the Audit Plan that we issued in March 2016 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2015/16 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by thy Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement (AGS). In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned 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.

A blurred office desk with a laptop, glasses of water, and financial documents. The scene is brightly lit, likely from a window with blinds in the background. A yellow rectangular box is overlaid on the left side of the image, containing the text 'Financial Statement Audit'.

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 27th September 2016.

Our detailed findings were reported to the 27th September 2016 Civic Affairs Committee.

The key issues identified as part of our audit were as follows:

| Significant Risk | Conclusion |
|---|---|
| <p>Valuation and Impairment of Property, Plant and Equipment</p> <p>Property, Plant and Equipment (PPE) represent the largest asset values on the Council's balance sheet. Land and buildings are initially measured at cost and then revalued to fair value. Council dwellings and Other land & Building are revalued annually</p> <p>This is carried out by an external expert valuer and is based on a number of complex assumptions. Annually assets are assessed to identify whether there is any indication of impairment.</p> <p>ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of external experts and assumptions underlying fair value estimates.</p> | <p>We completed our planned audit procedures and, for a sample of revaluations:</p> <ul style="list-style-type: none"> ▶ Concluded that we were able to place reliance on the work undertaken by management's valuation expert. ▶ Concluded that the basis of the valuations was in accordance with relevant guidance, in particular the 2015-16 Code of Practice on Local Authority Accounting. ▶ Concluded that the accounting treatment applied to changes in the valuation of property assets was appropriate. <p>We had no matters to report.</p> |
| <p>Pension Liability</p> <p>The Council operates a defined benefits pension scheme.</p> | <p>We completed our planned audit procedures regarding the Pension Liability.</p> <p>We received a response from the Pension Fund Auditor on 20th September 2016</p> |

| Significant Risk | Conclusion |
|---|---|
| <p>Accounting for this scheme involves significant estimation and judgement. The Pension liability is the largest balance on the balance sheet. Due to the nature, volume and size of the transactions we consider this to be a significant risk.</p> | <p>which provided evidence that the fair value of the scheme assets as at 31st March 2016 was understated. The relative values of equity; private equity and other investments funds were corrected as a result.</p> <p>We had no other matters to report.</p> |
| <p>Management override of controls</p> <p>A risk present on all audits is that management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly, and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.</p> <p>For local authorities the potential for the incorrect classification of revenue spend as capital is a particular area where there is a risk of management override. We therefore review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.</p> | <p>We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation.</p> <p>We did not identify any:</p> <ul style="list-style-type: none"> ▶ Material weaknesses in controls or evidence of material management override. ▶ Instances of inappropriate judgements being applied. ▶ Other transactions during our audit which appeared unusual or outside the Council's normal course of business. <p>We reviewed capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised. Our testing did not identify any expenditure which had been inappropriately capitalised.</p> |
| <p>Revenue and expenditure recognition</p> <p>Auditing standards also required us to presume that there is a risk that revenue and expenditure may be misstated due to improper recognition or manipulation.</p> <p>We respond to this risk by reviewing and testing material revenue and expenditure streams and revenue cut-off at the year end.</p> | <p>Our testing has not revealed any material misstatements with respect to revenue and expenditure recognition.</p> <p>Overall our audit work did not identify any issues or unusual transactions which indicated that there had been any misreporting of the Council's financial position.</p> |

A close-up, shallow depth-of-field photograph of a stack of coins. The coins are stacked vertically, with some showing their edges and others showing their faces. The lighting is warm, highlighting the metallic texture and the ridges on the edges. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Value for Money".

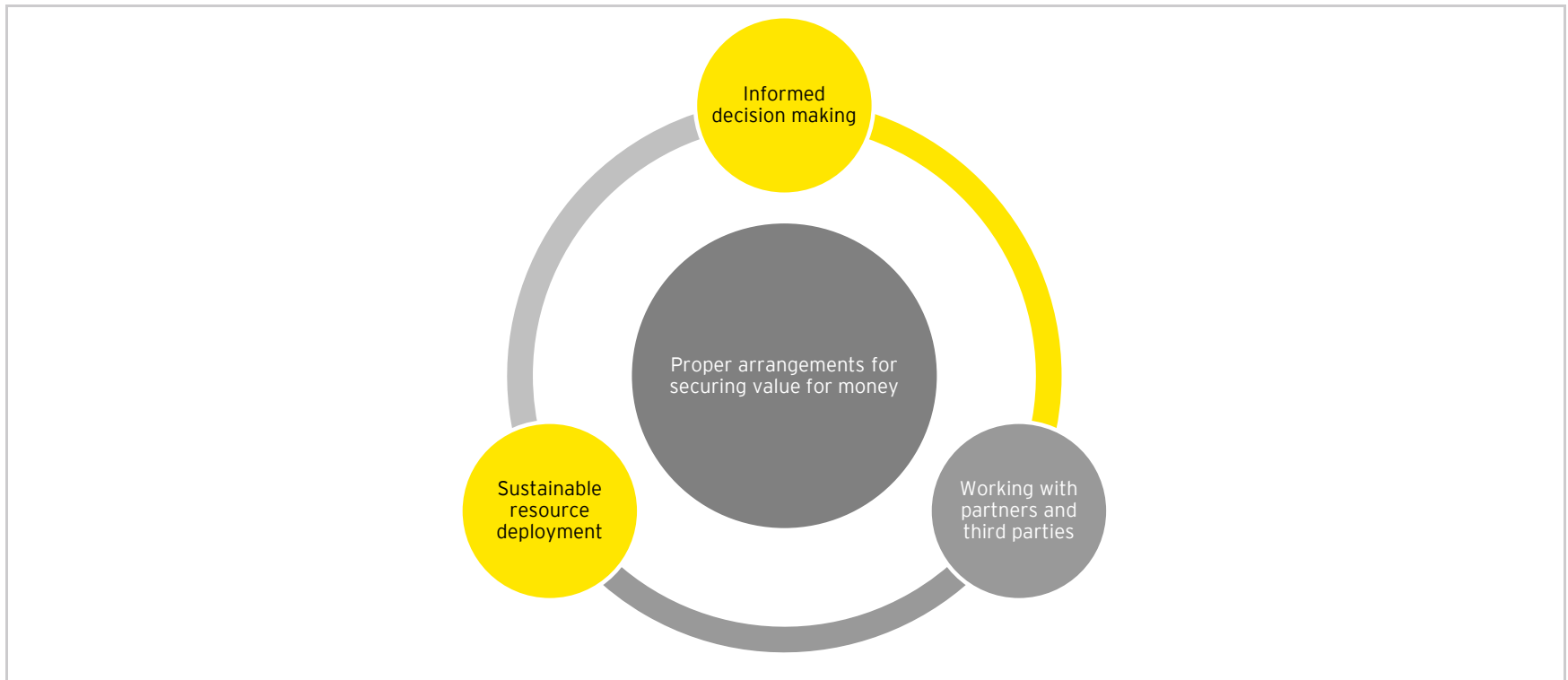
Value for Money

Value for Money

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.



We issued an unqualified value for money conclusion on 27th September 2016.

We did not identify any significant risks in relation to our value for money conclusion.

We performed the procedures outlined in our Audit Plan and concluded that the Council had adequate arrangements in place.

As part of our work we considered the following areas and made the following observations:

Key Findings

Response to financial pressures

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 will continue to impact the Council's medium term financial strategy during the current and forthcoming financial years.

We reviewed the Council's 2016/17 Budget Setting Report. The Council has well established arrangements for reviewing its medium term financial plan which incorporates key assumptions and sensitivity review. The Council has a proven track record of achieving savings and achieving its budget.

The General Fund balance at £16 million comfortably exceeds the Council's minimum level of £5.1 million. In addition the council also holds £17.8million of earmarked reserves. The council is already developing plans for tackling the saving requirement of £3.5million cumulative savings required over the period ending 2020/21

On the basis of the work undertaken we have concluded that the Council has arrangements in place for deploying resources in a sustainable manner.

We performed the procedures outlined in our audit plan and we have not identified any further significant risks or weaknesses in relation to these criteria in our work to date.

We therefore concluded that you have put in place proper arrangements to secure value for money in your use of resources.



Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

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 is misleading.

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

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

We did not receive any objections to the 2015/16 financial statements from member of the public.

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Independence

We communicated our assessment of independence in our Audit Results Report to the Civic Affairs Committee on 27th September 2016. 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.

Control Themes and Observations

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 adopted a fully substantive approach and have therefore not tested the operation of controls. The matters reported below are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

| Description | Impact |
|--------------------|--|
| Contracts Register | <p>After requesting a list of all contracts/agreements which the Council is party to Officers were able to provide a contract register but noted that it was a couple of years out of date and that due to the amount of time it took to maintain and difficulty of obtaining data from service areas it had fallen into misuse.</p> <p>We understand that Officers are currently working on an alternative strategy for a new contracts register and recommend that a register is implemented and maintained in order that there is one central log of the contracts and agreements that the Council is committed to.</p> |

A close-up photograph of a person's face as they look through a pair of black binoculars. The person's eyes are focused on the lenses, and their hands are visible holding the device. The background is a soft, out-of-focus white. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your
future

Focused on your future

| Area | Issue | Impact |
|---------------------------|--|--|
| EU referendum | <p>Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016 there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. All three major rating agencies (S&P, Fitch and Moody's) took action on the UK Sovereign credit rating. For entities in the public sector, there is likely to be an impact on investment property valuations if confidence in the wider UK property market falls; and the valuation of defined benefit pension obligations may also be affected. It is too early to estimate the quantum of any impact of these issues, but there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations.</p> | <p>Many of the issues and challenges that face the UK public sector will continue to exist, not least because continued pressure on public finances will need responding to. Additionally it may well be that the challenges are increased if the expected economic impacts of the referendum and loss of EU grants outweigh the benefits of not having to contribute to the EU and require even more innovative solutions.</p> |
| Devolution in East Anglia | <p>The UK has lagged behind other countries in decentralising its governance. But in recent years, 'localism' has gained momentum. Large parts of England have started to agree Devolution Deals, which transfer powers in policy areas such as housing, planning and transport, education, employment, skills, health and policing.</p> <p>If managed well, it could help stimulate local economies to achieve higher levels of job creation and growth; improve public service outcomes through better local coordination of resources and funding; revitalise local democracy through more accountable governance; and improve the sustainability of public finances.</p> <p>In March, the Chancellor published an offer to local authorities in East Anglia - to form an East Anglia Combined Authority covering Norfolk, Suffolk, Cambridgeshire and Peterborough. Communities and businesses in Cambridgeshire and Peterborough were consulted on the proposals.</p> | <p>The Cities and Local Government Devolution Act came into force on 28 March 2016. Orders and regulatory amendments relating to constitutional or electoral issues need to be in place by late 2016 to ensure that the combined authority can come into effect early in 2017 and the Mayoral elections can take place in May 2017.</p> <p>The Secretary of State must first make an Order for the creation of the combined authority and then seek consent to the draft Order from each authority. The draft Order will be considered by both Houses of Parliament before being made.</p> <p>In EY's report 'From Whitehall to Townhall Preparing for devolution to England's city regions' we look at progress so far and outline the factors that have driven success in winning more powers. We reflect on the</p> |

| Area | Issue | Impact |
|------|---|--|
| | <p>Negotiations between the Councils in the East Anglian region concluded that the interests of the region would be best met through two combined authorities - Cambridgeshire and Peterborough, and Norfolk and Suffolk.</p> <p>Cambridgeshire and Peterborough have now negotiated a new devolution deal, proposing the formation of a Combined Authority including: Peterborough City Council, Cambridgeshire County Council, Fenland District Council, Huntingdonshire District Council, East Cambridgeshire District Council, South Cambridgeshire District Council, Cambridge City Council and the Greater Cambridge Greater Peterborough Local Enterprise Partnership. This proposals remains subject to ratification by each Council.</p> | <p>readiness of different areas to make a success of devolution and speculate on the long-term impact on local government.</p> <p>The debate will continue for some time to come, and lessons will be learned along the way. Drawing on our experience of working with a number of local authorities and cities, we are committed to helping facilitate debate and sharing best practices to help local government deliver the best services and outcomes to their communities and citizens.</p> <p>We will also need to consider how Councils are preparing for the transition to the new arrangements, whilst maintaining 'business as usual,' for our 2016/17 Value For Money conclusion.</p> |

Appendix A

Audit Fees



Appendix A Audit Fees

Our fee for 2015/16 will be more than the scale fee set by the PSAA as reported in our Annual Results Report.

| Description | Final Fee 2015/16 £ | Planned Fee 2015/16 £ | Scale Fee 2015/16 £ | Final Fee 2014/15 £ |
|---|------------------------|--------------------------|------------------------|------------------------|
| Total Audit Fee - Code work | 51,979 | 51,979 | 51,979 | 69,305 |
| Total Audit Fee - Certification of claims and returns: Note 1 | TBC | 15,077 | 15,077 | 16,000 |
| Non-audit work | None | None | None | 2,500 |

Our actual fee is in line with the scale fee set by the PSAA at this point in time.

We confirm we have undertaken non-audit work outside of the PSAA's requirements, this is the work on the Councils 2014/15 housing pooling of capital receipts return. The fee for this work was £2,500.

Note 1 - We have just commenced our work in this area. Our certification of the Housing Benefit claim will be completed to the 30 November 2016 deadline, and the final fee concluded at that time. We will report the results of our work and the final fee with you in our certification report in January 2017.

EY | Assurance | Tax | Transactions | Advisory

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ED None

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