

# **Cambridge City Council**

Annual Audit Letter for the year  
ended 31 March 2019

August 2020

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This 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 April 2018)' issued by PSAA set 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 and Terms of Appointment. 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.



01

# 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 2019. 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><br>► Financial statements   | Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2019 and of its expenditure and income for the year then ended.<br><br>Owing initially to our own resourcing difficulties and then challenges faced by the Council in respect of the capacity of its finance team during the latter part of 2019, the audit of the 2018/19 financial statements was prolonged and challenging.<br><br>We issued our auditor's report on 9 July 2020. The report included a paragraph to emphasise to the reader of the accounts the Council's disclosures on the impact of the Covid-19 pandemic on its financial position. |
| ► 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><br>► 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> | We had no matters to report. |

## Executive Summary (cont'd)

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In addition 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.  | We issued our Audit Results Report on 20 May 2020.                    |
| Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the NAO's 2015 Code of Audit Practice. | We issued the certificate within the auditor's report on 9 July 2020. |

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





## 02 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 2018/19 Audit Results Report to the 4 June 2020 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 2018/19 audit work has been undertaken in accordance with the Audit Plan that we presented at the January 2019 Civic Affairs Committee and is conducted in accordance with the NAO's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO. As auditors we are responsible for:

- ▶ Expressing an opinion:
  - ▶ On the 2018/19 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 WGA 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.



03

## Financial Statement Audit



# Financial Statement Audit

## Key Issues

The Council's Statement of Accounts is an important tool for it 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 NAO's 2015 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO and issued an unqualified audit report on 9 July 2020. We reported detailed findings to the 4 June 2020 Civic Affairs Committee.

We summarise here the key risks we identified and our conclusions.

| Significant risk   | Conclusion   |
|--|--|
| <b>Management override of controls</b><br>That senior officers of the Council could avoid or work around the checks that are in place to ensure income and expenditure is accounted for correctly.   | We found no evidence in our testing that management had overridden controls.   |
| <b>Inappropriate capitalisation of revenue expenditure</b><br>That the Council could try reduce the level of expenditure recorded as being charged to services by accounting for some of it as costs related to land, buildings and equipment.   | We found no evidence in our testing that management had accounted for expenditure on services as spend relating to land, buildings and equipment.  |
| Other areas of audit focus   | Conclusion   |
| <b>Valuation of Other Land and Buildings and Investment Properties</b><br>The Council owns £780m of land and buildings (£600m of which is council houses) and £170m of properties from which it generates a return. The valuation of these assets is a significant estimate, involving the use of a valuation expert and requires judgement from senior officers. A small error in judgement can have a big impact on the valuation. | Our work identified the need for the Council to reduce the value of its council houses by approximately £30 million.<br><br>In addition, the Council increased the value of its assets by just over £3m when reconciling the accounts to its register of fixed assets. |

# Financial Statement Audit

| Other Areas of Audit Focus (continued)   | Conclusion   |
|--|--|
| <b>Pension Liability Valuation</b><br><br>The Council's pension fund deficit is a material estimated balance which is disclosed on the Council's balance sheet. At 31 March 2019 this totalled £138m.  | The Council updated its accounts to reflect the impact of one national issue impacting all local council pension schemes as well as to reflect changes in the value of pension fund investments. The Council did not adjust for the estimated £0.8m impact of a second national issue. |
| <b>Capital transactions</b><br><br>The Council is involved in a number of high value transactions involving assets, either by themselves, or with another organisation, some of which will span financial years.<br><br>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. | We queried the treatment of a £27m land purchase and subsequent disposal to the Council's Joint Venture. Officers agreed to amend the presentation of the transaction.   |
| <b>Group accounts</b><br><br>For 2018/19 the Council either fully or partially owned Cambridge City Housing Company Limited, Cambridge Investment Partnership and Cambridge Live. These needed to be reflected appropriately in the financial statements.  | We identified some issues with the way the Council had initially reflected their interest in the other entities. The Council updated its method and revised the group accounts.  |
| <b>New accounting standards</b><br><br>The Council had to implement two new accounting standards for 2018/19: <ul style="list-style-type: none"><li>▸ IFRS 9 - Financial instruments</li><li>▸ IFRS 15 - Revenue from contracts</li></ul>  | IFRS 9 - The Council initially did not adequately reflect the new standard in its accounts but then made the necessary changes.<br><br>IFRS 15 -Our audit procedures for revenue from contracts did not identify any audit issues.   |

## Financial Statement Audit (cont'd)

| Other Areas of Audit Focus (continued)   | Conclusion  |
|--|---|
| <b>Changes in finance personnel</b><br>During 2018/19 the Council had a change in key accounting personnel which increased the risk to the quality of accounts preparation, the quality of working papers provided for audit and the speed and quality of responses to audit queries.                  | Compounded by EY's own resourcing issues, the initial and temporary changes to the finance team did have a negative impact on the quality of accounts produced, the quality of working papers provided for audit and the speed and quality of responses to audit queries. However, from January 2020 the Council has strengthened its finance team and its financial reporting capabilities, which led to revisions to aspects of the accounts, some new supporting working papers and good support to enable the completion of audit procedures. |
| <b>Going concern</b><br>The Covid-19 pandemic has had a significant impact on the Council's finances. As the 2018/19 financial statements were approved after the outbreak, the Council has been required to disclose in its accounts the impact of the pandemic on its income, expenditure and funds. | The Council carried out a detailed assessment to inform a new disclosure note on going concern. Within our auditor's report we emphasised the new disclosure.   |

### 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 | We determined planning materiality to be £2.7m which is 2% of gross revenue expenditure reported in the accounts. This results in a performance materiality, at 75% of overall materiality, £2.3m. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council. |
| Reporting threshold  | We agreed with the Civic Affairs Committee that we would report to the Committee all audit differences in excess of £135,000.  |

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: We agreed all disclosures back to source data, and councillor allowances to the agreed and approved amounts.
- ▶ Related party transactions: We tested the completeness of related party disclosures and the accuracy of all disclosures by checking back 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.



## 04 Value for Money



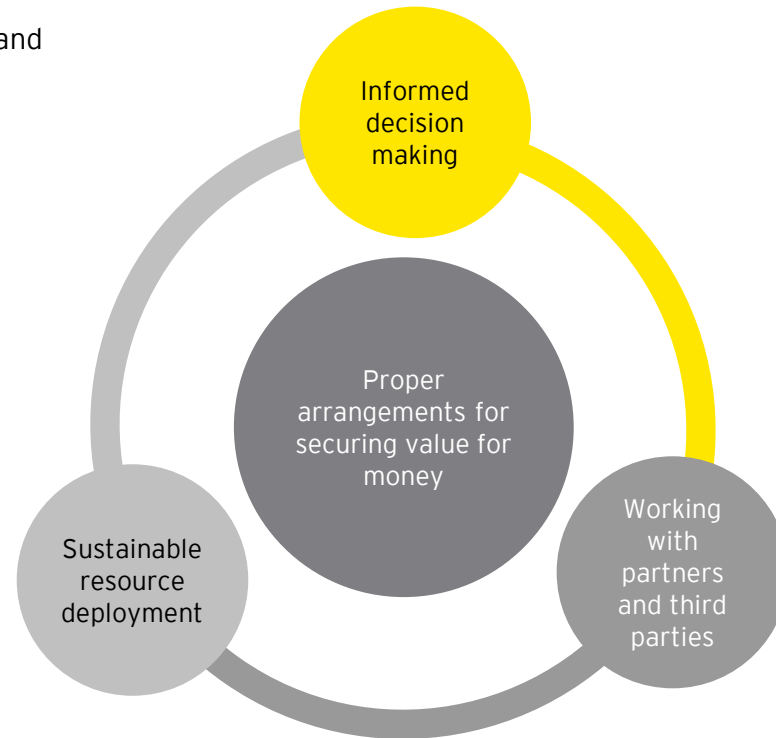
## Value for Money

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We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness in 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.



In our Audit Plan we did not identify any risks in relation to the value for money conclusion.

We have no matters to include in the auditor's report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

We had no matters to report in respect of value for money in the auditor's report.



05

## Other Reporting Issues



## Other Reporting Issues

### Whole of Government Accounts

We are required to perform the procedures specified by the National Audit Office (NAO) on the accuracy of the consolidation pack prepared by the Council for Whole of Government Accounts purposes.

The Council falls below the NAO's threshold for auditor review.

### 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 2018/19 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.



## Other Reporting Issues (cont'd)

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### Independence

We communicated our assessment of independence in our Audit Results Report to the Civic Affairs Committee on 4 June 2020. 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

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive audit approach and have therefore not tested the operation of controls. We have not identified any significant control 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.





## 06 Focused on your future



## Focused on your future

The Code of Practice on Local Council 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>IASB Conceptual Framework</b> | <p>The revised IASB Conceptual Framework for Financial Reporting (Conceptual Framework) will be applicable for local Council accounts from the 2019/20 financial year.</p> <p>This introduces;</p> <ul style="list-style-type: none"><li>- new definitions of assets, liabilities, income and expenses</li><li>- updates for the inclusion of the recognition process and criteria and new provisions on derecognition</li><li>- enhanced guidance on accounting measurement bases</li><li>- enhanced objectives for financial reporting and the qualitative aspects of financial information.</li></ul> <p>The conceptual frameworks is not in itself an accounting standard. However, an understanding of concepts and principles can be helpful to preparers of local Council financial statements when considering the treatment of transactions or events where standards do not provide specific guidance, or where a choice of accounting policies is available.</p> | <p>It is not anticipated that this change to the Code will have a material impact on Local Council financial statements.</p> <p>However, Authorities will need to undertake a review to determine whether current classifications and accounting remains valid under the revised definitions.</p> |



07

Audit Fees



## Audit Fees

In our Annual Results Report presented to the Civic Affairs Committee on 4 June 2020 we highlighted that we had carried out a significant level of additional work to complete the audit and would seek to agree an additional fee with the Council's Section 151 officer. In the table below we summarise the fees that we have agreed and that are now subject to approval by PSAA.

|  | Final fee 2018/19 | Planned fee 2018/19    | Final Fee 2017/18 |
|--|-------------------|------------------------|-------------------|
|  |                   | £                      | £                 |
| Scale fee  | 40,024            | 40,024                 | 51,979            |
| Audit of group accounts  | 10,500            | 7,500 - 10,500         | 8,150             |
| Capital transactions   | 10,500            | 7,500 - 10,500         | 8,750             |
| FMS Implementation   | -                 | -                      | 19,978            |
| Cash flow restatement  | -                 | -                      | 750               |
| Scale fee variation for overruns   | 90,000            | -                      | -                 |
| <b>Total audit</b>   | <b>151,024</b>    | <b>55,024 - 61,024</b> | <b>89,607</b>     |
| Other non-audit services not covered above<br>Housing Benefits Subsidy Claim | 20,750            | 12,568                 | 15,077            |
| Pooling of Housing Capital Receipts Return                                   | -                 | 3,750 - 4,250          | 3,750             |
| <b>Total other non-audit services</b>  | <b>20,750</b>     | <b>16,568</b>          | <b>18,827</b>     |
| <b>Total fees</b>  | <b>171,774</b>    | <b>71,342 - 77,842</b> | <b>108,434</b>    |

All fees exclude VAT



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