

Item

## **EXTERNAL AUDIT 2017/18 ANNUAL AUDIT LETTER**



**To:**

Civic Affairs Committee 10/10/2018

**Report by:**

Caroline Ryba, Head of Finance

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**Wards affected:**

None directly affected

### **1. Introduction**

- 1.1 The attached Annual Audit Letter (Appendix 1) from Ernst & Young (EY) summarises the key issues arising from their 2017/18 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 August 2018 and sent to members of Civic Affairs.

## **4. Implications**

### **(a) Financial Implications**

None.

### **(b) Staffing Implications**

None.

### **(c) Equality and Poverty Implications**

None.

### **(d) Environmental Implications**

None.

### **(e) Procurement Implications**

None.

### **(f) Community Safety Implications**

None.

## **5. Consultation and communication considerations**

The Annual Audit Letter has been published on the Council's website.

## **6. Background papers**

No background papers were used in the preparation of this report:

## **7. Appendices**

Appendix 1 – Ernst and Young Annual Audit Letter 2017/18

## **8. Inspection of papers**

To inspect the background papers or if you have a query on the report please contact Charity Main, Principal Accountant (Technical & Financial Accounting), tel: 01223 - 458152, email: [charity.main@cambridge.gov.uk](mailto:charity.main@cambridge.gov.uk).

# **Cambridge City Council**

Annual Audit Letter for the year  
ended 31 March 2018

August 2018

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Audit Fees



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://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 (updated 23 February 2017)' 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 Cambridge City Council, 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.



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# Executive Summary

## Executive Summary

We are required to issue an annual audit letter to Cambridgeshire City Council (the Council) following completion of our audit procedures for the year ended 31 March 2018. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
<b>Opinion on the Council's:</b>	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2018 and of its expenditure and income for the year then ended.
▶ Financial statements	
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
<b>Concluding on the Council's arrangements for securing economy, efficiency and effectiveness</b>	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.

Area of Work	Conclusion
<b>Reports by exception:</b>	
▶ 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
<b>Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).</b>	The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the consolidation pack.

## Executive Summary (cont'd)

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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 Audit Results Report was issued on 25 July 2018.
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 26 July 2018.

### Fees

Throughout the year we have engaged early and effectively with the finance team on matters relating to the Council's subsidiary companies and the group accounts and significant capital transactions and their associated complex accounting treatment. The finance team have been very receptive to our engagement and we have valued their openness. In addition, we have been required to use our specialist Information Technology auditors to carry out focused procedures on the Council's implementation of its new financial management system. These matters have represented changes to the scope of the audit, which we have reported throughout the year to the Council, and as a result we have agreed additional fees with the Head of Finance which we outline in Section 7.

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

Suresh Patel

Associate Partner

For and on behalf of Ernst & Young LLP





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## Purpose and Responsibilities



# Purpose and Responsibilities

## 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 2017/18 Audit Results Report to the 25 July 2018 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 of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued on 14 February 2018 and is conducted in accordance with the National Audit Office's (NAO) 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the NAO.

As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2017/18 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 the 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 NAO on your Whole of Government Accounts return. The Council is below the specified audit threshold of £500 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.



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## 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 26 July 2018.

Our detailed findings were reported to the 25 July Civic Affairs Committee. The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
<p><b>Misstatements due to fraud or error</b></p> <p>The risk is that the financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK and Ireland) 240, 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. We identify and respond to this fraud risk on every audit engagement.</p> <p>We assessed journal amendments, accounting estimates and unusual transactions as the area's most open to manipulation. Linking to the presumed risk of fraud in revenue and expenditure recognition we identified the inappropriate capitalisation of expenditure on Property, Plant and Equipment as a risk. This has been identified as a specific risk as set out on the next page, and therefore we have not repeated that information here.</p> <p>.</p>	<p>In undertaking our work on management override of controls we considered the balances included in the Council's financial statements that were the most susceptible to judgement or estimation techniques. The key estimates were considered to be the NNDR appeals provision, the valuation of Property, Plant and Equipment and the valuation of pension liabilities. Due to the significance of PPE and pension valuations on the financial statements we included them as higher inherent risks in our audit strategy and include a separate section to report on these separately below and not repeated that information here. Given that the impact of valuation and measurement of property, plant and equipment and pension liabilities did not impact the general fund we did not consider these to be significant estimates subject to fraudulent misreporting.</p> <p>We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We obtained a full list of journals posted to the general ledger during the year and using our data analytics tool confirmed the completeness of the population 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. We identified no issues.</p> <p>We evaluated the Council's estimates, including provisions, accruals, deferred liabilities, bad debt provision and depreciation, as low risk of material misstatement. No issues were noted in our work in these areas.</p> <p>We did not identify:</p> <ul style="list-style-type: none"><li>▶ any material weaknesses in controls or evidence of material management override.</li><li>▶ any instances of inappropriate judgements being applied.</li><li>▶ any other transactions during our audit which appeared unusual or outside the Council's normal course of business.</li></ul>

## Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows (cont'd):

Significant Risk	Conclusion
<p><b>Inappropriate capitalisation of expenditure</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>The Council has historically performed well in relation to their outturn position for the year. In 2017/18 the Council incurred a surplus of £4.9m chargeable to the General Fund and Housing Revenue Account (HRA) as set out in the Expenditure and Funding Analysis. The overall position against the budget set by the Council was a surplus of £1.7m for general fund services and a surplus of £1.8m for the HRA.</p> <p>As the Council is more focused on its financial position over the medium term we do not consider there to be a heightened risk for the Council's standard income and expenditure streams except for the capitalisation of revenue expenditure on Property, Plant and Equipment (PPE) given the extent of the Council's capital programme.</p>	<p>We focused on management's judgement in capitalising expenditure as PPE. The Council has a number of large capital programmes and therefore judgement can be exercised in the allocation of costs between revenue expenditure and capital expenditure. This judgement impacts the valuation/measurement of the expenditure and also the existence of the asset on the balance sheet and completeness of expenditure included within the Comprehensive Income and Expenditure Statement (CIES). We performed the following specific procedures over the identified risk areas:</p> <ul style="list-style-type: none"> <li>▶ Capital additions testing - We selected a sample of capital additions and tested these to confirm that all amounts could be agreed to appropriate audit evidence (e.g. invoice, valuation certificate etc.) and that the item being capitalised was capital in nature. No significant issues were noted in our testing.</li> <li>▶ Journal entry testing - As part of our journal testing we included a specific test to search for unusual activity that moves expenditure from the CIES to PPE on the balance sheet. No unusual activity was identified as part of our review.</li> </ul> <p>We also considered the following:</p> <ul style="list-style-type: none"> <li>▶ Reviewed the appropriateness of revenue and expenditure recognition accounting policies and testing that they had been applied correctly during our detailed testing.</li> <li>▶ Performed cut off testing and unrecorded liabilities testing to consider the completeness of assets and liabilities included in the financial statements.</li> <li>▶ Evaluated the business rationale for any significant unusual transactions.</li> </ul> <p>Our testing did not identify any material misstatements from the inappropriate capitalisation of expenditure.</p> <p>Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.</p>

## Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
<p><b>Financial Management system</b></p> <p>Following implementation of Technology One Financial Management System (T1 FMS), the Council has migrated the balances from Oracle to Technology One. This migration took place on 1 March 2018, one month prior to the financial year end.</p> <p>The migration to a new finance system is a significant event that involves extensive planning and arrangements to ensure that the governance of the process is maintained, the new system delivers as expected and there is no loss of financial data.</p> <p>As such, we consider this to represent a significant risk to the audit where this occurs during the financial year.</p>	<p>In order to address this risk we carried out a range of procedures including:</p> <ul style="list-style-type: none"><li>▶ Involving our risk assurance experts in assessing how the migration has been governed and performed;</li><li>▶ Testing the migration of the data between the two systems to ensure it remains complete and accurate;</li><li>▶ Reviewing the mapping of data between the two systems; and</li><li>▶ Gaining an understanding of the new IT environment and the impact this has on the processes associated with significant classes of transactions - As a result of the change in the finance system we undertook additional procedures to consider how significant classes of transactions were processed in the financial statements. This included consideration of key controls. We did not identify any significant issues in the design of controls, however, we note that we did not perform a controls based audit.</li></ul> <p>Based on the procedures performed, we concluded there were sufficient controls in place to enable us to gain reasonable assurance that system migration activities did not result in a material misstatement of the financial statements.</p>
Other Key Findings	Conclusion
<p><b>Group accounting</b></p> <p>There were a number of changes to the group structure during the year, including Cambridge Investment Partnership and Storey's Field Charitable Trust. It is important that the Council performs a detailed assessment to ensure that all potential associates and joint ventures are appropriately recognised and disclosed in the accounts.</p>	<ul style="list-style-type: none"><li>▶ We reviewed the Council's processes for consolidation, agreed the consistency of accounting policies, and ensured the inter-company elimination is appropriate. We have also tested the balances being consolidated taking into account materiality.</li><li>▶ We performed testing over the material transactions consolidated within the group accounts with no issues noted.</li><li>▶ We reviewed management's assessment of CIP as a joint venture and have agreed with their assessment. As this is the first year of inclusion in the financial statements we have requested specific procedures to be performed over certain balances by the CIP auditors. No issues were identified.</li></ul> <p>We assessed the group boundary and the significance of the components to the group accounts and have concluded that it is materially accurate.</p>



## Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Key Findings	Conclusion
<p><b>Valuation of capital assets</b></p> <p>Property, Plant and Equipment ( PPE) and investment properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the Balance Sheet for land and buildings in particular. The Council will engage external expert valuers who will apply a number of complex assumptions to these assets. Annually, assets are assessed to identify whether there is any indication of impairment.</p> <p>As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/overstated. This risk relates to assets that are revalued, being 'Council dwellings', 'Other land and Buildings', 'Surplus assets' and 'Investment Properties'. Vehicles, plant and equipment, infrastructure assets and community assets are held at cost. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>In order to address this risk we:</p> <ul style="list-style-type: none"> <li>▶ Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.</li> <li>▶ Reviewed and sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans).</li> <li>▶ Considered the annual cycle of valuations to ensure that assets were valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We also considered if there were any specific changes to assets that occurred and that they were communicated to the valuer.</li> <li>▶ Reviewed assets not subject to valuation in 2017/18 to confirm that the remaining asset base was not materially misstated and that asset categories held at cost were assessed for impairment and were materially correct.</li> <li>▶ Considered external evidence of asset values via reference to the NAO commissioned Local Government Gerald Eve report and broader market data for the Cambridge area where relevant. Specifically we considered if this indicated any material variances to the asset valuations performed by the valuers and to those assets not revalued.</li> <li>▶ Considered changes to useful economic lives as a result of the most recent valuation and tested that the valuation accounting entries had been correctly processed in the financial statements, including the treatment of impairments.</li> </ul> <p>There are approximately £12m of investment properties that had not been revalued at the balance sheet date, which is not in compliance with the Code. We have therefore assessed whether there is any risk of material misstatement associated with the properties. In order to be materially misstated the value would need to be different by more than 17%. Whilst there are a range of movements for individual assets, the average value change is approximately 5%. As such we do not consider there to be a risk of material misstatement associated with these assets. The Council should review this going forward to mitigate against the risk of material error.</p> <p>No other issues were identified. We did not identify any material issues in the valuations based on our work.</p>



## Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Key Findings	Conclusion
<p><b>Pension valuations and disclosures</b></p> <p>The Local Council Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme (LGPS) administered by Cambridgeshire County Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £116.396 million in the draft accounts (£114.032 million at 31 March 2017).</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We liaised with the auditors of, Cambridgeshire Pension Fund, BDO, to obtain assurances over the information supplied to the actuary in relation to Cambridge City Council.</p> <p>We assessed the work of the Pension Fund actuary (Hymans) including the assumptions they used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.</p> <p>The assumptions used by the actuary were reviewed by both PwC and our EY actuarial team who both concluded that the assumptions and methodology used were considered to be appropriate. We reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19 - no issues were noted.</p> <p>In calculating the scheme assets as at 31 March 2018 the actuary performs a roll forward technique based on asset data submitted to them by the Pension Fund at 31 December 2017. The reporting from the Pension Fund auditors highlighted that the market value of the pension fund assets at 31 March 2018 was £2,958 million.</p> <p>When compared to the actuarial estimate of the fund assets at 31 March 2018 of £2,891 million this created a judgemental difference of £67 million. Management obtained a revised IAS19 report and processed an adjustment of £2.8 million to reduce the net liability.</p> <p>Assumptions used by the actuary and adopted by the Council were considered to be generally acceptable. The sensitivities surrounding these assumptions have been correctly disclosed in the notes to the financial statements.</p> <p>No other issues have been identified in completing our work.</p>

## Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Other Key Findings	Conclusion
<p><b>Capital transactions</b></p> <p>As set out in our audit plan, the Council informed us during the year of a number of potentially large capital transactions that would have an impact on the 2017/18 financial statements. Specifically we have considered the following:</p> <ul style="list-style-type: none"> <li>▶ The disposal of land to the Council's joint venture, Cambridge Investment Partnership (CIP).</li> <li>▶ The part disposal of an asset recently constructed in the year, where the top two floors have been leased to a housing association.</li> <li>▶ Review of deferred consideration for asset sales which contain overage elements as part of the overall consideration.</li> </ul> <p>It is important for the Council to fully understand the arrangements in place and any accounting implications so that these can be appropriately recognised in the accounts.</p>	<p>We focused on managements judgements around:</p> <ul style="list-style-type: none"> <li>▶ The classification of leases associated with the transactions and the resulting treatment in the financial statements.</li> <li>▶ Any apportionment considerations management has been required to make in disposing of assets.</li> <li>▶ The substance and legal form of arrangements and the accounting treatment then adopted in the accounts.</li> </ul> <p>In order to address this risk we :</p> <ul style="list-style-type: none"> <li>▶ Understood the substance of significant one off transactions.</li> <li>▶ Reviewed and tested the accounting treatment proposed by management to ensure that it is in accordance with accounting standards and the Code and has been recognised at the correct value and in the correct financial year.</li> <li>▶ Considered the completeness and accuracy of any related disclosures (for example, joint arrangements).</li> </ul> <p>We worked closely with the Council during the financial year to agree the accounting and disclosure requirements associated with the above transactions. We understood the transactions, reviewed the accounting treatment and disclosures and confirmed that these have been correctly incorporated into the financial statements.</p>
<p><b>Cash flow statement and EFA</b></p> <p>The Council has amended the method in which they prepare their cash flow statement for 2017/18, moving from preparing it using cash records as the source to using the Surplus or Deficit on the Provision of Services and adjusting for non-cash items. This has therefore involved a restatement of the prior year to ensure the comparatives to the primary statement are consistent. In addition, the Council has made some amendments to the presentation of the Expenditure Funding Analysis (EFA) to combine the disclosures into one note. This is an amalgamation of notes as opposed to a restructure of how income and expenditure is categorised.</p>	<p>In order to address this risk we have:</p> <ul style="list-style-type: none"> <li>▶ Reviewed and tested the restated cash flow statement and ensured compliance with the Code;</li> <li>▶ Review and test the completeness and accuracy of any associated disclosures to the cash flow statement and the EFA, including narrative explaining the in year changes; and</li> <li>▶ Reviewed and tested the amalgamated expenditure funding analysis to ensure its consistency with the prior year comparatives.</li> </ul> <p>No issues have been noted in the performance of our procedures.</p>

## Financial Statement Audit (cont'd)

### 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	Thresholds applied
Planning materiality	<p>We determined planning materiality to be £2.6 million (2017: £2.8 million), which is 2% gross expenditure on net cost of services plus expenditure relating to interest payable, pension finance costs, investment properties and pooling of housing capital receipts reported in the accounts.</p> <p>We consider this to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p> <p>As the Council prepares consolidated accounts we are also required to determine materiality for the purposes of the group. As the consolidated entities do not have a significant impact on the CIES we have kept the materiality levels the same for the group and the Council as a single entity.</p>
Reporting threshold	<p>We agreed with the Committee that we would report to the Committee all audit differences in excess of £0.130 million (2017: £0.14 million)</p>

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, related party transactions and councillor allowances -As these disclosures are considered to be of interest to users of the accounts we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are correctly disclosed.

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



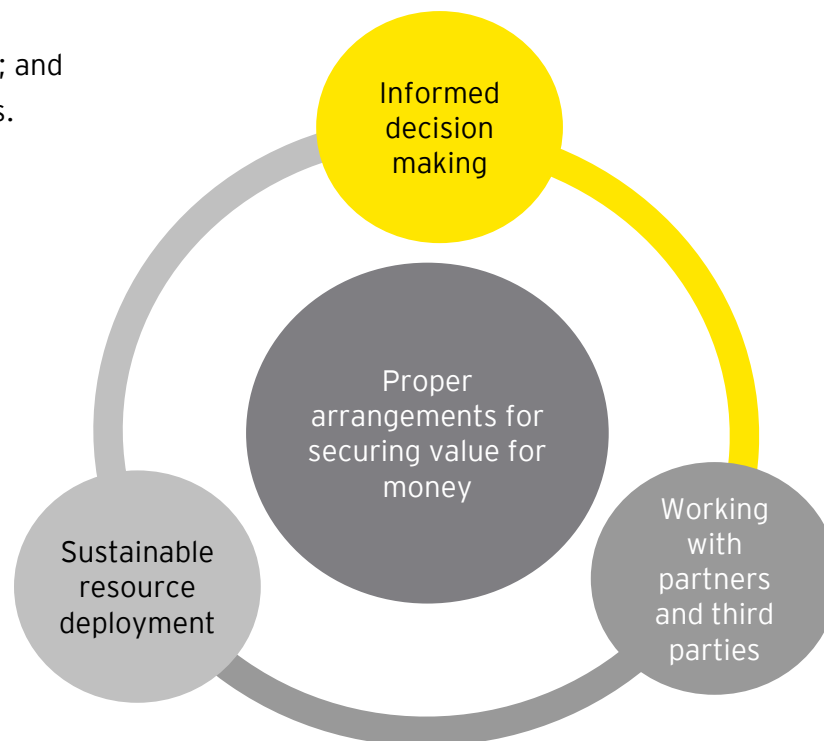
## 04 Value for Money

## 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.



### Overall conclusion

We did not identify any significant risks around these criteria. We are satisfied that the Council has adequate arrangements in place in regard to financial resilience over the medium term (as set out on the following page).

We therefore expect to have 'no matters to report' about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



## Value for Money Considerations

### What are our findings?

The Council has historically performed well in relation to their outturn position for the year. In 2017/18 the Council incurred a surplus of £4.9m chargeable to the General Fund and Housing Revenue Account (HRA) as set out in the Expenditure and Funding Analysis. The overall position against the budget set by the Council was a surplus of £1.7m for general fund services and a surplus of £1.8m for the HRA.

The Council currently has un-earmarked general fund reserves of £13.4m, which are above the minimum levels range set by the Council's s151 officer (which are currently £5.25 million). These provide the Council with the flexibility to manage its financial position over the short-to-medium term, and reduce the risk that an unexpected overspend, or unexpected one-off item of expenditure, has a detrimental impact on the Council's financial standing. The Council plans to maintain this level of General Fund reserves indefinitely and we note that the projected general fund reserves in the Budget Setting Report (BSR) does not fall below the target level over the next 5 years.

The 2018/19 budget is balanced, through the use of efficiencies, income plans, but also the use of £0.479m of general fund reserves. The level of savings identified to date means that the saving targets for 2018/19 based on the BSR have been met. There are target savings required of £1m over the next 5 years. While incrementally savings can become harder to achieve over time, the Council's performance in delivering its plans gives confidence that it can continue to do so.

We also reviewed the key assumptions in the budget and MTFS, which adequately took into account the economic environment at that time for business rate projections, and the forecast for reduced central government funding and the potential settlement.

The Council also has earmarked reserves (£24.6m at 31 March 2018) which have been established for a number of purposes, including an Invest for Income fund and Greater Cambridge Partnership Fund fund. The existence of these reserves provides further evidence of the Council's prudent approach to financial management.

The savings plans set out in the BSR for 2019/20 onwards, when compared to a gross expenditure of approximately £140m per annum, equate to less than 1%. When combined with historic performance of savings achievement, we assess the Council to have adequate arrangements, based on the known information as at the end of the financial year

Our review of the budget setting process, assumptions used in financial planning, in year financial monitoring, and the Council's history of delivery has not identified any significant matters that we wish to report to you.





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## Other Reporting Issues



## Other Reporting Issues

### Whole of Government Accounts

The Council is below the specified audit threshold of £500 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 did not identify any matters to report.

### 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 2017/18 financial statements from members 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 14 February 2018 and 25 July 2018. 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 regulatory and professional requirements.

### Control Themes and Observations

Our audit did not identify any controls issues to bring to the attention of the Civic Affairs Committee.



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Focused on your future



## Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
<b>IFRS 9 Financial Instruments</b>	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> <li>▶ How financial assets are classified and measured;</li> <li>▶ How the impairment of financial assets are calculated; and</li> <li>▶ The disclosure requirements for financial assets.</li> </ul> <p>There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> <li>▶ Reclassify existing financial instrument assets</li> <li>▶ Re-measure and recalculate potential impairments of those assets; and</li> <li>▶ Prepare additional disclosure notes for material items.</li> </ul> <p>The Council is yet to carry out a review of their financial instruments to assess the potential impact.</p>
<b>IFRS 15 Revenue from Contracts with Customers</b>	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> <li>▶ Leases;</li> <li>▶ Financial instruments;</li> <li>▶ Insurance contracts; and</li> <li>▶ For local authorities; Council Tax and NDR income.</li> </ul> <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>Now that the 2018/19 Accounting Code of Practice for Local Authorities has been issued it is becoming clear what the impact on local authority accounting will be. As the vast majority of revenue streams of Local Authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.</p>	<p>As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited.</p> <p>The standard is far more likely to impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers. The Council will need to consider the impact of this on their own group accounts when that trading company is consolidated.</p> <p>Given the nature of the Council's income streams, it is unlikely that the future implementation of IFRS 15 will have a material impact on the single entity financial statements of the Council. However, the Council is yet to carry out a review of contract income from service recipients to assess the potential impact.</p>



## Focused on your future (cont'd)

Standard	Issue	Impact
<b>IFRS 16 Leases</b>	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p> <p>The Council is yet to carry out a review of their leases to assess the potential impact.</p>





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## Audit Fees



## Audit Fees

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2018.

We confirm we have undertaken non-audit work outside the PSAA Code requirements in relation to our work on the 2016/17 Pooling of Housing Capital Receipts Return which was completed during the 2017/18 financial year. We have adopted the necessary safeguards in our completion of this work.

Non-audit work is work not carried out under the Code. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO in Month Year.

	Final fee 2017/18	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£	£
Standard fee	51,979	51,979	51,979	51,979
Group reporting	8,150	7,500 - 10,500	N/A	4,530
Capital transactions	8,750	2,000 - 7,500	N/A	N/A
FMS implementation	19,978	10,000-25,000	N/A	N/A
Cash flow restatement	750	750	N/A	N/A
<b>Total audit fee - code work</b>	<b>89,607</b>	<b>72,229 - 95,729</b>	<b>51,979</b>	<b>56,509</b>
Other non-audit services not covered above (Housing Benefits)	15,077	15,077	15,077	15,438
Other non-audit services not covered above (pooling return)	3,750	3,750	N/A	N/A
<b>Total other non-audit services*</b>	<b>18,827</b>	<b>18,827</b>	<b>15,077</b>	<b>15,438</b>
<b>Total fees</b>	<b>108,434</b>	<b>91,056 - 114,556</b>	<b>67,056</b>	<b>71,947</b>

We have agreed the additional fees with management as set out above. Details in relation to these have been set out as follows:

1. Group reporting - in addition to the work required over the subsidiary reporting we have also performed work over the group reporting for Cambridge Investment Partnership (CIP), as a newly consolidated entity in the year.
2. Capital transactions - there have been a number of capital transactions we have been required to perform additional work on. In particular we have worked with management to agree the complex accounting treatment in relation to CIP. The complexities involved in this have meant that more work was required than originally estimated, including the use of specialists to agree the correct treatment for the HRA.
3. FMS implementation - This fee arose as a result of the implementation of the new finance system in the year, including the use of IT specialists.
4. Cash flow restatement - additional fee for undertaking audit work on the restated 2016/17 cash flow statement.

\* Fees for other non-audit services will be finalised once the work has been concluded.

All scale fee variations will be subject to agreement with the PSAA.

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