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Tuesday 21 September 2010

To: Chairman – Councillor Peter Topping
Vice-Chairman – Councillor Francis Burkitt
Members of the Corporate Governance Committee – Councillors John Batchelor,
Douglas de Lacey, Mervyn Loynes, David McCraith and John G Williams

Quorum: 3

Dear Councillor

Please find the Annual Governance Report, which will be discussed at the **CORPORATE GOVERNANCE COMMITTEE**, which will be held in **SWANSLEY ROOM, GROUND FLOOR** at South Cambridgeshire Hall on **FRIDAY, 24 SEPTEMBER 2010** at **2.00 p.m.**

Members are respectfully reminded that when substituting on committees, subcommittees, and outside or joint bodies, Democratic Services must be advised of the substitution *in advance of* the meeting. It is not possible to accept a substitute once the meeting has started. Council Standing Order 4.3 refers.

Please note that a pre-meeting session for all Councillors on the Committee has been arranged for 1:30pm.

Yours faithfully
SJ HAMPSON
Acting Chief Executive

The Council is committed to improving, for all members of the community, access to its agendas and minutes. We try to take all circumstances into account but, if you have any specific needs, please let us know, and we will do what we can to help you.

AGENDA

5. External Audit: Annual Governance Report - To Follow

PAGES
1 - 36

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Annual Governance Report

South Cambridgeshire District Council

Audit 2009/10

September 2010

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
 - any third party.
-

Members of the Corporate Governance Committee

2009/10 Annual Governance Report

I am pleased to present my report on the results of my audit work for 2009/10.

A draft of the report was discussed with the Executive Director, Corporate Services on 21 September 2010 and updated as issues were resolved.

My report sets out the key issues that you should consider before I complete the audit.

It asks you to:

- consider the matters raised in the report before publishing the revised audited financial statements (pages 7 to 12);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the error in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the error (Appendix 3);
- provide a letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4);
- note the qualified value for money conclusion; and
- agree your response to the proposed action plan (Appendix 6).

Yours faithfully

Debbie Hanson
District Auditor

21 September 2010

Key messages

This report summarises the findings from my 2009/10 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.

Financial statements	Results	Page
Unqualified audit opinion	Yes	7
Financial statements presented for audit free from material error	No	7
Adequate internal control environment	Yes	9
Value for money	Results	Page
Adequate arrangements to secure value for money	No	13

Audit opinion

- 1 The financial statements submitted for audit were complete. They did however contain two material errors, as set out in this report. Other than trivial errors, the remaining errors identified are also set out in the remainder of this report.
- 2 The audit is substantially complete and subject to my final review, I propose to issue an unqualified opinion. Appendix 1 contains a copy of my draft audit report.

Financial statements

- 3 The financial statements have been amended for the two material errors and a number of non trivial disclosure and valuation errors identified during the audit. Management have not amended for the error set out in Appendix 3.
- 4 As part of planning for the 2009/10 audit discussions were held between the external audit team and finance officers to clarify the content and range of supporting documentation to be provided at audit. This joint initiative resulted in improvements in the quality of working papers provided by officers. The speed and quality of responses to audit queries has also improved. I would therefore like to take this opportunity to thank officers for their positive approach to the audit.

Key messages

Value for money

- 5 I have assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against the criteria specified by the Audit Commission. I have identified weaknesses in your arrangements in respect of the use of natural resources element of the managing resources criteria.
 - 6 I therefore intend to issue a qualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources, except in respect of use of natural resources.
-

Audit fees

- 7 I reported in my 2009/10 Audit Opinion Plan that the revised audit fee for the 2009/10 Audit was £124,500. This was an increase of £10,000 from the previously reported fee, which reflected the ongoing impact of issues identified as part of the 2008/09 audit. I am satisfied that the revised fee estimate was appropriate and no further adjustment to my fee is required.
-

Independence

- 8 I can confirm that there were no relationships giving rise to a threat to independence, objectivity and integrity.

Next steps

This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion, and audit closure certificate. It 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.

9 I ask the Corporate Governance Committee to:

- consider the matters raised in the report before publishing the revised audited financial statements (pages 7 to 12);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the error in the financial statements I have identified, which management has declined to amend or set out the reasons for not amending the error; (Appendix 3);
- provide a letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4);
- note the qualified value for money conclusion: and
- agree your response to the proposed action plan (Appendix 6).

Financial statements

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.

Opinion on the financial statements

- 10 Subject to satisfactory agreement of the final amendments to the signed version of the financial statements and completion of my final review of the accounts and audit work, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.
- 11 Should any further matters arise in concluding the outstanding work that need to be reported, I will raise them with the Executive Director – Corporate Services and the Chair of the Corporate Governance Committee.

Errors in the financial statements

- 12 My audit work identified two material disclosure errors in the financial statements. These are to be amended in the revised financial statements. Details of these amendments are set out below and in Appendix 2.
- 13 The non trivial errors that have been amended in the revised financial statements are also set out in Appendix 2. The non trivial error that management have decided not to amend is set out in Appendix 3. These Appendices include all errors identified as part of the audit apart from trivial errors.
- 14 The first material change to the accounts was an amendment to remove 76 individual plots of land (14.98 acres) initially valued at £6.652 million within the balance sheet. The plots of land were included for the first time in 2009/10 and had been valued on the basis of market value for alternative use, namely with planning permission.
- 15 No decision to dispose of the plots of land has been taken by the Council. The assets should therefore have been valued at their existing use and remained de minimis. A further £0.718 million was also identified within the brought forward surplus assets that should not have been valued at market value.
- 16 International Accounting Standard 16: Property, Plant and Equipment (IAS 16), which applies from 2010/11, has tighter valuation criteria. To value at market value the:
 - asset must be available for immediate sale in its present condition; and
 - sale must be highly probable.

- 17** For a sale to be classed as 'highly probable' it is expected that:
- Members/management are committed to the sale plan;
 - active marketing of the asset is taking place at a reasonable price;
 - completion would be within one year of classification; and
 - sale plan is unlikely to change.
- 18** Following in-year revaluations the combined impact of revising these values to existing use and hence de minimis is to remove £9.067 million from the surplus assets value at 31 March 2010.
- 19** The second material change was in relation to the fixed assets notes (note 9 and note 36). Both gross book value and cumulative depreciation and impairment were overstated by £4.602 million. There was no impact on the net book value. The error arose as a result of the failure to write out impairments raised in 2008/09 that have now been reversed as a result of capital expenditure in 2009/10. This is a technical accounting entry and the accounts have been amended for this.
- 20** During the year, a number of fixed assets that had been impaired in 2008/09 increased in value. Where impairments related to these assets had been previously charged to the Income and Expenditure account (I&E) the subsequent increase in value must be written back to I&E. This write back is limited to the value of the original impairment charge less the reduction in depreciation charges that have resulted from the impairment. The Council incorrectly credited the full value of the previous impairment to I&E. The major element of this reversal was included within the Housing Revenue Account. In reviewing this accounting treatment officers also identified a further four beacon groups for which the in-year revaluations had not been reflected within the financial statements. The net effect of the corrections is to:
- increase the impairment charge to I&E by £679,000
 - decrease fixed assets by £417,000
 - decrease the revaluation reserve by £262,000
 - decrease the capital adjustment account by £679,000.
- 21** One uncertainty was identified in respect of fixed assets - garages. The District Valuer (DV) has provided a revised valuation that is some £1.6 million greater than previous, equating to a 57% increase. My comparative information indicates that such assets have appreciated by some 5.1% during 2009/10. The Council had not sought an explanation for such a significant increase from the DV.

Recommendation

R1 Establish procedures to:

- Analyse surplus assets between those held for sale and those not in use
- Ensure appropriate revaluations take place on transfer to surplus assets held for sale.

R2 Review and revalue as appropriate under IAS 16 all surplus assets in 2010/11.

Financial statements

R3 Obtain explanations from the District Valuer for:

- the significant increase in garage valuation in 2009/10; and
- any major changes in valuation in 2010/11,

as part of the 2010/11 closedown process.

R4 The Corporate Governance Committee should consider whether to adjust the financial statements for the errors that I have identified through my audit. Currently management has decided not to amend the financial statements for one of these errors. If your considerations lead you to concur with management, I would require detail of your rationale for not amending the error to be set out within the letter of representation.

Important weaknesses in internal control

- 22** Last year I reported upon weaknesses or an absence of controls over the completeness, accuracy, valuation and allocation, existence and rights and obligations of the assets contained within the various housing asset databases and fixed asset register. As a result significant substantive testing was required in 2008/09 to verify the information supporting the financial statements.
- 23** Officers have introduced revised control procedures during 2009/10 and significant improvements have been made to the fixed asset register, such that it now complies with the current accounting requirements. The achievement of these improvements in such a tight timescale is a significant success and is to be commended.
- 24** I have not identified any weaknesses in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.
- 25** I have not provided a comprehensive statement of all weakness which may exist in internal control, nor of all improvements which may be made, but have addressed only those matters which have come to my attention because of audit procedures I have performed.

Key areas of judgement and audit risk

- 26** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1.

Table 1 Key areas of judgement and audit risk

Issue or risk	Finding
<p>As the economic downturn continues, local authorities expect less grant support from central government. The Council has reassessed its medium term financial strategy as part of the 2010/11 budget setting exercise. It has assessed the impact of the recession and plans to reduce expenditure across the Council by some £2.1 million in 2010/11. Achievement of these savings will involve staff reductions and will impact on service provision.</p>	<p>As part of my value for money conclusion assessment I reviewed the budget setting process and budgetary control within the Council. I set out my key findings in Appendix 5 of this report.</p> <p>I have also carried out work to confirm the completeness of expenditure reported in the accounts.</p>
<p>The 2008/09 audit identified a number of significant issues around the maintenance of the fixed asset register and the measurement, classification and accounting for capital assets. The existing fixed asset register did not currently fully comply with the requirements of CIPFA's Code of Practice on Local Authority Accounting for the United Kingdom 2009, the Statement of Recommended Practice (2009 SORP).</p>	<p>The Council now has a compliant fixed asset register.</p>
<p>In 2008/09 I identified that the fixed asset register, housing maintenance database and housing rents database were not automatically being reconciled. This reconciliation was completed during the 2008/09 final accounts audit.</p>	<p>I have reviewed and substantively tested the reconciliation of the three databases with no issues arising.</p>
<p>The Council's methodology for identifying the FRS 17 entries in the draft 2008/09 statement of accounts did not reconcile to the actuarial report.</p>	<p>A revised methodology is in place.</p>

Financial statements

Issue or risk	Finding
My audit work in 2008/09 identified that the classification of expenditure to capitalise was only undertaken as a year end process, rather than on an ongoing basis. This increases the risk that incorrectly capitalised expenditure is not identified until after the year end with adverse impact on the revenue budget.	Classification of capital expenditure was again carried out as a year end exercise so in year work was not possible. As part of my post statements work I reviewed the Accountancy exercise that had been undertaken that had identified that £24,000 had been incorrectly capitalised. My sample testing identified no further misclassifications.
Due to the nature of certain financial systems, balance and system reports for the financial statements can only be produced at year end. Not all such reports were produced and retained for audit in 2008/09.	Required reports were produced and retained.
Clear audit trails supporting entries within the accounts were not available in all cases at the start of the audit. This has an adverse impact on the timing and time spent on completing the audit.	I supplied, discussed and agreed detailed working paper requirements with officers in advance of closedown. The outcome is reported in paragraph 4.
The accounting for National Non Domestic Rates and Council Tax moves to an agency basis under amended requirements of the 2009 SORP. This will involve the restatement of the comparator balances and removal of debtor and creditor balances from the Council balance sheet in respect of other major precepting bodies.	The Council's restatement of prior year comparators was not available prior to the production of the draft statement of accounts. No issues arose from the restatement of comparators.
The 2009 SORP also introduces revised accounting arrangements for Public Finance Initiative (PFI) and similar service contracts. Although the Council does not have any PFI contracts it is possible that it has service contracts that fall within the definition.	I have considered the Council's assessment of similar service contracts and have no issues to raise on the accounting treatment followed.

Accounting practice and financial reporting

27 I consider the non-numeric content of your financial reporting. Table 2 contains the issues I want to raise with you.

Table 2 Financial reporting issues

Issue	Finding
The SORP requires the foreword to the Statement of Accounts to set out the main variances within the Income and Expenditure account. It also requires any material or unusual charge or credit to be explained.	The Council's explanatory foreword includes a summary of the variances within the Income and Expenditure account, but does not explain why these occurred and their impact on performance.
The accounts should be fully compliant with the disclosure aspects of the SORP.	<p>My review identified a number of non compliance issues which were amended, the most significant of which are noted here:</p> <ul style="list-style-type: none"> • a footnote to the Statement of Total Recognised Gains and Losses (STRGL) to explain the impact of the prior period adjustments; • the number of properties in Note 27 - Contingent Liabilities, incorrect total and categorisation of properties; and • Cash and bank and cash overdrawn both reduced by £54,680 to reflect 'offset' agreement with HSBC.

Recommendation

R5 Review the content of the explanatory foreword to provide a fuller picture of performance and finance as part of the 2010/11 closedown process.

Letter of representation

28 Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 4 contains my request for the representations I seek to obtain from you.

Value for money

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

Value for money conclusion

- 29** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas in Appendix 5. I have identified weaknesses in your arrangements to manage your use of natural resources as set out in Table 3.
- 30** I intend to issue a qualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources, except for the use of natural resources.

Recommendation	
R6	Incorporate the findings of the 2009/10 value for money conclusion within the Council's Use of Resources Improvement Plan.

Glossary

Annual governance statement

- 31** Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.
- 32** It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.
- 33** The annual governance statement is a public report by the Council on the extent to which it complies with its own local 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

- 34** 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 certificate.

Audit opinion

- 35** On completion of the audit of the accounts, auditors must give their 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;
 - whether they have been prepared properly, following the relevant accounting rules; and
 - for local probation boards and trusts, on the regularity of their spending and income.

Qualified

- 36** The auditor has some reservations or concerns.

Unqualified

- 37** The auditor does not have any reservations.

Glossary

Value for money conclusion

- 38** 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.

Appendix 1 – Independent auditor’s report to Members of South Cambridgeshire District Council

Independent auditor’s report to the Members of South Cambridgeshire District Council

Opinion on the accounting statements

I have audited the Authority accounting statements and related notes of South Cambridgeshire District Council for the year ended 31 March 2010 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement, the Housing Revenue Account, the Statement of Movement on the Housing Revenue Account, the 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 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Executive Director, Corporate Services and auditor

The Executive Director, Corporate Services’ responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority and its income and expenditure for the year.

Appendix 1 – Independent auditor’s report to Members of South Cambridgeshire District Council

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

Opinion

In my opinion the Authority accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Authority as at 31 March 2010 and its income and expenditure for the year then ended.

Conclusion on 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 regularly to review the adequacy and effectiveness of these arrangements.

Auditor’s responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority 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 in relation to proper arrangements, having regard to relevant criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report, if significant, matters that have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. 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.

Qualified conclusion

I have undertaken my audit in accordance with the Code of Audit Practice. In doing so, I have identified the following:

- the Council had limited understanding of, had not established reliable baseline data for and could not identify all the main influencing factors on its use of natural resources;
- both the Depot and South Cambridgeshire Hall are in locations which are not easily accessible by sustainable transport and, since the Council has moved to these locations, lone car usage has increased from below 50 per cent to above 70 per cent; and
- there is no evidence that the Council's 'travel to work plan' is having any quantifiable impact.

Having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, South Cambridgeshire District Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010 except for making effective use of natural resources.

Appendix 1 – Independent auditor’s report to Members of South Cambridgeshire District Council

Certificate

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

Debbie Hanson

Officer of the Audit Commission

Audit Commission, Regus House, 1010 Cambourne Business Park, Cambourne,
Cambridge, CB23 6DP

September 2009

Appendix 2 – Amendments made to the draft accounts

I identified the following misstatements during my audit and managers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Table 3 Actioned amendments

Adjusted misstatements	Nature of adjustment	Income and Expenditure Account		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
<p>Fixed assets - surplus assets held for disposal</p> <p>Inclusion at market value of land that had not been approved for disposal which in existing use was de minimis.</p>	<p>The Revaluation Reserve has been overstated.</p> <p>Surplus assets held for disposal have been overstated.</p> <p>Revaluation gain in the STRGL should be reduced by £9.067 million and the change in net worth similarly reduced.</p> <p>Consequential adjustments are also made to the Notes 9, 21 and 36.</p>			9,067	9,067

Appendix 2 – Amendments made to the draft accounts

		Income and Expenditure Account		Balance sheet	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
<p>Fixed Assets: Impairment write off following capital expenditure</p> <p>The Council writes down the value of council dwellings by the planned capital expenditure for the following year as this is not accounted for in the DV valuations. Once the capital expenditure has been incurred the previous estimated impairment should be written out of the "gross book value" and the "depreciation/impairment" section of Note 9 and Note 36.</p>	<p>The gross book value and depreciation/impairment value of council dwellings in Note 9 and Note 36 was overstated by £4.602 million</p>				
<p>Note 45: Council Tax</p> <p>The note had not been updated to include the current year amounts therefore, 'council tax benefit net of subsidy limitation' was understated and the 'difference in income due to variations in tax base and rate of collection' was similarly overstated by £609,000.</p>	<p>'Council tax benefit net of subsidy limitation' is now £5.602 million and the 'difference in income due to variation in tax base and rate of collection' is now £13,000.</p>				

Adjusted misstatements	Nature of adjustment	Income and Expenditure Account		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
<p>Fixed Assets: reversal of impairments that were previously charged to I&E.</p> <p>When impairments that were previously charged to I&E are written back due to a subsequent increase in value, the write back to I&E is limited to the original impairment charge less the reduction in depreciation charges as a result of the previous impairment. The original accounts included no such reduction. Officers also identified four valuations that had not been reflected in the financial statements.</p>	<p>Net impairment to I&E (understated)</p> <p>Fixed assets (overstated)</p> <p>Revaluation Reserve (overstated)</p> <p>The impairment reversal credit in the SMGFB decreases by £679,000</p> <p>Capital Adjustment Account was overstated</p> <p>This also amends:</p> <ul style="list-style-type: none"> the deficit on the I&E (understated) and revaluation amount (overstated) contained within the STRGL by £679,000 the impairment charge (understated) in the HRA and reversal (understated) in the SMHRAB Associated notes to the core statements and the HRA 	679			<p>417</p> <p>262</p> <p>679</p>

Appendix 2 – Amendments made to the draft accounts

		Income and Expenditure Account		Balance sheet	
Adjusted misstatements	Nature of adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Creditors: Current creditors included a long term creditor in respect of early retirement benefits.	Long term creditor (understated) Short term creditor (overstated)			0.212	0.212
STRGL: SORP requires an inclusion of a footnote to the STRGL to explain the impact of the prior year adjustments.	Footnote included				
Note 27- Contingent liability: Totalled 376, categorised 295 and 81, rather than 367 categorised 282 and 85.	Disclosure number change				
Cash and bank/cash overdrawn: The above items were disclosed gross, although the Council has an 'offset' arrangement in respect of HSBC accounts. The HSBC accounts should have been shown net. Both elements reduced by £54,680.	Cash and bank Cash Overdrawn			0.055	0.055

Appendix 3 – Unadjusted misstatements in the accounts

I identified the following misstatement during my audit, but management has not adjusted the financial statements. I bring it to your attention to help you in fulfilling your governance responsibilities. If you decide not to amend, please tell us why in the representation letter. If you believe the affect of the uncorrected error is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected error to the representation letter.

Table 4 Unadjusted misstatements

Description of error	Accounts affected	Value of error/uncertainty £ million
Increase in FRS 17 valuation of Pension Fund assets, following receipt of assurance letter from the auditor of Cambridgeshire County Council in respect of the administered Pension Fund.	Income and Expenditure Account, SMGFB, Balance Sheet – Pension Liability and Pension Reserve, STRGL, Housing Revenue Income and Expenditure Account, SMHRB and Associated Notes to Core Statements	0.324

Appendix 4 – Request for a letter of representation

Our reference	CEN/CA223/2008-9/Letter of representation request		
16 September 2010			
Alex Colyer Executive Director – Corporate Services South Cambridgeshire District Council Cambourne Business Park Cambourne Cambridgeshire CB3 6EA	Direct line	0844 798 4142	
	Mobile	07879 487172	
	Email	n-gibson@audit-commission.gov.uk	
Dear Alex			
Audit of Accounts 2009/10 Request for a letter of representation			

International Standards on Auditing set out guidance on the use by auditors of management representations (ISA (UK&I) 580) and on possible non-compliance with laws and regulations (ISA (UK&I) 250). I have interpreted this guidance as it affects local authorities and I expect the following points to apply:

- auditors may wish to obtain written representation where they are relying on management's representations in respect of judgemental matters (for example the level of likely incidence of a claim), which may not be readily corroborated by other evidence;
- auditors are likely to request written representations on the completeness of information provided;
- auditors may wish to obtain written representation on issues other than those directly related to the financial statements;
- the letter is dated on or near to the date on which the auditor signs the opinion and certificate;
- the letter is signed by the person or persons with specific responsibility for the financial statements; and
- the letter is formally acknowledged as having been discussed and approved by the Corporate Governance Committee, as those charged with governance of the Council.

I would expect the letter of representation to include the following:

Compliance with the statutory authorities

An acknowledgement of your 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 2009: A Statement of Recommended Practice which presents a true and fair view of the financial position and financial performance of the Council and for making accurate representations to you.

Uncorrected misstatements

Confirmation that the effects of any uncorrected financial statements misstatements (to be listed in the Annual Governance Report) 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 any such items should be given.

Supporting records

Confirmation that all the accounting records, other records and related information, including minutes of all Council and Committee meetings, have been made available to us for the purpose of our audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records.

Going concern

Confirmation that it is appropriate to adopt the going concern basis in the preparation of the financial statements and that the financial statements include such disclosures, if any, relating to going concern.

Irregularities

Confirmation of responsibility for the design and implementation of internal control systems to prevent and detect fraud or error and that there have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

Confirmation that you have disclosed:

- 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; and
- knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Appendix 4 – Request for a letter of representation

Law, regulations, contractual arrangements and codes of practice

Confirmation that there are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

Confirmation that the Council has complied with all aspects of contractual arrangements, which could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

Fair values

Confirmation that the significant assumptions within the financial statements that cover, borrowing, investments, provisions, depreciation, and accruals are reasonable. Specifically in relation to:

- the appropriateness of the measurement method;
- the completeness and appropriateness under the financial reporting framework; and
- if subsequent events require adjustment to the fair value measurement.

Assets

Confirmation that the following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- all impairments to fixed assets have been identified and accounted for in accordance with Financial Reporting Standard (FRS) 11;
- there have been no disposals of fixed assets during the year other than those recorded in the financial statements; and
- there are no known intangible assets including patents, trade marks licenses or custodies over intellectual property rights other than those recorded in the financial statements.

Contingent liabilities

Confirmation that there are no contingent liabilities other than those, properly recorded and disclosed in the financial statements. 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.

Related party transactions

Confirmation of the completeness of the information disclosed regarding the identification of related parties and that the Council's registers of interest are complete and up to date in respect of members and senior staff. The Council has ensure that all directors and key managers are aware of the requirements to declare all interests relevant to the Council, including interests of families, partners and entities controlled by them.

Post balance sheet events

Confirmation that since the date of review of the financial statements by the Corporate Governance Committee, no additional significant post balance sheet events have occurred, apart from that in respect of the move to using consumer prices index (CPI) rather than retail prices index (RPI) regarding the calculation of pension liabilities, which would require additional adjustment or disclosure in the financial statements.

Also that the Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Pension provision

Confirmation that there are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements.

Confirmation, that the make up of the Council's membership of the Local Government Pension Scheme is not materially different from other schemes within the country.

The above matters are examples only. There may be other matters which you would wish to include in the management letter of representation.

I should be grateful if you could, after discussion with the Chief Executive, Monitoring Officer and other officers as appropriate, provide a signed* management letter of representation for South Cambridgeshire District Council at the appropriate time.

Yours sincerely

Neil Gibson
Audit Manager

* - Signed by the Chief Executive, Executive Director – Corporate Services and Chair of the Corporate Governance Committee (as 'those charged with governance' at South Cambridgeshire District Council).

Appendix 5 – Value for money criteria

Criteria	Met	Theme assessment
Managing finances		
Planning for financial health	Yes	<p>The Council draws upon a variety of detailed plans to support the Medium Term Financial Strategy (MTFS) and budget process. Clear policies exist in respect of areas such as reserve levels. Members are involved in the budget process in a timely manner. However, the operational implications of financial changes are not always fully identified or explained, although this is improving in the restructuring programme.</p> <p>The Council seeks to involve stakeholders in the financial processes, but has had varying success. There is strong record of delivery within budget which comes from the cost focus of the Council which supports the low level of council tax.</p> <p>Financial training has been supplied to Members and officers but the benefits of training provided have not been effectively assessed.</p> <p>There is a good understanding of costs, but this is less developed for cost drivers of the business. The Council has revised its option appraisal process with more current examples of performance impact.</p> <p>Financial and performance information are now being reported together but the reporting is not yet fully integrated.</p> <p>Benchmarking, post implementation reviews and knowledge sharing are not yet standard features of operational management. Cost focus is the dominant feature of value for money at the Council.</p>
Understanding costs and achieving efficiencies	Yes	
Financial reporting	Yes	

Appendix 5 – Value for money criteria

Criteria	Met	Theme assessment
		<p>In year financial reporting is timely. However variance explanations do not always identify whether these are due to changed circumstances or poor budgeting.</p> <p>Adoption and publication of the Statement of Accounts met the required deadlines. There were material changes to accounts in 2008/09 following audit and the opinion was delayed until 19 November 2009.</p> <p>Material changes to 2009/10 accounts, but far smoother closedown and expected opinion prior to 30 September 2010.</p>

Governing the business		Theme assessment
Commissioning and procurement	Yes	<p>The Council seeks to be involved with third sector, private sector and other public sector bodies in developing approaches to service delivery. This is set out in the revised procurement strategy which now more clearly outlines how procurement can support the Council's approved Aims, Approaches and Actions. There is a good understanding of the supply market.</p> <p>The revised approach to option appraisal has been introduced, although its use is not yet embedded.</p> <p>There is effective analysis of spend which provides the Council with the opportunity to target areas for cost or process reduction. Savings of over £450,000 have been generated by better procurement since 2007 and the procurement officer post is self funding from savings.</p> <p>Adequate data collection systems exist, although there is an inconsistent approach to data quality. A new system was partially introduced in year, but the full benefits of this have not been realised as the system is not directly linked into local feeder systems. This has resulted in two performance management systems running in tandem.</p>
Use of information	Yes	
Good governance	Yes	
Risk management and internal control	Yes	

Appendix 5 – Value for money criteria

		<p>The Council has established good governance principles. Members receive training, although the informal nature of this can lead to members not receiving the necessary training. The absence of preset objectives means that the effectiveness of training and other events cannot be objectively assessed.</p> <p>Risk management processes are in place and the risk register is reviewed on a quarterly basis. The Council's own assessment is that risk management arrangements are yet to be fully embedded.</p> <p>The Council adopts a proactive approach to the prevention of fraud, actively following up NFI data.</p>
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Managing resources	Theme assessment
Natural resources	<p>No</p> <p>The Council has limited understanding of its own use of natural resources and cannot identify all the main influencing factors. Gas and electricity usage figures are monitored for South Cambridgeshire Hall, but electricity usage is much higher than anticipated. There is sub metering on site but officers are not sure how this relates to the current office configuration. The level of water usage for both South Cambridgeshire Hall and the depot is not known. The Council's depot is leased and the Council has historically had to estimate water usage (there is no gas usage), although data is being collected in 2009/10. The Council is now developing a systematic baseline for measurement of natural resources, but at the moment this is not complete. There is also a lack of positive action in relation to the figures that are monitored.</p>

Appendix 5 – Value for money criteria

Managing resources	Theme assessment
	<p>In the absence of reliable baseline data the Council has struggled to manage its performance to reduce its impact on the environment. There are some indications that performance may have worsened in some areas. The Council offices are designed to BRE Environmental Assessment Method (BREEAM) excellence standards, with a facility to recycle grey water for use in toilets, but this facility has not worked for some time and there has been no capital investment to remedy the situation. Both the depot and the Council offices are in locations which are not easily accessible by sustainable transport. When the Council offices were based in Cambridge lone car usage was below 50%. According to the Council's own annual travel survey the figure is now above 70%.</p> <p>The Council uses procurement activity to help manage its impact on the environment. Sustainability considerations are a key requirement and have been for a long time e.g. photocopies are on recycled paper, use of green electricity and recyclables. Life cycle costing and the costs of disposal are also routine considerations.</p> <p>The Council has allocated very little resource to tackle its own use of natural resources, but this has been a conscious choice due to limited resources. The Council has made choices about where it can have the greatest impact on climate change. This is considered to be on population, commercial emissions, travel emissions and domestic emissions, which are actually very low as a proportion of total emissions. The Council has raised the profile and priority of carbon management for 2010/11 by introducing a corporate priority to reduce carbon from its operations by 10 %. There is a 'travel to work plan', but there is little evidence that this is having any quantifiable impact. The Council has run more efficient driving courses for 15 employees.</p>

Appendix 5 – Value for money criteria

Managing resources	Theme assessment
	<p>An 'air quality action plan' has been developed in partnership with the County Council, Huntingdonshire District Council and Cambridge City Council. This was only adopted in March 2010 but sets out clear actions, targets and measures for each of the partners to seek to reduce pollutants across the south of the county.</p> <p>The Council has begun to manage the environmental risks it faces through the production of the Climate Change Strategy and the Air Quality Action Plan. Partnership working has enabled shared learning to take place and supplemented the resources and expertise available to the Council. Partners in the county are promoting the joint Cambridgeshire Climate Change Charter. The Council works well with the County Council and the City Council sustainability considerations on the major Growth sites.</p>

Appendix 6 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	Annual Governance Report 2009/10 - Recommendations					
9	R1: Establish procedures to: <ul style="list-style-type: none"> Analyse surplus assets between those held for sale and those not in use Ensure appropriate revaluations take place on transfer to surplus assets held for sale. 	2				
9	R2: Review and revalue as appropriate under IAS 16 all surplus assets in 2010/11.	2				
9	R3: Obtain explanations from the District Valuer for: <ul style="list-style-type: none"> the significant increase in garage valuation in 2009/10; and any major changes in valuation in 2010/11, as part of the 2010/11 closedown process.	3				

Appendix 6 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
9	R4: The Corporate Governance Committee should consider whether to adjust the financial statements for the errors that I have identified through my audit. Currently management has decided not to amend the financial statements for one of these errors. If your considerations lead you to concur with management, I would require detail of your rationale for not amending the error to be set out within the letter of representation.	3				
12	R5: Review the content of the explanatory foreword to provide a fuller picture of performance and finance as part of the 2010/11 closedown process.	2				
13	R6: Incorporate the findings of the 2009/10 value for money conclusion within the Council's Use of Resources Improvement Plan	2				

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