

Annual Audit Letter

Cambridge City Council

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Key messages

This report summarises my findings from the 2009/10 audit. My audit comprises two elements:

- **the audit of your financial statements (pages 3 to 4); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 5 to 6).**

I have included only significant recommendations in this report. The Council has accepted these recommendations.

Audit opinion and financial statements

1 I issued an unqualified opinion on the financial statements on 15 September 2010. I found no material errors in the accounts and the financial statements submitted for audit were complete and supported by an excellent quality of working papers.

Value for money

2 I concluded that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I issued an unqualified Value for Money Conclusion on 15 September 2010.

Current and future challenges

3 The Council faces significant challenges in future years as a result of the general economic downturn and the Comprehensive Spending Review. Difficult decisions will be necessary and significant cuts in the budget are unavoidable. The Council already has in place a robust Medium Term Strategy (MTS) which it is using to model the implications of the Spending Review and inform the difficult decisions that must be made.

4 A more accurate assessment of the impact of the Spending Review will not be possible until the provisional financial settlement for local government is announced in December 2010. The Council will be reflecting its full implications in its Budget Setting Report which it anticipates publishing on 17 December 2010.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

I gave an unqualified opinion on the Council's 2009/10 financial statements on 15 September, well within the statutory target date.

Overall conclusion from the audit

5 I issued an unqualified opinion on the financial statements on 15 September. I found no material errors in the accounts and the financial statements submitted for audit were complete and supported by an excellent quality of working papers. The Council's Annual Report which is contained in its accounts has been used as an example of best practice by CIPFA.

Significant weaknesses in internal control

6 I did not identify any significant weaknesses in your internal control arrangements.

Treasury Management

7 My work has confirmed that the Council's accounting and disclosures comply with CIPFA guidance by impairing the value of Icelandic investments by a further £196,000 in 2009/10 to a carrying value of £5,570,000 in the Statement of Accounts. The £5,570,000 is the amount of its investment that the Council expects to receive over the next eight years, the nominal value of the investment being £9,329,000.

International Financial Reporting Standards

8 Local authorities have to produce their accounts under International Financial Reporting Standards (IFRS) for 2010/11. The Council's preparations for IFRS are leading-edge and the Council is well placed to implement the necessary requirements.

Recommendation

R1 Continue to deliver the agreed plan for producing IFRS compliant accounts within the timescales the Council has set.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

9 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

10 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

11 I report the significant findings from the work I have carried out to support the vfm conclusion.

VFM conclusion

12 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

13 My findings are summarised in the following table.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Risk management and internal control	Yes
Managing resources	
Natural Resources	Yes

14 I issued an unqualified conclusion on 15 September stating that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources. The main issues arising from our review are summarised below.

Managing Finances

15 The Council integrates its financial and corporate planning processes and has a structured MTS to deliver savings and efficiencies. The Council understands the contextual factors impacting upon its costs and many services have participated in benchmarking groups. This information has been used to compare costs and performance and inform service improvement and promote value for money. Stakeholders have been consulted on their external reporting needs and action taken on the results.

Governing the Business

16 The Council has updated its procurement strategy and it continues to pursue opportunities for collaborative procurement. These have generated notable savings during 2009/10. The Council has robust data quality processes in place and closely monitors performance against its priorities and targets.

17 The Civic Affairs Committee is effective and actively challenges and investigates issues of concern. The Council also has a pro-active programme of counter fraud and corruption work and promotes a zero tolerance culture.

18 The Council demonstrates a positive risk culture through effective partnership risk management and maintains a sound system of internal control. It has an effective Internal Audit function which complies with CIPFA's Code of Practice.

Managing resources

19 The Council understands and can quantify its use of natural resources. It has a clear baseline on energy and fuel use which has enabled it to set clear targets for improvement. The Council manages performance to reduce its impact on the environment and it has adopted an Environmental Framework and a Climate Change Strategy. The Council has established a Climate Change Fund to provide funding for projects which will contribute to the achievement of this strategy. These projects have already improved sustainability and produced annual savings. Due to the success of this initiative a further contribution to this fund is being put forward for approval. A green Travel Plan has also been in place for 3 years and has resulted in reduced car mileage.

20 The Council uses programme maintenance for its estate to improve energy efficiency and reduce its carbon footprint and an Office Accommodation Strategy encapsulates sustainability and encourages the use of natural resources in every Council building.

Approach to local value for money work from 2010/11

21 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

22 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

23 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

National Fraud Initiative

24 The Council has actively participated in the Audit Commission's National Fraud Initiative (NFI) and thoroughly investigated the data matches produced from the last round of the Audit Commission's initiative. As a

result the Council has identified £72,461 of savings. The majority of these savings related to wrongly paid Council Tax Single Person discounts.

25 The Council continues to participate in this initiative and will be finalising the results of its investigations in February/March 2011. We will continue to monitor the Council's progress on these issues.

Recommendation

R2 Continue to proactively participate in the Audit Commission's National Fraud Initiative and investigate the data matches produced.

Current and future challenges

Financial pressures

26 The government has made clear its priority to tackle the UK's deficit. On 24 May 2010, the Chancellor of the Exchequer and Chief Secretary to the Treasury announced the first step in tackling the deficit, setting out how the government intends to save over £6 billion from spending in 2010/11. The government has subsequently announced the outcome of the Comprehensive Spending Review on 20 October 2010 and set spending limits for every government department for the period 2011/12 to 2014/15 and included annual funding reductions of 7.1 per cent for four years for local authorities.

27 The Council has revised its MTS to reflect the implications from the Spending Review and reported these to full Council on 8 November 2010. The review concluded that the two most significant areas affecting the General Fund are the level of Formula Grant and the adjustment to the grant to reflect the transfer of responsibility for Concessionary Fares from the City Council to the County Council from 1 April 2011. However, no material changes have been identified as necessary to the existing MTS.

28 The Council anticipated the impact of the Spending Review to be a cut in general government grants of 30 per cent over four years. As a result, the Council aims to make savings of approximately £4 million over the next three years, with £2 million of the savings in 2011/12. The Council has identified a range of Service Reviews and these have been supplemented by an exercise to identify other potential areas for savings. Plans are already in place to deliver approximately 83 per cent of the savings required for 2011/12 and a regular monitoring process has already been established to monitor their achievement.

29 The Council has aimed to achieve a balance between prudence and deliverability in its MTS and has provided for an sustainable level of reserves over the medium to long term of around £5m.

30 A more accurate assessment of the impact of the Spending Review will not be identified until the provisional financial settlement is announced in December 2010. It is therefore a time of uncertainty, but the cumulative effect of the savings required is significant. The Council will be reflecting the full implications in its Budget Setting Report which is due to be published 17 December 2010.

Future developments

31 The Spending Review reinforced the Government's commitment to reform the Housing Revenue Account finance system so local authorities have greater control over their own finances and can reinvest to meet local

housing need. No specific details have been published at this stage but the Government is proposing to issue a consultation paper during November 2010.

Recommendation

- R3** Continue to reassess and revise the assumptions in the Council's MTS to inform the Council's decisions and enable the preservation of the Council's financial health, ensure a balanced budget is achieved and adequate general fund balances maintained.
- R4** Reassess the implications of the Government's proposals regarding the Housing Revenue Account finance system, following the publication of the proposed consultation paper.

Closing remarks

32 I have discussed and agreed this letter with the Chief Executive and the Director of Resources. I will present this letter at the Civic Affairs Committee on 2 February 2011 and will provide copies to all board members by 30 November 2010.

33 Full detailed findings, conclusions and recommendations in the areas covered by our audit are included in my Annual Governance Report issued in September 2010.

34 The Council has taken a positive and helpful approach to our audit. I wish to thank the Council's staff for their support and cooperation during the audit.

Paul King
District Auditor
November 2010

Appendix 1 – Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

Appendix 1 Action Plan

Recommendations	
Recommendation 1	
Continue to deliver the agreed plan for producing IFRS compliant accounts within the timescales the Council has set.	
Responsibility	
Priority	High
Date	
Comments	
Recommendation 2	
Continue to proactively participate in the Audit Commission's National Fraud Initiative and investigate the data matches produced.	
Responsibility	
Priority	Medium
Date	
Comments	
Recommendation 3	
Continue to reassess and revise the assumptions in the Council's MTS to inform the Council's decisions and enable the preservation of the Council's financial health, ensure a balanced budget is achieved and adequate general fund balances maintained.	
Responsibility	
Priority	High
Date	
Comments	
Recommendation 4	
Reassess the implications of the Government's proposals regarding the Housing Revenue Account finance system, following the publication of the proposed consultation paper.	
Responsibility	
Priority	High
Date	
Comments	

