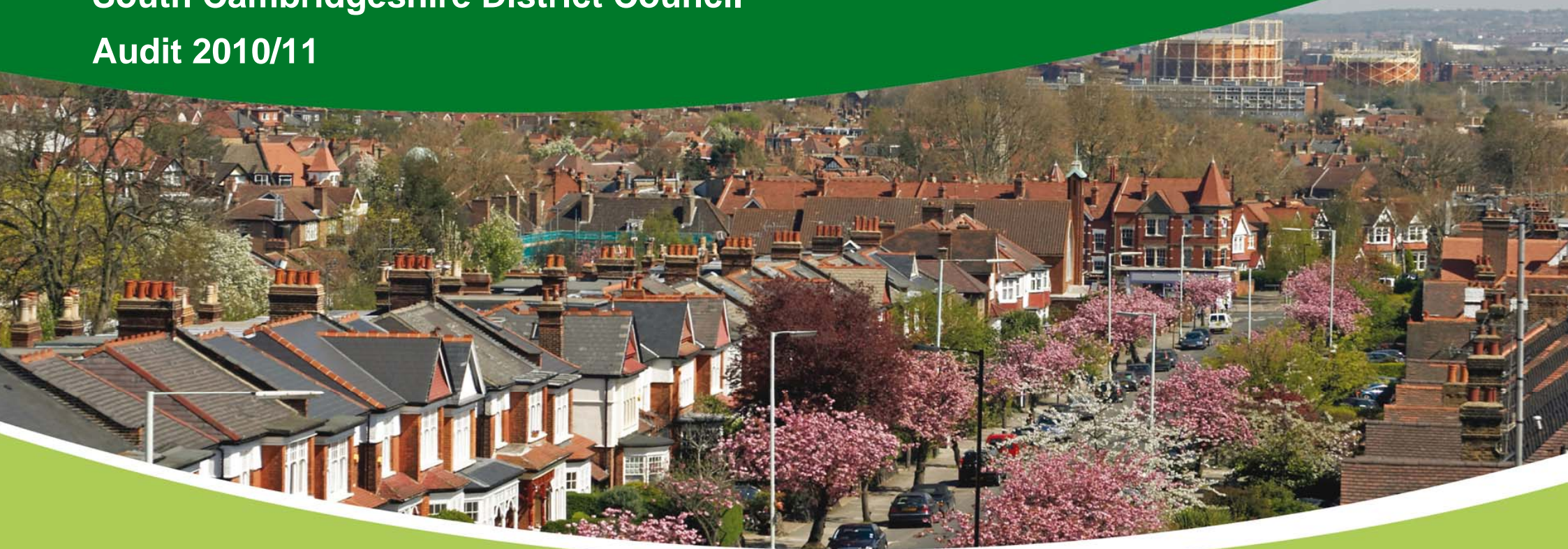


# Annual governance report

South Cambridgeshire District Council

Audit 2010/11



# Contents

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- Key messages.....3**
  - Audit opinion and financial statements.....3
  - Value for money .....3
- Before I complete my audit.....4**
- Financial statements .....5**
  - Opinion on the financial statements .....5
  - Errors in the financial statements .....5
- Value for money.....10**
- Appendix 1 – Draft audit report.....13**
- Appendix 2 – Amendments to the draft financial statements .....16**
- Appendix 3 – Unadjusted misstatements to the financial statements .....22**
- Appendix 4 – Glossary.....24**
- Appendix 5 – Letter of representation.....27**
- Appendix 6 – Action plan.....30**

**Traffic light explanation**

Red  Amber  Green 

# Key messages

**This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.**

|   | My findings   |
|---|---|
| Unqualified audit opinion                     |  |
| Proper arrangements to secure value for money |  |

## Audit opinion and financial statements

- The audit is substantially complete and upon member approval of the final version of the accounts and receipt of the letter of representation I propose to issue an unqualified opinion.
- The Council's approach to implementing International Financial Reporting Standards (IFRS) was adversely affected by the workload arising from the comprehensive spending review
- The accounts submitted for audit contained 3 material errors and 16 non-trivial errors. All bar the two errors in Appendix 3 have been amended. Substantially these were disclosure and classification issues and did not impact on the usable reserves of the Council.
- I have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements

- The documentation and working papers supporting the accounts were of a good standard.

## Value for money

The Council has:

- Linkages in the Medium Term Financial Strategy (MTFS) and budget to the Council's strategic objectives;
- Sound arrangements for the scrutiny of accounts, budgets and financial proposals that take account of service consequences;
- A financial training programme for staff and members;
- A varied approach to public consultation;
- A track record of delivery of required services within budget;
- An approach to partnerships that balances risks and rewards;
- Challenging service planning arrangements.

I therefore propose to issue an unqualified conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.

# Before I complete my audit

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## I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

### Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I can also confirm there were no relationships resulting in a threat to independence, objectivity and integrity.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2010/11.

## I ask you to confirm to me

### I ask the Corporate Governance Committee to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- approve the letter of representation, provided in Appendix 5 on behalf of the Council before I issue my opinion and conclusion; and
- agree the action plan set out in Appendix 6.

# Financial statements

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**The audit is substantially complete and subject to member approval of the accounts and receipt of the letter of representation, I propose to issue an unqualified opinion.**

## **Opinion on the financial statements**

The audit is substantially complete and upon member approval of the final version of the accounts and receipt of the letter of representation I propose to issue an unqualified opinion. Appendix 1 contains a copy of my draft report.

## **Errors in the financial statements**

The move to IFRS set all councils the difficult task of reviewing their past accounting policies and accounts and restating them in the format required by IFRS, as well as preparing the 2010/11 accounts in that format. The Council had an implementation plan which was on course until earlier this year. The increased workload arising from the implications of the comprehensive spending review was a major contributor to the timetable not being met. In particular, the restatement of prior year accounts was not available for audit in advance of the 2010/11 closedown as originally agreed. This has meant that revised accounting approaches and detailed disclosure note formats could not be agreed in advance of the production of the financial statements and has increased the number of errors that are noted in this report. Nationally, there has been an increase in the number of errors identified in the financial statements presented for audit.

The accounts submitted for audit contained 3 material errors, with 16 non-trivial errors. However, the majority of both of these errors relate to disclosure and reporting and have not reduced the usable reserves of the Council.

The 3 material errors are set out in detail in Appendix 2 and relate to the:

- application of the social housing factor and council dwelling depreciation calculation;;
- disclosure of the size of the social housing factor change;
- disclosure of future leasing commitments;

The significant non-trivial errors are also set out in Appendix 2, the key issues being:

- misclassification of assets held for sale within the Property, Plant and Equipment disclosure notes rather than as current assets;
- omission of capital receipts reserve and capital grants unapplied disclosure notes;
- accounting for short term accumulated absences;
- identification of net Collection Fund position with precepting bodies;
- misclassification between debtors and creditors; short term and long term creditors;
- accounting for government grants deferred in prior year restatements;

Appendix 3 sets out the 2 non-trivial errors which management declined to adjust.

# Financial statements

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The Council's financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

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## Key audit risk and my findings

| Key audit risk   | Finding  |
|--|--|
| <p><b>1. International Financial Reporting Standards (IFRS)</b><br/>The introduction of IFRS as the basis for the preparation of local government accounts is a significant change. It requires detailed analysis and retrospective adjustments to a number of accounting policies, practices and comparatives. The Council will have to apply IFRS to its 2010/11 financial statements, including the restatement of prior years.</p> | <p>The Council adopted a structured approach to the implementation of IFRS and was meeting the key progress points until earlier this year. However the adverse resourcing implications of responding to the comprehensive spending review meant that the timetable slipped significantly.</p> <p>The absence of restated prior year accounts before closedown meant that revised accounting policies, comparator figures and the new disclosure note formats for the financial statements could not be agreed in advance.</p> <p>The Council did prepare a full set of financial statements for audit by 30 June 2011, unlike a number of authorities nationally.</p> |
| <p><b>2. Economic downturn</b><br/>Risks arising from a fluctuating economic climate and the resultant impact on the value of land and buildings, investments and pension deficits.</p>  | <p>The Council has fully reflected the impact of the changing economic climate within its financial statements.</p>  |

# Financial statements

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## Significant weaknesses in internal control

I have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements that had not already been identified by the Council. This was the first year of the “Protocol for liaison between internal and external audit”. This protocol was brought in to maximise the benefit to the Council of the audit resource. The Protocol has achieved its objective and I have been able to place reliance on internal audit work in the areas set out in the Protocol.

## Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. The documentation and working papers supporting the accounts were of a good standard.

Notwithstanding the slippage in the IFRS implementation plan, in common with other local government bodies the move to IFRS meant that work on the accounts was progressing throughout June 2011. As such the quality review procedures normally adopted were not fully implemented. This led to an increase in the number of typographical, casting and consistency errors, both within the financial statements and between the financial statements and the explanatory foreword.

Although the exact nature of the accounting and audit requirements of the move to Housing Revenue Account (HRA) self-financing is yet to be announced, as with IFRS, the implementation plan will need to be integrated with the standard closedown programme. This will impact on 2011/12 financial statements due to the debt transfer occurring on 28 March 2012.

The Code of Practice states that *“The purpose of the foreword is to offer interested parties an easily understandable guide to the most significant matters reported in the accounts” (Para 3.1.1.1)*. The Council has kept the explanatory foreword brief and non-technical. However, as a result it has omitted a number of items that are significant to an understanding of the financial statements by the reader. The key omissions were the:

- change in the social housing factor and the consequential change in the value of council dwellings;
- credit to past service cost arising from the change to Retail Price Index from Consumer Price Index in assessing future pension liabilities; and
- explanation of why variances between actual outturn and budget arose.

The first two items have now been included within the revised financial statements.

A number of amendments were made to the text in disclosure notes and accounting policies to both aid clarity and reflect the Council’s approach.



# Financial statements

## Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. A copy of a letter of representation is included in Appendix 5.

## Recommendations

### Recommendation

- R1** Integrate the revised requirements in respect of HRA self-financing following debt transfer in the 2011/12 closedown plan and working paper requirements.
  - R2** Update the closedown plan and working paper requirements to reflect the issues identified at audit.
  - R3** Review the closedown timetable and build in the opportunity for a detailed independent review of the financial statements prior to authorisation and subsequent submission to members and the external auditor.
  - R4** Provide high level explanation for variances between actual outturn and budget within the Explanatory Foreword in future.
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# Value for money

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**I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below.

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

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## Value for money criteria and my findings

| Criterion  | Findings  |
|--|---|
| <p><b>1. Financial resilience</b></p> <p><b>The organisation has proper arrangements in place to secure financial resilience.</b></p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p> | <p>The leadership team understands the significant and rapidly changing financial management challenges and risks facing the organisation and is taking appropriate action to secure a stable financial position. Key to this assessment are the:</p> <ul style="list-style-type: none"><li>■ Regular financial briefings by the Executive Director Corporate Services, who is a member of the senior management team (SMT), to Cabinet;</li><li>■ MTFS, which was updated prior to the full settlement announcement, includes an analysis of the impact of the recession and covers a 5 year business plan;</li><li>■ Use of option appraisal approach to spending/operational change decisions which link into budget revisions and MTFS;</li><li>■ Linkages in the MTFS and budget to strategic objectives; and</li><li>■ Detailed scrutiny of financial proposals, budget and accounts via Portfolio Holders' meetings, Corporate Governance Committee, Scrutiny and Overview Committee and full Council.</li></ul> |

| Criterion  | Findings   |
|--|--|
|  | <p>To support effective financial management the Council has a:</p> <ul style="list-style-type: none"> <li>■ Varied financial training programme in place for both members and staff;</li> <li>■ Audit committee function, as carried out by the Corporate Governance Committee, which continues to be adequately discharged;</li> <li>■ Treasury Management Strategy which sets out a balance between security, liquidity and yield. This is regularly monitored and the Council are performing well against pre set benchmarks;</li> <li>■ Improved analysis of the impact of financial changes on operational performance;</li> <li>■ Approach to financial modelling that has taken account of such issues as: <ul style="list-style-type: none"> <li>– Future levels of grant;</li> <li>– Changes in concessionary fares funding and responsibility;</li> <li>– HRA self financing;</li> <li>– Proposed boundary changes; and</li> <li>– Opportunities for joint working.</li> </ul> </li> <li>■ Identification of a target level for reserves with a track record of achievement; and</li> <li>■ Active monitoring of income sources and recovery of debts.</li> </ul> <p>The Council has a track record of delivering within budget despite the changing financial pressures of recent years.</p> |
| <p><b>2. Securing economy efficiency and effectiveness</b></p> <p><b>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</b></p> <p>Focus for 2010/11:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p> | <p>The revised option appraisal approach to decision making ensures that both financial and performance issues are now considered together. It has also supported the consideration of a wider range of approaches to service provision.</p> <p>The Council has adopted a number of approaches to public consultation. More recently this has covered the implications of the spending cut requirements. The Council did get to consultation stage with tenants regarding the possibility of a transfer of the housing stock to a registered social landlord, although tenants chose not to make that move.</p> <p>Clear recognition of the benefits that partnership working can make. Significant initiatives with registered social landlords in respect of housing including shared waiting list.</p>  |

More recently the options for shared services and joint working are now being considered, although looking to ensure that the maximum benefit accrues to the Council. Decided not to pursue joint Housing Benefits option with another Council as considered that the majority of savings could be achieved in-house, as has occurred. Currently, working with Cambridge City in respect of the implications of and approach to HRA self financing

The Council is also one of the 11 Total Assets Pathfinder areas as part of the Department for Communities and Local Government's (CLG) Total Place Initiative. Making Assets Count (MAC) is undertaking an asset mapping exercise of all the public sector assets within Cambridgeshire covering local government, health, police, fire and central government. South Cambridgeshire Hall is the only non housing asset that the Council has. For the Council MAC is an opportunity to ensure full use of this asset and access to other public sector facilities within the district area.

The service planning process requires SMT to quantify and rank in priority order future spending pressures. The integration of the option appraisal approach means that as part of the consideration of the spending pressures the potential risks to service provision are recognised. The budget process identifies bids for funding to realise efficiencies or meet changing legislation.

Following my qualification of the VFM conclusion in respect of the use of natural resources last year, the Council has made a number of changes to their approach which has improved the use and the monitoring of the use of natural resources. These changes address the issues that led to the qualification.

# Appendix 1 – Draft audit report

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## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

### Opinion on the Authority accounting statements

I have audited the accounting statements of South Cambridgeshire District Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account Income and Expenditure Account and Collection Fund, and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of South Cambridgeshire District Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

### Respective responsibilities of the Executive Director Corporate Service and auditor

As explained more fully in the Statement of the Executive Director Corporate Services' Responsibilities, the Executive Director Corporate Services is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the annual report and the introduction to the statement of accounts to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## **Opinion on accounting statements**

In my opinion the accounting statements:

- give a true and fair view of the state of South Cambridgeshire District Council's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

## **Opinion on other matters**

In my opinion, the information given in the annual report and the introduction to the statement of accounts for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

## **Matters on which I report by exception**

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

## **Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Authority's responsibilities**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### **Auditor's responsibilities**

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Basis of conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Conclusion**

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, South Cambridgeshire District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

### **Certificate**

I certify that I have completed the audit of the accounts of South Cambridgeshire District Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Paul King

Officer of the Audit Commission

Audit Commission,  
3<sup>rd</sup> Floor,  
Eastbrook,  
Shaftesbury Road,  
Cambridge CB2 8BF

September 2011

# Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

|                       |                      | Comprehensive income and expenditure statement (CIES) |          | Balance sheet |          |
|-----------------------|----------------------|---|----------|---------------|----------|
| Adjusted misstatement | Nature of adjustment | Dr £000s  | Cr £000s | Dr £000s      | Cr £000s |

## Material Errors

1: Note 10: Material items of income and expenditure shows the revaluation loss attributable to the application of the social housing factor as £61.65 million. The disclosure should have read £67.1 million after changing from 1 April 2010. The note should also show the amount charged to HRA and Revaluation Reserve. Note 43 Impairment will also need amending to reconcile to Note 10.

- Amend Notes 10 and 43



|   |   | Comprehensive income and expenditure statement (CIES) |                                      | Balance sheet |           |
|---|---|---|--------------------------------------|---------------|-----------|
| Adjusted misstatement   | Nature of adjustment  | Dr £000s  | Cr £000s                             | Dr £000s      | Cr £000s  |
| <p><b>2:</b> The “Stock Valuation for Resource Accounting – Guidance for valuers 2010” came into force under the “Housing Revenue Account (accounting practices) Direction 2011. This Direction states that valuations in accordance with the guidance are to be provided at both 1 April and 31 March of the financial year. The Council did not apply the factor to the 1 April 2010 valuation. As a result the in-year depreciation is materially overstated and the impairment materially understated.</p> <p>Also the loss on disposal was based on an early version of the asset register and the net adjustment is shown here under CIES – other operating expenditure and HRA – loss on disposal.</p> | <ul style="list-style-type: none"> <li>■ CIES HRA services (depreciation)</li> <li>■ CIES HRA services (impairment)</li> <li>■ CIES – Other operating expenditure</li> <li>■ Revaluation Reserve (RR)</li> <li>■ Capital adjustment Account (CAA)</li> <li>■ HRA - depreciation reduced by £1,763,000, impairment increased by £2,472,000</li> <li>■ HRA – loss on disposal reduced by £233,000</li> <li>■ Statement of Movement – Transfer from Major Repairs Reserve reduces by £1,763,000</li> <li>■ Statement of Movement – loss on HRA sales reduces by £233,000</li> <li>■ Statement in Movement – impairment increased by £2,472,000,</li> <li>■ Movement in Reserves (MiRS) – adjustments between accounting basis reduced by £476,000 (net)</li> <li>■ Consequential adjustments to Notes 4,5,7,12,16,28,40,42 &amp;44.</li> </ul> |   | <p>1,763</p> <p>2,472</p> <p>233</p> | <p>52</p>     | <p>52</p> |

|   |  | Comprehensive income and expenditure statement (CIES) |          | Balance sheet |          |
|---|--|---|----------|---------------|----------|
| Adjusted misstatement   | Nature of adjustment   | Dr £000s  | Cr £000s | Dr £000s      | Cr £000s |
| <b>3:</b> Note 25 Leases: The table of future commitments is required to show the amounts payable in the following year, years 2-5 and beyond. The Council's table merely shows the payments due in 2011/12.                                      | Restate table in accordance with Code requirements.  |   |          |               |          |
| <b>Non-Trivial Errors</b>   |  |   |          |               |          |
| <b>4:</b> In 2009/10 comparatives and 2010/11 the year end provision and the accumulated compensated absences adjustment account(ACAAA) was amended to reflect the in-year change rather than the balance on the provision and adjustment account | <p>Correct 2009/10 comparatives and 2010/11</p> <ul style="list-style-type: none"> <li>■ Provisions</li> <li>■ Accumulated compensated absences adjustment account</li> <li>■ MiRS – transfer to ACAAA increased by £20,000 in 2010/11</li> <li>■ Consequential adjustments to Notes 5,12, and 33</li> </ul> |   |          | 242           | 242      |
| <b>5:</b> The long term creditor of £123,000 in respect of early retirement liabilities has been included within short term creditors.  | <ul style="list-style-type: none"> <li>■ Other long term liabilities</li> <li>■ Short term creditors</li> </ul> <p>Consequential changes to Notes 32 &amp; 39</p>  |   |          | 123           | 123      |

|   |  | Comprehensive income and expenditure statement (CIES) |          | Balance sheet |          |
|---|--|---|----------|---------------|----------|
| Adjusted misstatement   | Nature of adjustment   | Dr £000s  | Cr £000s | Dr £000s      | Cr £000s |
| <b>6:</b> Note 28: Property, Plant & Equipment incorrectly includes assets held for sale (31.3.2010 value £2.24 million). Following IFRS introduction these items are classified as current assets. | Remove assets held for sale from Note 28 and include a separate note for assets held for sale.                                     |   |          |               |          |
| <b>7:</b> The financial statements presented for audit did not include a note setting out the transactions and balances on the Capital Receipts Reserve and Capital Grants Unapplied Account.       | New note included in financial statements  |   |          |               |          |
| <b>8:</b> Entries in relation to Cambridgeshire County Council have been misclassified between debtors and creditors resulting in an overstatement of both balances of some £106,000.               | <ul style="list-style-type: none"> <li>■ Debtor balance</li> <li>■ Creditors</li> </ul> Consequential adjustments to Notes 31 & 32 |   |          | 106           | 106      |
| <b>9:</b> Note 32: The creditor balances for precepting authorities are understated by £143,000 and the sundry creditors overstated.  | <ul style="list-style-type: none"> <li>■ Amend the analysis within Note 32.</li> </ul>   |   |          | 106           |          |

|  |   | Comprehensive income and expenditure statement (CIES) |          | Balance sheet |          |
|--|---|---|----------|---------------|----------|
| Adjusted misstatement  | Nature of adjustment  | Dr £000s  | Cr £000s | Dr £000s      | Cr £000s |
| <p><b>10:</b> Note 12 CAA does not:</p> <ul style="list-style-type: none"> <li>■ have a line for revaluation depreciation adjustment with Revaluation Reserve; and</li> <li>■ agree with Note 29 regarding capital expenditure financing.</li> </ul>   | <p>Revise note to include all appropriate entries and agree to other disclosure notes</p>   |   |          |               |          |
| <p><b>11:</b> Following the transfer of certain equity share homes to the General Fund, expenditure on these homes was shown under Personal Social Services rather than Other Non HRA housing. Also the social housing factor impacts on the depreciation and impairment charges for these properties.</p> | <ul style="list-style-type: none"> <li>■ CIES Personal SS</li> <li>■ CIES – Other Non HRA housing</li> <li>■ MiRS – adjustments between accounting basis reduced by £484,000</li> <li>■ Consequential adjustments to Notes 5, 12, 16 &amp; 28.</li> </ul> | 562   | 1,046    |               |          |
| <p><b>12:</b> Note 22 Transactions in MiRS includes auditor adjustment regarding 2008/09. This should be incorporated within revised amounts as corrected in actuarial valuation in 2009/10.</p> <p>Narrative should set out cumulative actuarial gains and losses recognised in the CIES.</p>             | <p>Amend Note 22 comparatives and add appropriate narrative.</p>  |   |          |               |          |

|  |  | Comprehensive income and expenditure statement (CIES) |          | Balance sheet |          |
|--|--|---|----------|---------------|----------|
| Adjusted misstatement  | Nature of adjustment   | Dr £000s  | Cr £000s | Dr £000s      | Cr £000s |
| <b>13:</b> Note 4 on estimation uncertainty does not cover council dwelling valuation assumptions.   | Expand Note 4  |   |          |               |          |
| <b>14:</b> Reclassification of 2009/10 comparative expenditure between Non-distributed costs and central services (£166,000).  | Amend comparatives in CIES   |   |          |               |          |
| <b>15:</b> Under IFRS deferred capital receipts are reclassified as unusable reserves not as other long term liabilities.  | <ul style="list-style-type: none"> <li>■ Other long term liabilities</li> <li>■ Unusable reserves</li> </ul> Consequential amendments to MiRS and Notes 5,12, & 38 |   |          | 60            | 60       |
| <b>16:</b> Note 27 The Code requires amounts and class of asset for which impairment has been charged to CIES/HRA or a reversal of impairment to be disclosed. The note should refer/reconcile to Notes 10 and 43. | Expand Note 27 reconciling to Notes 10 and 43.   |   |          |               |          |
| <b>17:</b> Balances for debtors, creditors and investments at 1.4.2009 were not included within the disclosure notes   | Amend Notes 31, 32 & 37 accordingly.   |   |          |               |          |

# Appendix 3 – Unadjusted misstatements to the financial statements

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities and ask you to correct these misstatements.

If you decide not to amend, please tell me why in the representation letter. If you believe the effect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

| Unadjusted misstatement   | Nature of required adjustment  | Comprehensive income and expenditure statement (CIES) |          | Balance sheet |          |
|---|--|---|----------|---------------|----------|
|   |  | Dr £000s  | Cr £000s | Dr £000s      | Cr £000s |
| Unused redundancy provision of £43,000 for 2010/11 has been written back to General Fund balances in 2011/12 rather than 2010/11. | <ul style="list-style-type: none"> <li>■ CIES – Net Cost of Services</li> <li>■ Provisions</li> <li>■ General Fund</li> <li>■ MIRS amended to reflect new CIES total</li> <li>■ Consequential adjustments to Notes 11, 16 and 33.</li> </ul> |   | 43       | 43            | 43       |

|  |   | Comprehensive income and expenditure statement (CIES) |          | Balance sheet |          |
|--|---|---|----------|---------------|----------|
| Unadjusted misstatement  | Nature of required adjustment   | Dr £000s  | Cr £000s | Dr £000s      | Cr £000s |
| <p>The total value of the Pension Fund managed by Cambridgeshire County Council at 31 March 2011 exceeded the actuary's value by £31 million. This increases the Council share of the assets to £1.258 million more than the estimate included within the actuary's IAS 19 report. This arises due to a timing difference and overstates the net pension liability of the Council.</p> | <ul style="list-style-type: none"> <li>■ CIES – Net actuarial gains</li> </ul>  |   | 1,258    |               |          |
|  | <ul style="list-style-type: none"> <li>■ Other Long Term Pension Liabilities</li> </ul>   |   |          | 1,258         |          |
|  | <ul style="list-style-type: none"> <li>■ Unusable reserves</li> </ul>   |   |          |               | 1,258    |
|  | <ul style="list-style-type: none"> <li>■ MIRS amended to reflect new CIES total</li> </ul>  |   |          |               |          |
|  | <ul style="list-style-type: none"> <li>■ Consequential adjustments to Notes 12 and 22, plus pension liability reference in Foreword.</li> </ul> |   |          |               |          |

# Appendix 4 – Glossary

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## Annual governance statement

Governance is about how a Council ensures that it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, cultures and values, by which the Council is directed and controlled and through which it accounts to, engages with and where appropriate, leads its community.

The annual governance statement is a public report by the Council on the extent to which it complies with its own governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

## Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

## Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

## Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.



## Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

## Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

## Value for money conclusion

The auditor’s conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified opinion.

# Appendix 5 – Letter of representation

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To:  
Paul King  
District Auditor  
Audit Commission,  
3<sup>rd</sup> Floor,  
Eastbrook,  
Shaftesbury Road,  
Cambridge CB2 8BF

## **South Cambridgeshire District Council - Audit for the 2010/11 year ended 31 March 2011**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers and members of South Cambridgeshire District Council, the following representations given to you in connection with your audit of South Cambridgeshire District Council's financial statements for the 2010/11 year ended 31 March 2011. All representations cover the Council's accounts included within the financial statements.

### **Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 based on International Financial Reporting Standards (IFRS) which give a true and fair view of the financial position and financial performance of South Cambridgeshire District Council, for the completeness of the information provided to you, and for making accurate representations to you.

### **Uncorrected errors**

I confirm that I believe that the effects of the uncorrected financial misstatements listed in the Annual Governance Report Appendix 3 are not material to the financial statements, either individually or in aggregate and that these misstatements have been discussed with those charged with governance. The reasons for not correcting these items are as follows;

- Excess redundancy provision - The accounts have not been amended for the excess redundancy provision as it is not considered to be a material misstatement to the accounts; and
- Pension Fund – Actuarial Gains and Losses – The accounts have not been amended for the Council’s proportion of the undervalue of the County’s Pension Scheme as it is not considered to be a material misstatement to the accounts.

### **Supporting records**

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions undertaken by South Cambridgeshire District Council have been properly reflected and recorded in the financial statements.

### **Irregularities**

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

### **Law, regulations, contractual arrangements and codes of practice**

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. South Cambridgeshire District Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

### **Accounting estimates including fair values**

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

### **Related party transactions**

I confirm that I have disclosed the identity of South Cambridgeshire District Council related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

### **Contingent liabilities**

I confirm that there are no contingent liabilities that have not been disclosed in the financial statements but should have been. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

### **Subsequent events**

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of South Cambridgeshire District Council

I confirm that this letter has been discussed and agreed by the Corporate Governance Committee of South Cambridgeshire District Council on 30 September 2011.

Signed:

Alex Colyer  
Executive Director Corporate Services

Date:

# Appendix 6 – Action plan

| Page no. | Recommendation  | Priority<br>1 = Low<br>2 = Med<br>3 = High | Responsibility | Agreed | Comments | Date |
|----------|---|--|----------------|--------|----------|------|
| 9        | R1: Integrate the revised requirements in respect of HRA self-financing following debt transfer in the 2011/12 closedown plan and working paper requirements.   | 2  |                |        |          |      |
| 9        | R2: Update the closedown plan and working paper requirements to reflect the issues identified at audit.   | 2  |                |        |          |      |
| 9        | R3: Review the closedown timetable and build in the opportunity for a detailed independent review of the financial statements prior to authorisation and subsequent submission to members and the external auditor. | 2  |                |        |          |      |

| Page no. | Recommendation  | Priority<br>1 = Low<br>2 = Med<br>3 = High | Responsibility | Agreed | Comments | Date |
|----------|---|--|----------------|--------|----------|------|
| 9        | R4: Provide high level explanation for variances between actual outturn and budget within the Explanatory Foreword in future. | 2  |                |        |          |      |

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- any third party.

