

# *Cambridgeshire County Council and Cambridgeshire Pension Fund*

*Annual Audit Letter*

2013/14

Government and  
Public Sector

October 2014

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## **Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

*In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.*

An audit is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters.

# Introduction

## The purpose of this letter

This letter summarises the results of our 2013/14 audit work for members of the Authority.

We have already reported the detailed findings from our audit work to the Audit and Accounts Committee in the following reports:

- Audit opinion for the 2013/14 financial statements, incorporating conclusion on the proper arrangements to secure economy, efficiency and effectiveness in the Authority's use of resources;
- Report to those charged with Governance (ISA (UK&I) 260); and
- Annual Certification Report (to those charged with governance) for 2012/13.

The matters reported here are the most significant for the Authority.

## Scope of Work

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As an administering Authority of a pension fund, the Authority is also responsible for preparing and publishing Accounting Statements for the Cambridgeshire Pension Fund.

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan that we issued in January 2014 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

We met our responsibilities as follows:

Audit Responsibility	Results
Perform an audit of the accounts and pension fund accounting statements in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).	We reported our findings to those charged with governance on 23 September 2014 in our 2013/14 Report to those charged with governance (ISA (UK&I) 260). On 26 September 2014 we issued an unqualified audit opinion on the statement of accounts and the pension fund accounting statements.
Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	We reported to the National Audit Office on 29 September 2014 that the consolidation return was consistent with the audited statement of accounts.

<b>Audit Responsibility</b>	<b>Results</b>	<b>Audit Responsibility</b>	<b>Results</b>
<i>Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.</i>	▶ We issued an unqualified conclusion on the Authority's Use of Resources on 26 September 2014.	<i>Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.</i>	▶ The audit cannot be concluded and an audit certificate issued in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission because the Council has not yet prepared its Pension Fund Annual Report and Accounts, in which an audit opinion is included, to comply with the requirements of the CIPFA document "Preparing the annual report: guidance for Local Government pension scheme funds".
<i>Consider the completeness of disclosures in the Authority's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.</i>	▶ There were no issues to report in this regard.	<i>Issue a report noting whether or not the pension fund financial statements in the pension fund annual report and accounts are consistent with those in the authority's statement of accounts.</i>	▶ This work remains ongoing at the time of writing this Annual Audit Letter. The deadline for the publication of the pension fund annual report is 1 December 2014.
<i>Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.</i>	▶ There were no issues to report in this regard.		
<i>Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.</i>	▶ There were no issues to report in this regard.		

*The most significant matters we wish to bring to your attention are:*

- *Property, plant and equipment including REFCUS*
- *Accounting for the Guided Busway*
- *Preparation of pension fund accounts*
- *Accounting for the Cambridge and Counties Bank*

## **Audit Findings**

### **Accounts**

We audited the Authority's accounts in line with approved Auditing Standards and issued an unqualified audit opinion on 26 September 2014.

In accordance with Auditing Standards, the most significant issues arising from our audit were reported within our Report to Those Charged with Governance (ISA (UK&I) 260). This report was presented to the Audit Committee on 23 September 2014. We wish to draw the following points, included in that report, to your attention in this letter.

#### **1. Property, plant and equipment**

The Council has a large and complex property, plant and equipment portfolio. Historically we and the Council have identified a number of issues in relation to accounting entries and adjustments to the PPE balances.

The Council's draft accounts include total fixed assets with a net book value of £1,723 million, largely made up of land and buildings (net book value of £799 million,) and infrastructure assets (net book value of £665 million). The Council is required to ensure these assets are carried at an appropriate and current valuation at the balance sheet date.

The indexation analysis prepared by the Council on an annual basis was not done in advance of the 30 June deadline for presenting draft accounts and therefore significant adjustments were processed in the final accounts in order to reflect this analysis. We reiterated to the Council that management should ensure that all material PPE adjustments are processed in advance of 30 June deadline for the preparation of accounts in future years.

The generation of the property, plant and equipment balances in the statement of financial position remains a complex and manual process and we recommended that the Council should seek to rationalise this and ensure that its systems are fit for purposes for the preparation of the statement of accounts. We have noted this in previous reports to the Audit Committee and management informed us that significant work has been undertaken to streamline and automate the process. The benefits of this work are expected to be seen in 2014/15.

#### **2. Treatment of Revenue expenditure funded through capital under statute (REFCUS)**

Management identified an error in relation to the prior year in which the Council categorised £6.7m (net) of expenditure incorrectly as REFCUS rather than capital.

In addition, a number of errors were identified by management relating to incorrect capitalisation (£10.2m). The largest part of this was the devolved formula capital grant paid to schools which was capitalised against the policy of the Council.

The Council assessed the error against the trigger in the CIPFA Code for a prior period adjustment and the Council decided that an in year adjustment was sufficient to correct the errors.

#### **3. Guided Busway**

A number of additional defects have been identified by the Council with the asset and a further legal dispute is currently in progress.

Management provided us with a briefing paper as to the status of this dispute, associated disclosures and the implications for the accounting treatment which were reflected appropriately in the financial statements.

#### **4. Preparation of the Pension Fund Accounting Statements**

The process for preparing the pension fund accounting statements during 2013/14 was not as effective and robust as it had been in previous years. Most notably, management performed a review of the mapping of the trial balance codes within the accounting statements and made a number of changes to the mappings which were found to be erroneous. This resulted in a large number of material adjustments and significant additional audit work and delays to the process.

We recommended that the pension fund team review its closedown practices to ensure that they are fit for purpose to produce high quality accounting statements and supporting working papers first time.

#### **5. Cambridge and Counties Bank**

In November 2011, the Cambridgeshire Pension Fund agreed to enter into a joint venture with Trinity Hall to set up a Bank with the remit of lending to small and medium sized businesses. The Cambridge and Counties Bank started trading in June 2012.

As part of our audit procedures, we considered legality, governance, accounting and valuation.

We reviewed the legal form of the Bank and the share that the Cambridgeshire Pension Fund holds as well as consideration of whether either party had overall control over the bank. Management's view was that the Bank was a jointly owned operation with no overall control by either party and that the pension fund was not required to prepare group accounts under *IFRS 3 Business Combinations* and can account for its share only. We assessed this against the

requirements of IFRS3 and agreed with management's assessment.

The draft accounts included this investment at cost as a proxy for fair value, as in the prior year. Our valuation experts assessed the valuation of the bank at cost. Whilst we were satisfied that the valuation of the bank was not materially misstated, in the context of the truth and fairness of the accounts as a whole, given the bank was in its 3<sup>rd</sup> year of trading and had been making a consistent profit, we recommended that the Council should obtain an alternative professional valuation to assess the fair value. In addition, consideration should be given to applying a differential valuation of the equity and preference shares.

#### *Use of Resources*

We carried out sufficient, relevant work in line with the Audit Commission's guidance, so that we could conclude on whether the Authority had in place, for 2013/14, proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In line with Audit Commission requirements, our conclusion was based on two criteria:

- the organisation has proper arrangements in place for securing financial resilience; and
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

To reach our conclusion, we carried out a programme of work that was based on our risk assessment.

We issued an unqualified conclusion on the ability of the organisation to secure economy, efficiency and effectiveness in its use of resources. However, we found the following matters which we wish to bring to your attention:

- The current budget strategy within the Business Plan showed a budget gap requiring recurrent savings of £149.1m. That was the gap between the current base budget and the future budget requirements to 2018/19.
- We considered the overall arrangements that the Council had in place to secure financial resilience. We reviewed the savings plans in place to bridge the identified gap and whilst we noted some plans that were fully formed and costed which management considered deliverable, there were some plans which were less well defined. For example, our review found that plans within the Children, Families and Adults departments remained challenging and assumed a level of demand reduction that we considered to be optimistic.
- Our review identified that the Council still had an £8m gap between its savings requirements in 2016/17 and the level of plans in place.

However, considering the Council's overall arrangements in place and considerations set out above, we did not modify our conclusion in respect of the use of resources for 2013/14. Clearly, however, the ongoing achievement of savings, together with the impact of future financial settlements should remain a key focus for the Authority.

### *Annual Governance Statement*

Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by CIPFA/SOLACE. The AGS accompanies the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to

us from our audit work. We found no areas of concern to report in this context.

### *Whole of Government Accounts*

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the Audit Commission. The audited pack was submitted on 29 September 2014. Our review of the WGA pack identified that the processes the Council has in place to identify, record and report on intra government balances (known as counter party identifiers) is not as robust as we would expect and this resulted in a large number of mismatches between the intra government organisations with which the Council transacts. This resulted in a significant amount of additional work for us and the Council to rectify the differences.

### *Certification of Claims and Returns*

We presented our most recent Annual Certification Report for 2012/13 to those charged with governance in January 2014. We certified 1 claim worth £21 million. A qualification letter was required to set out the issues arising from the certification of the claim. These details were also set out in our Annual Certification Report for 2012/13. We will not issue an Annual Certification Report for 2013/14 as the requirement to certify the Teachers' Pension Return has been removed by the Audit Commission for 2013/14.

### *Other Matters*

During 2013/14, we were contacted by a number of local electors who wished to raise matters with us. We liaised with management with respect to each of these matters and corresponded with the electors to explain our responsibilities as auditors and also their rights as local electors.

We did not receive any formal objections to the financial statements.

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## ***Other matters reported to those charged with governance***

These are the matters we consider to be **most significant** for the Authority and have been raised with those charged with governance. Other, less significant recommendations have been brought to the attention of the Director of Finance.

As part of our audit work in 2014/15, we will follow up the recommendations we have made and report the status of these in future reports.

<b>Deficiency</b>	<b>Recommendation</b>	<b>Management's response</b>
<b>PPE Accounts Preparation</b>	We recommend that the Council reviews its processes and procedures for accounting for PPE and generating the year end position. This should encompass consideration of systems and processes as well as specifically considering accounting for REFUCUS, recording and consideration of leases and processing of impairments.	<p>Work has already been undertaken to improve the Council's use of the Fixed Asset's system (which will benefit the 2014-15 accounts), and this will continue over the coming year. The Council is also looking once again to bring forward the timetable for completion of valuation and systems work, in order to provide more flexibility and time to prepare the accounts.</p> <p>The process for calculating AUC balances, including REFUCUS transactions, has already been identified by the Council as an area to improve and it is as a result of the first stage of this work that there have been some adjustments to the accounts this year.</p> <p>The Council has made small improvements to its processes for accounting for leases in the past three years; however the introduction of the new Asset Management System later this year will enable us to make further and more significant progress within this area.</p> <p>Finally, the Council is exploring the possibility of changing the valuation date for assets revalued in year, in order to reduce the likelihood of needing to make impairment adjustments.</p>

<p><b>Lack of segregation of duties within the accounts payable cycle</b></p> <p><b>Lack of segregation of duties within the accounts payroll module in Oracle</b></p>	<p>The Council should seek to minimise the number of people who have conflicting responsibilities within its accounts payable and payroll teams or should implement detective controls to identify any conflicting actions undertaken during the year.</p> <p>Examples of such conflicting responsibilities include the creation of new suppliers and processing of payments to suppliers and the ability to process payroll and make changes to standing data.</p>	<p>The restructure and centralisation of teams and functions for Accounts Payable has provided the necessary segregation of duties and responsibilities, and minimised the users who have this access.</p> <p>Supplier Maintenance takes place in the Data Management Team based at NCC and Invoice Processing takes place in Processing Operations based at CCC.</p> <p>Staff within the teams only have the access to complete their jobs and responsibilities have been end dated accordingly.</p>
<p><b>General Ledger to Payroll Reconciliation</b></p>	<p>The Council should ensure that its general ledger and payroll systems are reconciled on at least a monthly basis.</p>	<p>Monthly reconciliations take place across the general ledger and payroll areas with suitable quality and sign off processes incorporated into the process.</p> <p>This process will be reviewed in the light of audit fieldwork findings.</p>
<p><b>Preparation of Pension Fund Accounts</b></p>	<p>The pension fund team should review its closedown practices to ensure that they are fit for purpose to produce high quality accounting statements and supporting working papers first time.</p>	<p>This recommendation is acknowledged and will be taken on board for the 2014-15 close down.</p> <p>There are a number of actions which are already being implemented. These include:</p> <ul style="list-style-type: none"> <li>• Further housekeeping within the share point site.</li> <li>• Greater focus on reconciliations during the year, and inclusion of these within the soft closedown.</li> <li>• Improved communication on the timetable and the Annual Report.</li> </ul>
<p><b>Use of suspense accounts and posting between PF and CC general ledgers</b></p>	<p>Management should investigate the possibility of restricting journal postings to each 'company' within the Oracle general ledger system to avoid cross postings between the county council and the pension fund.</p>	<p>This recommendation is noted and will be investigated as suggested.</p> <p>It should be noted that historic cross postings (involving balancing segment 03) have now been cleared and the use of the Po segment should maintain clarity in the segregation of the 2 ledgers.</p>

<b>Late Contributions Income</b>	The pension fund should consider introducing a PEN18 requirement for Cambridgeshire County Council to monitor the late payment of contributions. As part of this, the Council should ensure that it is paying over its contributions to the pension fund on a timely basis.	Engagement internally with Payroll Services is ongoing to improve Cambridgeshire County Council's specific provision of contribution information and transfer of monies to the Pension Fund Bank Account.
<b>Pension Fund Bank Account</b>	The pension fund should ensure that all transactions are processed through its own bank account in line with regulations.	A review of existing processes regarding Pension Fund bank transactions is being undertaken to ensure the integrity of payments and receipts.
<b>Reconciliation of investment manager confirmations to custodian reports</b>	The pension fund should be reconciling its investment manager confirmations to its custodian reports on a regular basis and investigating differences as a matter of course.	The team operates a reconciliation process working to agreed tolerances with the Custodian and Fund Managers. This process will be reviewed in the light of audit fieldwork findings.

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# *Final Fees*

## *Final Fees for 2013/14*

We reported our fee proposals in our plan. As discussed with management and in line with previous year's fee arrangements, we are required to agree fee variations from scale with the Audit Commission. We varied our fee in 2013/14 because additional risk work was undertaken in the following areas:

1. As part of the county council audit:
  - Review of PFI schemes not built into the base fee
  - Additional work to consider matters raised by members of the public
2. As part of the pension fund audit:
  - IAS19 protocol work not built into the base fee
  - Additional work as part of the relocation of the pension fund team to Northampton not built into the base fee
  - Review of the valuation of the pension fund bank not built into the base fee

The above variation has previously been approved by the Audit Commission. In addition, to the above, now that we have concluded our audit work we are currently in the process of agreeing additional fees with the Audit Commission which we estimate to be as follows:

	2013/14 estimated outturn	2013/14 fee as previously reported	2012/13 final outturn
<b>Audit work performed under the Code of Audit Practice</b>	*138,677	129,092	139,636
- Statement of Accounts			
- Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources			
- Whole of Government Accounts			
<b>Pension Fund</b>	*41,963	32,679	39,227
<b>Certification of Claims and Returns</b>	0	0	6,359
<b>Non Audit Work</b>			
- VAT Helpline	2,000	2,000	3,000
- VAT advice on Guided Busway	8,000	8,000	0
- VAT advice on schools	0	0	5,000
<b>TOTAL</b>	<b>190,640</b>	<b>171,771</b>	<b>193,222</b>

\*We are currently in the process of agreeing the fee over and above scale with the Audit Commission and will report the final position in due course.

Please note that the arrangements for the certification of the Teachers' Pension return have been removed by the Audit Commission but the Teachers' Pension Agency is looking to clarify alternative arrangements. This work will fall outside of our Code of Audit Practice Work and will subsequently be reported to you as 'non audit work'.



In the event that, pursuant to a request which Cambridgeshire County Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Cambridgeshire County Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Cambridgeshire County Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Cambridgeshire County Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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130610-142627-JA-UK