



South Cambridgeshire District Council

Year ending 31 March 2014

Annual Audit Letter

9 October 2014



Ernst & Young LLP
One Cambridge Business Park
Cambridge
CB4 0WZ

Tel: + 44 1223 394400
Fax: + 44 1223 394401
ey.com



The Members
South Cambridgeshire District Council
South Cambridgeshire Hall
Cambourne Business Park
Cambourne
Cambridgeshire
CB23 6EA

9 October 2014

Dear Members,

Annual Audit Letter - 2013/14

The purpose of this Annual Audit Letter is to communicate to the Members of South Cambridgeshire District Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of South Cambridgeshire District Council in the following reports:

2013/14 Audit Results Report for South
Cambridgeshire District Council

26 September 2014

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

I would like to take this opportunity to thank the officers of South Cambridgeshire District Council for their assistance during the course of our work.

Yours faithfully

Mark Hodgson
For and behalf of Ernst & Young LLP
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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' ('Statement of responsibilities'). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's 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 Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

Our 2013/14 audit work has been undertaken in accordance with the Audit Plan we issued on 10 March 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.

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Council reports publicly on an annual basis on the extent to which they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- ▶ forming an opinion on the financial statements;
- ▶ reviewing the 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.

Summarised below are the conclusions from all elements of our work:

Area of work	Outcome
Audit the financial statements of for the financial year ended 31 March 2014 in accordance with International Standards on Auditing (UK & Ireland)	On 29 September 2014 we issued an unqualified audit opinion in respect of the Council.
Form a conclusion on the arrangements the Council has made for securing economy, efficiency and effectiveness in its use of resources.	On 29 September 2014 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Council (the Corporate Governance Committee) communicating significant findings resulting from our audit.	On 29 September 2014 we issued our report in respect of the Council.
Report to the National Audit Office on the accuracy of the consolidation pack the Council is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 29 September 2014.
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.	No issues to report.

Area of work	Outcome
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	No issues to report.
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.	On 29 September 2014 we issued our audit completion certificate.
Issue a report to those charged with governance of the Council summarising the certification (of grants claims and returns) work that we have undertaken.	We plan to issue our annual certification report to those charged with governance with respect to the 2013/14 financial year by 31 January 2015.

Audit fees

The table below sets out the scale fee and our final proposed audit fees.

	Planned fee	Scale fee	Final
Code audit work	68,400	68,400	68,400
Certification of claims and returns	15,600	13,929*	** See note below
Non-Code work	Nil	N/A	Nil

Our actual fee is in line with the agreed fee for the Code audit work.

* Since we issued our Audit Plan, the Audit Commission have reduced the scale fees for certification work by £1,671. The revised scale fee reflects the removal of Council Tax Benefit from the benefit subsidy system.

** Work on the certification of claims and returns is not yet complete. We will report our final fee for the certification work in our report to be issued by 31 January 2015.

We confirm that we have not undertaken any non-audit work.

2. Key findings

Financial statement audit

We audited the Council's Statement of Accounts in line 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 issued an unqualified audit report on 29 September 2014.

In our view, the process for producing the accounts, including the supporting working papers was good. However, we would like to work with the Council throughout the year to develop the working papers required for audit. This will ensure superfluous working papers are avoided and there is a structured approach to providing supporting information to ensure audit requirements are met efficiently.

The main issues identified as part of our audit were:

Significant risk 1: Consideration of the risk of fraud

ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud. This includes consideration of the risk that management may override controls in order to manipulate the financial statements.

Our audit procedures and testing have not identified any instances of misstatement due to fraud and error.

Significant risk 2: Property, Plant & Equipment Valuation

Valuation of property assets and capital expenditure are significant accounting estimates that have a material impact on the financial statements.

No issues were identified from our audit procedures.

Significant risk 3: Localisation of Business Rates Retention

There have been significant changes in the arrangements for business rate arrangements from April 2013. The detailed accounting arrangements for the new arrangement are not yet clear and this therefore presents a risk in terms of the financial statements.

One of the main changes is that individual councils now need to provide for rating appeals. This includes not only claims from 1 April 2013 but claims that relate to earlier periods. As appeals are made to the Valuation Office, Councils may not be aware of the level or extent of claims. Councils may also find it difficult to obtain sufficient information to establish a reliable estimate for the appeal provision.

The value of the business rate appeals provision of £4.0 million was assessed as reasonable.

The Council's share of this provision was £1.6 million (40%) and had been included within the Balance Sheet as a Creditor. Under the requirements of IAS 37 (Provisions) we believe that this amount should be reflected within the Balance Sheet as a provision. The Council amended for this misstatement.

Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2013/14 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.

We issued an unqualified value for money conclusion on 29 September 2014. Our audit did not identify any significant matters.

Key findings:

1. Financial Resilience

The Council has robust arrangements in place to ensure its financial resilience. The Council has a history of good financial management and a strong record in the delivery of budgets.

In 2013/14 the Council achieved a surplus of £3.7 million on the General Fund increasing the General Fund balance from the 2012/13 level. At 31 March 2014, the Council's General Fund balance which is available to meet unforeseen circumstances stood at £11.2 million while Earmarked reserves were £8.5 million. Although the majority of these are earmarked for specific purposes, they do provide the Council with enhanced flexibility to manage its financial position in the current economic environment.

The General Fund and Earmarked reserve balance position (above) provides assurance over the financial resilience of the Council over the next three year period.

The Council has set a balanced budget for 2014/15 with no planned drawdown of general reserves. Efficiency savings of £0.3 million have been identified to achieve this budget.

A further savings requirement has been identified (based on zero increase council tax scenario) for 2015/16 and 2016/17 of around £2.4 million and plans are being developed to identify these savings.

Whilst, the reserve balance position (above) provides assurance over the financial resilience of the Council over the next three year period, the Council does need to work hard to achieve the level of savings identified to protect the General Fund reserve balance going forward.

Members need to continue to be aware of the future financial pressures faced by the Council and consider carefully the impact of any decisions they make on the resilience of the Council's current financial position.

2. Securing Economy, Efficiency and effectiveness

The Council has demonstrated that it has effective arrangements in place for securing economy, efficiency and effectiveness.

The Council continues to use cost and performance information to make decisions, including the use of comparative and benchmarking data to challenge economy, efficiency and effectiveness of services.

The Council continues to challenge its costs in order to reduce these without adversely affecting the quality of its services

Objections received

We did not receive any correspondence or formal objection to the 2013/14 accounts from any member of the public.

Whole of government accounts

We reported to the National Audit office on 29 September 2014 the results of our work performed in relation the accuracy of the consolidation pack the Authority is required to prepare for the whole of government accounts.

We confirm the Council falls under the threshold for a full audit submission.

Annual governance statement

We are required to 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.

We completed this work and did not identify any areas of concern.

Certification of grants claims and returns

We have not yet completed our work on the certification of grants and claims. We will issue the Annual Certification Report for 2013/14 in January 2015.

3. Control themes and observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit is not designed to express an opinion on the effectiveness of internal control, we would communicate to those charged with governance at the Council, as required, any significant deficiencies in internal control that we identified.

We have no matters to report.

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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