

Cambridgeshire County Council

2008/09 Annual Audit Letter



Members of the Council
Cambridgeshire County Council
Shire Hall
Castle Hill
Cambridge
CB3 0AP

December 2009

Ladies and Gentlemen

We are pleased to present our Annual Audit Letter summarising the results of our 2008/09 audit. We look forward to presenting it to Members of the Audit and Accounts Committee on 29 January 2010.

Yours faithfully



PricewaterhouseCoopers LLP
Encs

Contents

Section	Page
Introduction	4
Audit of financial statements and returns	5
Use of Resources	7
Other areas of review	10
Matters affecting future accounting periods	11
Audit fees update.....	12

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

In April 2008 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.

Introduction

The purpose of this letter

1. The purpose of this letter is to provide a high level summary of the results of the 2008/09 audit work we have undertaken at Cambridgeshire County Council that is accessible for Members and other interested stakeholders.
2. We have already reported the detailed findings from our audit work to those charged with governance in the following reports:
 - Audit opinion for 2008/09 financial statements, incorporating the conclusion on Use of Resources;
 - Reports to those charged with Governance on the main accounts and the pension fund financial statements (ISA (UK&I) 260); and
 - CAA Use of Resources assessment.
3. The matters identified in our work which are reported here are those which we consider to be of most significance for the Council.

Scope of work

4. Our audit work 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.
5. The Council is responsible for preparing and publishing its financial

statements, including 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.

6. As auditors we are responsible for:
 - Forming an opinion on the financial statements;
 - Reviewing the Council's Annual Governance Statement;
 - Forming a conclusion on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources; and
 - Undertaking any other work specified by the Audit Commission.
7. Our 2008/09 audit work has been undertaken in accordance with the Audit Plan that we issued in September 2008 and the Pension Fund Audit Plan presented in March 2009.

Audit of financial statements and returns

Accounts

8. As your appointed auditor, we issued an unqualified opinion on the Council's accounts on 30 September 2009, in line with the deadline for the publication of local authority financial statements.
9. As reported in the final Statement of Accounts, the Council's actual spending for the year was £315.5m, which was £4.8m below the revised net service budget of £320.3m for the year. This contributed towards an increase in the General Fund (a reserve available for general use rather than earmarked for specific purposes) from £7,151,000 to £9,453,000. However, as noted in prior years, the level of the Council's general reserves remains relatively low as a proportion of annual gross expenditure (at approximately 1%).
10. Given the pressures on funding levels available to all local authorities expected in future years, it will remain of high importance that the Council continues to carefully evaluate its level of reserves in the context of managing the risk of unplanned costs and reductions to funding, alongside its capacity to deliver further savings while maintaining service outputs.

Communication of audit matters

11. In line with the requirements of International Standard of Auditing (UK & Ireland) (ISA(UK&I)) 260 - "Communication of audit matters with those charged with governance", we reported the key findings from our audit to

the Audit and Accounts Committee on 23 September 2009.

12. We highlighted that, despite some changes to accounting requirements this year, information was, in general, available on a timely basis and has assisted the efficient completion of the audit. There continued to be improvements in the presentation of the accounts and working papers.
13. However, we noted that the Council had not yet implemented changes relating to the accounting for fixed assets recommended in prior years as it intends to combine this with the full implementation of International Financial Reporting Standards, in order to be able to address all asset accounting issues at the same time. Given the extent and complexity of fixed asset transactions at the Council, and the fact that there has been a change in the officer responsible for capital accounting within the central finance team for 2009/10, this will remain a key area of focus for the Council in supporting effective and efficient close-down and audit processes.
14. The more significant matters arising from our audit work that we brought to Members' attention in our report concerned the following:
 - Adjustments made to the draft accounts relating to internal transactions which overstated both gross income and expenditure by the same amount.; and
 - Difficulties encountered by the Council in providing details relating to teachers' payroll costs.

15. We also note that the draft annual accounts presented to the Audit and Accounts Committee on 26 June were within the statutory requirement for approval by 30 June and were subject to Member review and scrutiny. However, delays in the completion of the draft accounts left only a short time for the Committee to review the document prior to the meeting. The extent of scrutiny undertaken by the Committee is dependent upon Members being able to undertake an effective review of the accounts prior to their approval.

Pension fund accounts

16. We also audited the Cambridgeshire County Council Pension fund accounts in line with approved Auditing Standards and issued an unqualified audit report on 30 September 2009.

17. The application of Pensions' Statement of Recommended Practice (SORP) updated for 2008/09 required several changes to be applied. These resulted in the restatement of 2007/08 comparatives. The net impact of these adjustments on the Net Asset Statement was a reduction in net assets of £6.8 million.

18. Some additional disclosures were required to be added to those in the draft accounts to explain the changes. We were satisfied that the Council properly implemented and disclosed the new requirements in the final draft accounts. We did not identify any significant issues with respect to the Council's actions in implementing these changes.

19. At 31 March 2009, the net asset value of the local government pension scheme was £1.1 billion. This was a decrease of £224 million from the previous year, in the main due to a decline in the market value of certain investments.

20. We also note that the officer responsible for preparing the pension fund accounts will be changing for the 2009/10 year. As a result, it is important that there is an effective handover process to minimise the risk of misstatements or inefficiencies arising in the preparation of the pension fund accounts.

Annual Governance Statement

21. Local Authorities are required to produce an Annual Governance Statement (AGS) which is consistent with guidance issued by CIPFA / SOLACE. The AGS was included alongside the financial statements.

22. We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE guidance and whether it was misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Grants claims and returns

23. We have audited a number of grant claims during 2009. These included:

- Funding for the Papworth Everard transport scheme relating to 2007/08;
- Two claims for the Guided Busway project relating to 2007/08 and 2008/09, and
- The Sure Start and Early Years childcare claim, the annual Teachers' Pensions return, and an East of England Development Agency grant, all relating to 2008/09.

24. A small number of recommendations were reported to the responsible officers and to the awarding bodies for some of these grants, but no significant matters were identified.

Use of Resources

Use of Resources

25. The Audit Commission requires us to assess the overall arrangements that the Council has in place for the following three themes:

- Managing finances;
- Governing the business; and
- Managing resources.

26. The Audit Commission set out a number of Key Lines of Enquiry (KLoEs) for each theme. We evaluated the Council's arrangements against criteria relevant to each KLoE and reached a score for each based on the following:

- 1 Failure to meet minimum requirements – inadequate performance;
- 2 Meets only minimum requirements – performs adequately
- 3 Exceeds minimum requirements – performs well; or
- 4 Significantly exceeds requirements – performs excellently.

27. The scores for these KLoEs determined the overall score for each theme, using rules issued by the Commission. The Commission in turn then determined an overall score for the Council.

28. Our review identified a number of areas of good practice as well as suggestions for further development. We set out below a summary of

our assessments for each theme and suggested areas for development. More detail on the scope and findings of our work are set out in the separate report: Use of Resources – Assessment Results 2009.

Managing Finances

29. We have scored the KLoEs for the 'managing finances' theme as:

Key Line of Enquiry		Score
1.1	The Authority plans its finances effectively to deliver its strategic priorities and to secure sound financial health	4
1.2	The Authority has a sound understanding of its costs and performance and achieves efficiencies in its activities	3
1.3	The Authority's financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people	3
Overall rating		3

30. We identified the following key areas for improvement on managing finances:

- Continued analysis of cost drivers to establish the possible financial pressures from additional service demand and client growth;
- Continuing to demonstrate how the financial performance of

partnerships is monitored;

- Obtaining evidence on stakeholders' views in relation to financial reporting and how these have been taken into account; and
- Obtaining evidence in relation to diversity issues in financial reporting (e.g. who receives services and where the money is spent across demographics and services).

Governing the business

31. We have scored the KLoEs for the 'governing the business' theme as:

Key Line of Enquiry		Score
2.1	The Authority commissions and procures quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money.	3
2.2	The Authority produces relevant and reliable data and information to support decision making and manage performance	3
2.3	The Authority promotes and demonstrates the principles and values of good governance	3
2.4	The Authority manages its risks and maintains a sound system of internal control	3
Overall rating		3

32. We identified the following key areas for improvement on governing the business:

- More clearly demonstrating how the Council's use of Regional Improvement and Efficiency Partnership (RIEP) funding has supported public sector bodies in Cambridgeshire working closer together through ICT infrastructure and enabling more collaborative working practices;
- Demonstrating benefits arising from the implementation of the CorVu Performance management system with other Cambridgeshire

authorities;

- Demonstrating the outcomes from mapping of property assets owned and/or occupied by public bodies on to one single IT system to inform option appraisals;
- Continuing to monitor and evaluate Data Quality arrangements to ensure that processes and procedures are delivering required outcomes/end benefits;
- Continuing to be proactive in the promotion and raising of ethical standards and awareness across the Council;
- Demonstrating the outcome of arrangements to ensure consistency in the financial management, risk management, performance management and internal control arrangements across the Local Area Agreement (LAA), as well as the impact upon Council activities;
- Demonstrating the impact of working in partnership in terms of delivering outcomes and improving value for money; and
- Demonstrating the impact of the Partnership Toolkit and the LAA Risk Management Group in respect of outcomes from supporting both governance and management of partnership risks.

Managing resources

33. We have scored the KLoEs for the 'managing resources' theme as:

Key Line of Enquiry		Score
3.1	The Authority makes effective use of natural resources.	2
3.2	The Authority manages its assets effectively to help deliver its strategic priorities and service needs.	3
3.3	The Authority plans, organises and develops its workforce effectively to support the achievement of its strategic priorities	n/a
Overall rating		2

Note: KLoE 3.3 was not a specified KLoE in 2008/09 for Single Tier and County Councils.

34. We identified the following key area for improvement on managing resources:

- Give further consideration to how the Council can demonstrate the achievement of outcomes from key corporate aims, objectives and actions;
- In particular, consider how the Council will be able to demonstrate that its arrangements with regard to the use of natural resources reflect a fully coordinated approach that is capable of being assessed in respect of its success in improving the Council's environmental impact; and
- Ensure that a clear Sustainable Development Action Plan is in place and working effectively, covering areas such as water and waste as well as carbon.

Conclusion on Use of Resources

35. We were also required to issue a conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources. This conclusion was reported alongside our opinion on the 2008/09 Statement of Accounts.

36. We issued an unqualified conclusion on the Council's arrangements on 30 September 2009.

Other areas of review

Treasury management

37. As part of our work on Use of Resources, we carried out a programme of work on treasury management. This piece of work was mandated by the Audit Commission. Earlier in the year we also undertook a high level review of the Council's treasury management strategy.

38. The key findings from this work are summarised as follows:

- The Council's Treasury Management Manual policy has a clear focus on overarching principles but supporting documentation should be created to govern day to day processes;
- The Treasury Plan is reviewed annually by the full Council, but challenges to the plan and processes are not made by Members;
- The focus of investment arrangements is on the achievement of security rather than maximising yields, with investments made only in major UK banks or building societies. Clearly this approach should be viewed within the context of the relatively small size of funds available and recent concerns over the stability of capital markets; and
- Extensive formal reporting is not performed of treasury transactions and performance outside of the inclusion of headline interest figures in the annual accounts. Again, this should be viewed in the context of the extent of funds being managed.

Members' allowances

39. In connection with our work on Use of Resources, we were also required to undertake a small amount of work in relation to the Council's scheme for Members' allowances. We considered the Council's arrangements for ensuring compliance with the regulations applying to Members' Allowances schemes, and whether it has made the required disclosures in respect of the scheme. We did not identify any significant matters to draw Members' attention.

Matters raised by local government electors

40. A number of questions and objections were raised by electors during or relating to 2008/09. At present, we are considering one matter relating to the 2008/09 Statement of Accounts. As a result, our Completion Certificate, which is issued when all elements of our work relevant to the financial year have been finalised, has not been issued. We will issue the certificate once this matter has been resolved.

Returns and submissions to the Audit Commission

41. A number of information returns and submissions were made to the Audit Commission during 2009. These included returns on stewardship and governance, planning for the transition to International Financial Reporting Standards ("IFRS") in local government, and the National Fraud Initiative. No significant issues were identified in the work we performed on these areas.

Matters affecting future accounting periods

42. We reported our 2009/10 Audit Plan to the Audit and Accounts Committee on 18 November 2009. Within this, we highlighted a number of risks that may impact the Council and our audit approach in 2009/10 and beyond. The more significant of these are summarised below.

Transition to International Financial Reporting Standards (IFRS)

43. CIPFA has issued the Exposure Draft and Invitation to Comment on the Code of Practice on Local Authority Accounting in the United Kingdom 2010. This will apply to accounting periods starting on or after 1 April 2010. The new Code is the first to be prepared under IFRS. Because of the need to have comparative information for the first set of full IFRS accounts, the effective date of the transition is 1 April 2009. As a result, councils will need to calculate revised values for assets and transactions from this date.

44. Councils will also need to ensure that they have a good understanding of the changes to accounting requirements under the new Code, and that they have robust plans in place to enable collection and processing of the information needed to ensure compliance with it.

45. In our experience the key features of a successful IFRS conversion project have proven to be:

- Completion of impact analysis and comprehensive conversion plans;
- The commitment of key stakeholders in the organisation;

- Operational steering and technical groups;
- Cabinet/audit committee oversight;
- Regular progress reporting against the plan;
- The necessary project management resources; and
- Appropriate and timely training for all Members and officers with IFRS involvement.

46. The Council has established arrangements to plan for and address the future impact of IFRS on its transactions and balances. The Audit and Accounts Committee is maintaining a level of oversight of the progress in implementing this plan.

Future financial prospects in the medium term

47. The expected state of public finances during 2010 to 2015 is likely to result in a difficult period for local government, which will require careful management of budgets, identification of efficiency savings and new ways of working to deliver the same or increased levels of service for lower levels of input.

48. It will remain of high importance that the Council continues to carefully evaluate its level of reserves in the context of managing the risk of unplanned costs and reductions to funding alongside its capacity to deliver further savings while maintaining service outputs.

Audit fees update

Out-turn fees for 2008/09

49. The total out-turn fees for the audit (including the pension fund) and other work performed during 2008/09 is set out below (exclusive of VAT).

Area	Out-turn fee 2008/09*	Budgeted fee 2008/09*
Financial statements (including Whole of Government Accounts but excluding the pension fund)	125,950	125,900
Use of Resources/VFM Conclusion	54,600	54,600
Audit of the pension fund accounts	50,000	50,000
FRS17 Protocol re Pension Fund	4,200	4,200
High-level review of Treasury Management policies	1,500	-
Total audit fee	236,250	234,750
Certification of claims and returns (note 1)	31,150	20,000
Total fees	267,400	254,750

50. Note 1: Grant fees for 2008/09 include the cost of auditing two claims relating to 2007/08. These were notified to us late.

Review of lease car scheme arrangements

51. In addition to our work performed under the Audit Commission's Code of Audit Practice, we were also requested by the Council during the year to review the processes and arrangements in place for its lease car scheme, including an examination of the employment tax and VAT position.

52. The fees for this work are expected to be £15,900. When providing non-audit services, we are required to consider the impact on our ability to act as independent external auditors. We have discussed this matter with those charged with governance and confirm that this work does not prevent us from remaining objective in our capacity as auditors.

53. At the time of writing, the draft report of our findings has been provided to the Council for discussion. There are no matters arising that we wish to draw to Members' attention at this time.

In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

©2009 PricewaterhouseCoopers LLP. All rights reserved. 'PricewaterhouseCoopers' refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.