

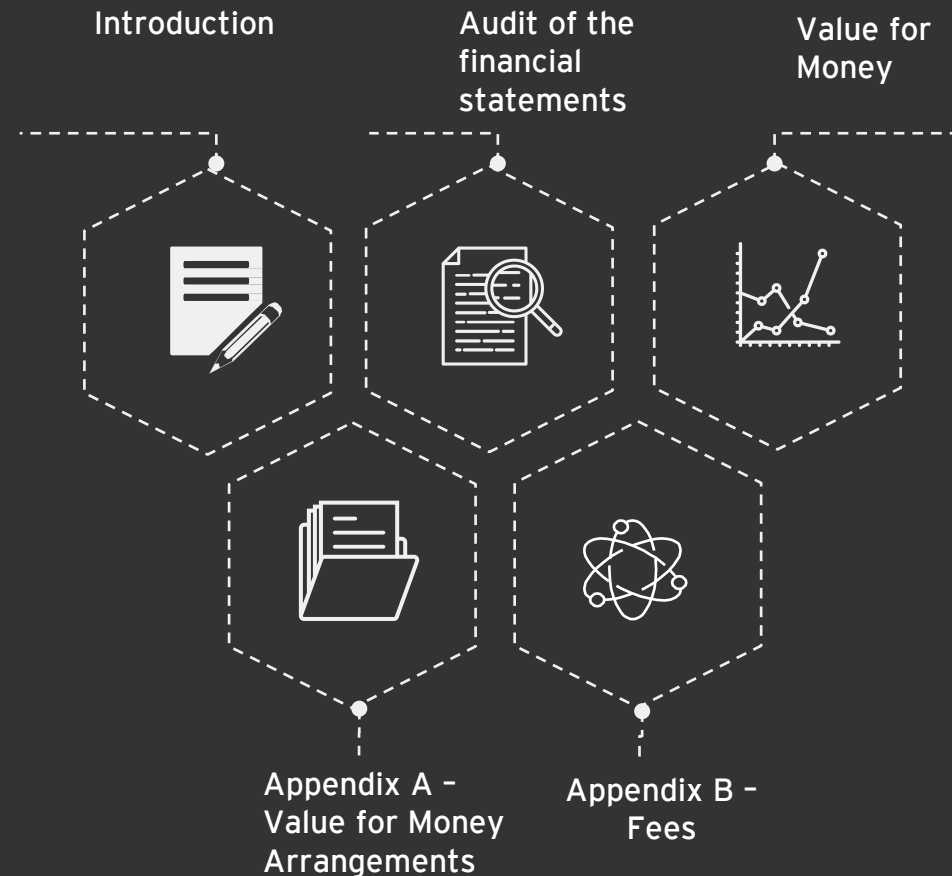


Cambridge City Council

Auditor's Annual Report

Year ended 31 March 2022

Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). 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 and further guidance (updated July 2021)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Civic Affairs Committee and management of Cambridge City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to Civic Affairs Committee and management of Cambridge City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than Civic Affairs Committee and management of Cambridge City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



Introduction

Purpose

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on value for money (VFM) arrangements, which aims to draw to the attention of the Council, or the wider public, relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2021/22 audit work in accordance with the Audit Plan that we issued on 22 June 2022. We have complied with the National Audit Office's (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- The 2021/22 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the narrative statement.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council

The Council is responsible for preparing and publishing its financial statements, narrative statement and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



Introduction (continued)

2012/22 Conclusions

Financial statements	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2022 and of its expenditure and income for the year then ended. We issued our auditor's report on 30 November 2022.
Going concern	We have concluded that the Head of Finance and Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statement	Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts.
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 03 and Appendix A.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.
Whole of government accounts	We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 2021/22 is yet to be issued. We will liaise with the Council to complete this work if and when required.
Certificate	We have not yet issued our certificate for 2021/22 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2021/22 is delayed and has not yet been issued.

Audit of the financial statements

Key findings

The Narrative Statement and 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.

On 30 November 2022, we issued an unqualified opinion on the financial statements. We reported our interim detailed findings to the Civic Affairs Committee on the 3 November 2022 and issued a final Audit Results Report on the 28 November 2022. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan. We did not report any internal control recommendations or areas for improvement in the control environment in the Audit Results Report.

Significant risk	Conclusion
Risk of fraud in revenue and expenditure recognition	<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>We had no matters to report.</p>
Misstatements due to fraud or error - inappropriate capitalisation of revenue expenditure including Revenue Expenditure Funded from Capital Under Statute (REFCUS)	<p>On every audit engagement, we expect at least one of the identified significant risks to have an element of management override. Where this element has been identified, we must be specific about the risk (management bias, management optimism, etc.) and ensure we design our procedures to address this risk.</p> <p>Our work did not identify any material weaknesses in the design of controls or evidence of material misstatements, whether due to fraud or error, related to the inappropriate capitalisation of revenue expenditure. Our work did not identify any instances of inappropriate judgements being applied. Our work did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.</p>
Valuation of Investment Properties	<p>The Council's Investment Property portfolio is a material balance (£161 million at 31 March 2022) disclosed on the Council's balance sheet. There is a significant level of judgement around assumptions within these valuations, especially where these assumptions rely on market data or income based measures, given difficulties in estimating future income.</p> <p>In 2021/22, the Council have engaged with a new valuation specialist, Bruton Knowles, to undertake the valuation of Investment Properties. As a result there is an increased risk that the valuer may not have sufficient knowledge of the specifics of the Council's asset base in order to reach a reasonable estimate for the valuation of the asset portfolio.</p> <p>Our work did not identify any issues with the valuation of Investment Properties.</p>



Audit of the financial statements

Key findings

Significant risk	Conclusion
Valuation of Other Land and Buildings	<p>The Council's Other Land and Buildings portfolio is a material balance (£146 million at 31 March 2022) disclosed on the Council's balance sheet. In addition, the Council holds other assets valued using market information. In 2021/22, the Council have engaged with a new valuation specialist, Bruton Knowles, to undertake the valuation of Other Land and Buildings. As a result there was an increased risk that the valuer may not have sufficient knowledge of the specifics of the Council's asset base in order to reach a reasonable estimate for the valuation of the asset portfolio.</p> <p>We identified an adjustment of £1.454 million to Public Convenience assets as a result of our procedures which was reflected within the authorised financial statements. We had no other matters to report.</p>
Change in Payroll System	<p>The Council implemented a new payroll system during the financial year. No issues were identified in respect of the new payroll system.</p>
Accounting for Infrastructure Assets	<p>Some local authorities are not writing out the gross cost and accumulated depreciation on infrastructure assets when a major part/component has been replaced or decommissioned as required by the CIPFA Code of Audit Practice.</p> <p>As a result of our procedures Management adjusted for the de-recognition of a historic balance on Infrastructure Assets of £1.192 million, which were partly-depreciated but for which the Council do not hold sufficient accounting records over to be able to identify and demonstrate the continued existence of the underlying assets.</p> <p>The Council were able to evidence compliance with the CIPFA Code of Audit Practice requirements in respect of Infrastructure Assets, subject to the above amendment having been made to the revised financial statements.</p>

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2021/22.

Our VFM commentary highlights relevant issues for the Council and the wider public.

We have no matters to report by exception in the audit report.

Scope

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03). We presented our VFM risk assessment to the Civic Affairs Committee meeting on the 3 November 2022, which was based on a combination of our cumulative audit knowledge and experience, our review of Council committee reports, meetings with the relevant finance officers and evaluation of associated documentation through our regular engagement with Council management and the finance team.

Reporting

We completed our risk assessment procedures in October 2022 and did not identify any significant weaknesses in the Council's VFM arrangements. We have also not identified any significant risks during the course of our audit. As a result, we had no matters to report by exception in the audit report on the financial statements.

Our commentary for 2021/22 is set out over pages 8 to 9. The commentary on these pages summarises our conclusions over the arrangements at the Council in relation to our reporting criteria (see below) throughout 2021/22. Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2020/21 Annual Auditors Report and have been updated for 2021/22.

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weaknesses identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weaknesses identified
Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services	No significant risks identified	No significant weaknesses identified



Value for Money (continued)

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

During 2021/22 the Council have continued to manage the impact of Covid on finances, as well as additional challenges towards the end of the financial year such as the war on Ukraine and supporting the arrival of refugee guests impacted by the conflict, and the cost-of-living crisis linked to inflation. The direct financial impact of the pandemic has lessened from previous years, as the immediate business response to Covid has slowed, however the Council have still felt financial pressures as a result of lower activity at live events & car parking income.

The final outturn on the General Fund for the year was a surplus of £8.9 million, compared to the budgeted deficit of £5.4 million. This predominantly related to costs that were budgeted for but which ultimately were not incurred, or additional income receipts from central government. There was a net underspend on services of £3.5 million, which is spread across a number of individual services as set out in the table above. This was caused by a variety of reasons, including difficulty recruiting staff to vacant posts, and higher than budgeted interest income from investments with joint ventures (due to higher than anticipated borrowing requirements). A further £2.1 million of planned General Fund costs were underspent due to slippages or delays in the Capital Programme, and these costs will therefore carry forward into future financial years budgets.

During the year, the Council have continued to revisit and monitor financial plans to ensure they have sufficient resources to deliver services. The Council recognise the challenges ahead in meeting their identified base savings requirements of £7.499 million over the 5 year period to 2026/27 and produce relevant models for assessing the gaps as part of their Medium Term Financial Strategy. This scenario assessment has a downside savings requirement of £9.660 million over the same period.

At the 31 March 2022, the Council held a General Fund Reserve balance of £25.5 million and had further Earmarked General Fund reserves of £23.4 million, which provides a strong level of resources if future savings are not identified or achieved in each of the 5 financial years of the Medium Term Financial Strategy, to allow the Council to continue to deliver services.

The Council should continue its scenario assessment of the savings requirement and continue to identify relevant schemes to achieve the annual savings requirements to minimise the use of reserves where possible.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.



Value for Money (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

The Council have continued to manage governance considerations in response to the pandemic, including in partnership working and joint delivery of services with other local authorities. The Council reviewed the Budget Setting Report in February 2021, with the Medium Term Financial Strategy updated during the year. Both documents were taken to the Strategy and Resources Scrutiny Committee before final approval at Full Council, which ensures that all Members are kept well informed of the process.

The Council's Annual Governance Statement sets out the core governance arrangements for the year, including an Action Plan, which demonstrates how the Council's Code of Governance reflects the seven principles of good governance. The Head of Internal Audit concluded that for the 2021/22 financial year, reasonable assurance may be awarded over the adequacy and effectiveness of the Council's overall internal control environment.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to make informed decisions and properly manage its risks.

Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services

During the year the Council have launched the 'Our Cambridge' transformation program, which aims to deliver a more efficient approach to customer focused service delivery.

The 'Corporate Plan' for 2022 to 2027 has also been introduced in the year, which sets four key priorities in respect of climate, poverty, housing, and equality.

Performance reporting is maintained against these key criteria, with regular reporting on performance and finances taken to the relevant Scrutiny committees throughout the year to continuously monitor performance. The Council also produced a separate Annual Report which shows progress against the Corporate Plan and publishes an accompanying series of Key Performance Indicators linked to this. This performance information is available to the public, but also allows for key information to be considered as part of decision making on service delivery.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Appendices

Appendix A – Summary of arrangements

Financial Sustainability

Reporting Sub-Criteria	Findings
How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them	The Council produce the Budget Setting Report in February prior to the start of the financial year. The Medium Term Financial Strategy is then updated during the year. Senior Leadership and the Executive are involved throughout the Budget setting process, ensuring that priorities are considered and relevant financial pressures taken into account. The Medium Term Financial Strategy and Budget are taken to Strategy and Resources Scrutiny Committee before approval at Full Council.
How the body plans to bridge its funding gaps and identifies achievable savings	<p>The five-year funding gap is re-assessed each year through the Medium Term Financial Strategy, subject to uncertainties such as the Local Government finance settlement, with sensitivity analysis performed as part of this process. In previous years the Council has undertaken a series of service reviews to achieve the required level of savings and provide the necessary headroom to fund it's priorities. Due to the potential for further significant savings to be required in response to the as yet unknown timing and impacts of the Fair Funding Review and the Review of Business Rates, the Council has embarked on a Transformation and Recovery Programme aimed at re-designing services, whilst also acknowledging the impacts of Covid-19 on service user requirements.</p> <p>The Medium Term Financial Strategy considers a worst case scenario for savings requirements. Based on the latest updates to the Medium Term Financial Strategy in October 2021, the Council was looking to utilise £0.8 million of reserves in 2021/22 to achieve a balanced budget. The final outturn position was an increase of £9.0 million of the General Fund reserves.</p>
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	The budget setting process allows for the consideration of budget changes service by service, based on how the changes support the Council's priorities and impact service delivery. Each budget proposal is supported by narrative which explains the context of the proposal and its impact. Capital proposals are supported by a summary business case. The Council have identified additional pressures in 2021/22 in respect of Covid-19, which amounted to £1.5 million in the Medium Term Financial Strategy. The Council have taken mitigating actions to reduce the pressure, including the delay of capital projects. The Council are conscious that there will be an element of unavoidable spending and build headroom in the savings requirements to take account of this fact.
How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system	The Council have a number of joint arrangements in place with other local councils to achieve effectiveness and efficiency of service delivery. Finances are planned through the Medium Term Financial Strategy and budget setting processes. The Council's Corporate Plan is presented and approved alongside the budget, the Treasury Management Strategy and the Capital Strategy in February each year. This sets out the wider objectives of the Council in respect of service delivery.

Appendix A - Summary of arrangements

Financial Sustainability

Reporting Sub-Criteria

Findings

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

Budget holders and Heads of Service are responsible for delivering services within allocated budgets, and Heads of Service review financial and performance monitoring reports. Throughout the year, the Senior Leadership Team receive financial reports which identify and explain significant forecast outturn variances and summarise the impact on the overall financial position. Where concerns are identified these are actioned to ensure that the final outturn is consistent with the financial sustainability plans set out in the Medium Term Financial Strategy (October 2021). The Medium Term Financial Strategy sets out risks and uncertainties that could impact the Council's financial position.

Appendix A - Summary of arrangements (continued)

Governance

Reporting Sub-Criteria

Findings

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council maintains risk registers covering corporate, service, shared service and project risks. These are reviewed by Senior Management, the Shared Services Board and programme and project boards as appropriate. Internal Audit undertakes a programme of annual risk-based reviews and provides assurance to the Civic Affairs Committee. The Civic Affairs Committee also receives an Annual Report on the anti-fraud work of Internal Audit and the fraud team within the Revenues and Benefits Service.

How the body approaches and carries out its annual budget setting process

The Council produce the Budget Setting Report in February prior to the start of the financial year. The Medium Term Financial Strategy is then updated during the year. Senior Leadership and the Executive are involved throughout the Budget setting process, ensuring that priorities are considered and relevant financial pressures taken into account. The Medium Term Financial Strategy and Budget are taken to Strategy and Resources Scrutiny Committee before approval at Full Council.

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

The Council operates a modern, cloud-based financial management system. This enables budget holders to review their budgets on screen and regularly update their forecast spend. Budget holders are supported and challenged in this by Service Accountants. Internal Audit review aspects of the system of financial control on a rolling basis and report their findings to the Civic Affairs Committee as part of their annual Internal Audit reporting programme.

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee

Decision making processes and delegations are set out within the Council's Constitution and Financial Regulations for all Committees, together with the decision making processes that are delegated to Council Officers. Where formal decisions are required they are pre-scrutinised by the appropriate Scrutiny Committee in advance of presentation to Full Council. This ensures that the necessary information is provided and that recommendations can be challenged before decisions are made.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

The Council maintains appropriate Registers of Gifts and Hospitality, and guidance is provided on the Council's intranet. Any matters, for example from whistle-blowing processes or complaints, are investigated in accordance with agreed processes and/or referred to Internal Audit or the Monitoring Officer, as appropriate. Councillors are required to complete and update the Council's Registers of Interest which are available on the Council's public website.

Appendix A - Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
How financial and performance information has been used to assess performance to identify areas for improvement	Regular reporting of performance and financial information is undertaken. As part of this, the Council consider the delivery of services and the Council priorities and previous performance. The Council, Executive & Scrutiny Committees receive a variety of performance and financial based reports throughout the year to continuously monitor performance. The Annual Report and Annual Governance Statement set out the review of performance for the year.
How the body evaluates the services it provides to assess performance and identify areas for improvement	The Corporate Plan sets out key performance indicators for the Council's objectives, and provision of services are assessed against these objectives. The nature of monitoring therefore is dependent on the nature of the service provided and the key performance indicators monitored. The Narrative Report sets out a review of achievements against the Corporate Plan.
How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve	The Council ensures that it is represented on partnership bodies by relevant senior managers or members, as required. Regular reports are brought to the relevant Scrutiny Committee for review, for example on shared services and work with the Combined Authority. Other key partnerships include the Greater Cambridge Partnership, where the Council have a nominated member who sits on the Executive Board for key decision making at the partnership.
How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits	The Council has a procurement team which provides advice and support to officers undertaking procurement activities. The team also maintain procurement guidance and templates, the contract register and a separate procurement system. Internal Audit also review procurement as part of their Internal Audit programme of work. In accordance with the Constitution, significant procurements must be approved by the Executive Councillor following scrutiny at the relevant committee. The Monitoring Officer has overall responsibility for ensuring the Council complies with relevant laws and regulations.

Appendix B - Fees

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2022 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The next page includes a summary of the fees that you have paid to us in the year ended [31 March 2022](#) in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are shown below. We highlight in the table below the most significant services that may be reasonably considered to bear upon our integrity, objectivity and independence.

Description of service	Related independence threat	Safeguards adopted and reasons considered to be effective
Housing Benefit Claim Certification - Agreed upon Procedures on behalf of the Department for Work & Pensions (DWP)	<p>The Housing Benefit Claim contains the amounts the Council paid out to claimants and the amount it received from the DWP in terms of subsidy. These amounts are shown within the Council's financial statements.</p> <p>There is no perceived threat as we audited the Council's financial statements in advance of the claim certification procedures and gained sufficient audit evidence for audit opinion purposes.</p>	None required

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

We confirm we have not undertaken any non-audit work except for the stated Agreed Upon Procedures in relation to the Housing Benefit grant certification.

Appendix B - Fees

Relationships, services and related threats and safeguards

Audit Fees

Our fee for 2021/22 is in line with the audit fee reported in our Final Audit Results Report dated 28 November 2022.

Description	Final Fee 2021/22 £'s	Scale Fee 2021/22 £'s	Final Fee 2020/21 £'s
Initial Scale Fee - Code work	40,024	40,024	40,024
Fee Variation	TBC (Note 2)	-	52,422 (Note 1)
Revised Scale Fee	TBC	40,024	92,446
Agreed Upon Procedures - Housing Benefit Subsidy (Certification Assurance Work)	16,800 (Note 3)	-	13,800

Note 1 - PSAA Ltd determined the 2020/21 Fee Variation on 4 January 2023.

Note 2 - For 2021/22, we have re-assessed the scale fee again to take into account the same recurring risk factors as in 2019/20 and 2020/21, which includes procedures performed to address the risk profile of the Council and additional work to address increase in Regulatory standards and the financial reporting impact of Covid-19, as we set out in our Audit Results Report. The additional fee for 2021/22 is yet to be fully discussed with management and then remains subject to determination by PSAA Ltd.

Note 3 - This is the planned fee for the certification work, based on the error level found in the 2020/21 agreed upon procedures.

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