

# Cambridgeshire County Council

*Annual Audit Letter*

2012/13

Government and  
Public Sector

October 2013

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

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 2012/13 audit work has been undertaken in accordance with the Audit Plan that we issued in January 2013 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
<i>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&amp;I)).</i>	We reported our findings to those charged with governance on 26 September 2013 in our 2012/13 Report to those charged with governance (ISA (UK&I) 260). On 30 September 2013 we issued an unqualified audit opinion on the statement of accounts and the pension fund accounting statements.
<i>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.</i>	We reported our findings to the National Audit Office on 30 September 2013.

<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 30 September 2013.
<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>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.

<b>Audit Responsibility</b>	<b>Results</b>
<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>	We issued the certificate indicating completion of the audit on 30 September 2013.
<i>Issue an opinion on the pension fund annual report (where required)</i>	No separate opinion was issued on the pension fund annual report.

**The most significant matters in our audit were:**

- **Accounting for the Guided Busway;**
- **Accounting for Property, Plant and Equipment; and**
- **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 30 September 2013.

We identified the following key issues:

#### **Guided Busway**

On 30 August 2013, the Council announced that it had settled its legal dispute with a contractor in relation to the Guided Busway and a payment of £33 million was agreed to be made to the Council.

As a result, the Council has reflected the situation in its audited accounts, including:

- Recognition of an infrastructure asset at a value of £148 million in accordance with the valuation of infrastructure assets at cost.
- Recognition of a debtor with a total value of £33 million, reflecting the known amount due from the contractor as a result of the settlement.

#### **Fixed Asset Accounting**

The Council has a large and complex property, plant and equipment (PPE) portfolio and historically we have made recommendations regarding the processing of accounting entries and adjustments to the PPE balances. The Council values its property, plant and equipment on a rolling 5 year basis and is required in the intervening years to assess if the value of the portfolio may have moved and if so, by how much. The Council prepares an indexation analysis on an annual basis as part of this assessment. However, this was not done in advance of 30 June deadline to approve draft accounts and was presented to us late on in the audit process.

As a result of the late preparation of this analysis, an adjustment was made to the statement of accounts which resulted in a net increase in the value of PPE by £25 million.

In addition, we noted that the generation of the property, plant and equipment balances in the statement of accounts is a complex and manual process requiring a significant number of adjustments to be processed through a spreadsheet. The manual nature of the process increases the risk of error and requires significant audit input from us to audit the adjustments and agree to underlying documentation. This process is more complex than that seen at other councils and we recommend that the Council should seek to rationalise its process for the preparation of the statement of accounts.

#### **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 the Council's arrangements regarding legality, governance, accounting and valuation.

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 could therefore account for its share only. Based on our audit, we were not minded to challenge this view.

The draft accounts included this investment held at cost as a proxy for fair value. We considered the reasonableness of the valuation and found that, at this early stage in trading, cost was a reasonable valuation method. We recommend that this should be reviewed annually until such a time that a more appropriate valuation basis could be determined.

### *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 Council had in place, for 2012/13, proper arrangements to secure economy, efficiency and effectiveness in its use of the Authority's 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 Council's arrangements to secure proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### *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 30 September 2013. We found no areas of concern to report in this context.

### *Certification of Claims and Returns*

We presented our most recent Annual Certification Report for 2011/12 to those charged with governance in March 2013. We certified 1 claim worth £25 million. We will issue the Annual Certification Report for 2012/13 in January 2014.

*The recommendations included here are those that we consider to be the most significant for the Council.*

## Summary of Recommendations

These are the matters we consider to be **most significant** for the Authority. We have discussed more minor recommendations with the Head of Finance and his team and will summarise these in a document for the Audit and Accounts Committee in due course.

<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 a period.</p> <p>Examples of such conflicting responsibilities include the creation of a new supplier and processing of payments to that supplier and the ability to process payroll and make changes to standing data.</p>
<p><b>Housekeeping</b></p> <p><b>The majority of the general ledger accounts include historic balances.</b></p>	<p>We recommend that a review is completed of the general ledger accounts to ensure that all historic balances are written off.</p> <p>This issue was also raised in 2011/12.</p>
<p><b>PPE Accounts Preparation</b></p>	<p>We recommend that the Council reviews its processes and procedures for accounting for PPE and generating the year end position.</p>
<p><b>Related Parties</b></p>	<p>The Council currently has no documented process to determine how all related parties are captured and documented. This includes completion of register of interest forms for members and officers who have left within the year.</p>
<p><b>Payments Bank Account Reconciliation</b></p>	<p>There is an historic reconciling item within the payments bank account reconciliation that has been in place since an Oracle upgrade. Whilst the value of the reconciling item is small (£351.60), the Council should seek to identify the reasons behind this.</p>
<p><b>Retention of pension fund data submitted to the actuary</b></p>	<p>The Council should retain the submission data to the Actuary.</p>
<p><b>Valuation of Cambridge and Counties Bank</b></p>	<p>We recommend that the valuation of the Cambridge and Counties Bank at cost should be reviewed annually until such a time that a more appropriate valuation basis could be determined</p>

# Final Fees

## Final Fees for 2012/13

We reported our fee proposals in our audit plan.

The Audit Commission wrote to the Council during August 2013 regarding a change to the published scale fee. The Audit Commission has deemed elements of the additional risk work set out in our proposed fee to be now part of the annual audit of the accounts and amended the scale fee accordingly. The overall cost to the Council remains within the previously agreed fee proposals.

	2012/ 13 outturn	2012/13 fee proposal	2011/12 final outturn
Audit work performed under the Code of Audit Practice	125,415	107,622	179,370
- 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			

Additional work on the audit	23,536 <sup>1</sup>	41,000	58,628
<b>Pension Fund</b>	<b>22,410</b>	<b>25,322</b>	<b>44,000</b>
Additional work on the pension fund audit	16,818 <sup>2</sup>	19,200	8,200
<b>Certification of Claims and Returns</b>	<b>4,500<sup>3</sup></b>	<b>4,500</b>	<b>8,000</b>
<b>TOTAL</b>	<b>192,679</b>	<b>197,644</b>	<b>298,198</b>

We are currently in the process of agreeing the fee over and above the scale element for 2012/13 with the Audit Commission and will report the final position in due course.

We performed two pieces of VAT work which fell outside of the Code of Audit Practice requirements. Our fee for that

<sup>1</sup> Items indicated represent fees over and above the statement of accounts scale fee published by the Audit Commission (as amended).

<sup>2</sup> Items indicated represent fees over and above the pension fund scale fee published by the Audit Commission (as amended).

<sup>3</sup> Our fee for certification of claims and returns is yet to be finalised for 2012/13 and will be reported to those charged with governance in January 2014 within the 2012/13 Annual Certification Report



work was £8,000 (£16,000 in 2011/12 relating to one piece of work on the Enterprise Zone).

We have discussed with management and the Audit Committee the non audit work noted above, together with an assessment of the threats and safeguards to our independence as auditors. Both management and the Audit Committee were content that we remain independent.



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