

# Annual Audit Letter

---

---

**South Cambridgeshire District Council**

**Audit 2009/10**

**The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.**

**Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.**

**As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.**

# Contents

<b>Key messages</b> .....	<b>2</b>
Audit opinion and financial statements .....	2
Value for money.....	3
Current and future challenges .....	3
<b>Financial statements and annual governance statement</b> .....	<b>4</b>
Overall conclusion from the audit .....	4
Significant weaknesses in internal control .....	5
Certification of claims and returns .....	5
International Financial Reporting Standards.....	6
<b>Value for money</b> .....	<b>8</b>
2009/10 use of resources assessments .....	8
VFM conclusion .....	8
Approach to local value for money work from 2010/11.....	10
<b>Current and future challenges</b> .....	<b>12</b>
Financial pressures.....	12
Partnership working .....	13
Housing Revenue Account subsidy reforms.....	13
<b>Closing remarks</b> .....	<b>15</b>
<b>Appendix 1 Audit fees</b> .....	<b>16</b>
<b>Appendix 2 Glossary</b> .....	<b>17</b>
<b>Appendix 3 Action Plan</b> .....	<b>18</b>

# Key messages

**This report summarises my findings from the 2009/10 audit. My audit comprises two elements: the audit of your financial statements (pages 4 to 7) and my assessment of your arrangements to achieve value for money in your use of resources (pages 8 to 11). I have included only significant recommendations in this report. The Council has accepted these recommendations.**

## Audit opinion and financial statements

**1** I issued an unqualified opinion on 30 September 2010, which was the statutory deadline. Before giving my opinion, I reported to the Corporate Governance Committee, as those charged with governance, on 24 September 2010. My Annual Governance Report set out the detailed findings of my audit.

**2** The financial statements submitted for audit were complete, although two material errors were identified and amended. The errors identified were technical in nature and related to capital accounting requirements in respect of:

- surplus assets; and
- impairments.

**3** The standard and content of working papers in support of the financial statements improved significantly in 2009/10 and these are now of a good standard. This improvement followed joint work undertaken by ourselves and the Council's finance team.

**4** My certification work on the 2009/10 grant claims has identified notable improvements. All claims were submitted within the required timeframe and there was a significant reduction in the number of qualification letters and amendments. The final claim was certified on 24 November 2010 compared to April 2010 for 2008/09 claims. As a result the cost of certification work has fallen by £8,000 to some £37,000.

**5** The 2010/11 accounts will be based upon International Financial Reporting Standards (IFRS) for the first time. The Council is working proactively to a detailed timetable to fully implement the changes. As part of a national survey by the Audit Commission, I assessed the Council as only having minor issues to consider; a position consistent with other district councils.

## Value for money

**6** I have concluded that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, except for its use of natural resources. As a result, I issued a qualified (except for) value for money conclusion on 30 September 2010.

## Current and future challenges

**7** The Government has made clear its priority to tackle the UK's deficit. The results of the Comprehensive Spending Review announced on 20 October 2010 set spending limits for every government department. As a result annual spending reductions of 7.1 per cent for the next four years (28 per cent over the period) will be applied to councils.

**8** The Council had been planning, within its Medium Term Financial Strategy (MTFS), for a 30 per cent reduction. This identified the need for £1.2 million savings from the middle of 2011/12. This would result in a £3 million balance on the General Fund at 31 March 2016 after the use of other balances but would leave a £2.1 million underlying annual budget deficit.

**9** A more accurate assessment of the impact of the Comprehensive Spending Review will not be identified until the provisional financial settlement is announced in December 2010. This is therefore a time of uncertainty for the Council. However, one thing is clear the cumulative effect of the savings required is unprecedented, built as it is upon the current year reductions that have already been implemented. It is therefore crucial that the next budget round identifies the areas where the significant savings that are required will be achieved.

**10** Against the current financial position, many organisations are reconsidering their respective priorities and the benefits that they obtain from partnership working. The impact of withdrawal of partners from key partnerships is an important element of future risk management.

**11** The proposed changes in Housing Revenue Account subsidy arrangements could offer the opportunity of increased control over the provision of the housing service within South Cambridgeshire. The detail of the proposals may provide cost and service benefits, but this will not be clear until the publication of the Decentralisation and Localism Bill.

# Financial statements and annual governance statement

**The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.**

**I gave an unqualified opinion on the Council's 2009/10 financial statements on 30 September 2010, the statutory target date.**

## Overall conclusion from the audit

**1** The financial statements submitted for audit were complete. Following my previous audit, my audit team and your officers invested time 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, which are now of a good standard. The speed and quality of responses to audit queries has also improved.

**2** Before giving my opinion, I reported to the Corporate Governance Committee, as those charged with governance, on 24 September 2010. My Annual Governance Report set out the detailed findings of my audit. Two material amendments were required to the financial statements. The errors identified were technical in nature and related to capital accounting requirements, as set out below.

**3** 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. 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.

**4** A further £0.718 million was also identified within the brought forward surplus assets that should not have been valued at market value. Following in-year revaluations the combined impact of revising these values to existing use, and hence de minimis, was to remove £9.067 million from the surplus assets value at 31 March 2010.

**5** The second material change was in relation to the fixed assets notes. 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 financial statements were amended for this.

**6** Following receipt of a letter of representation and revised signed financial statements I issued an unqualified opinion on 30 September 2010.

## **Significant weaknesses in internal control**

**7** 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.

**8** Officers have introduced revised control procedures during 2009/10 and significant improvements have been made to the fixed asset register. The Council's fixed asset register now complies with the current accounting requirements and represents good practice. The achievement of these improvements in such a tight timescale is a significant success and is to be commended.

**9** I did not identify any significant weaknesses in your internal control arrangements during 2009/10.

## **Certification of claims and returns**

**10** As the Council's auditor, I am required to certify the Council's claims and returns. Last year, I commented upon the need to strengthen the Council's arrangements for the preparation and submission of claims and returns as the majority of claims and returns were submitted late and required qualification letters and/or amendment. As a result the cost of certification work increased from just over £38,000 to almost £45,000.

**11** My work on the current year claims has identified notable improvements, with all claims being submitted within the required timeframe and only two claims requiring minor amendment and one qualification letter. This compared to six amended claims and four qualification letters last year. The final claim was certified on 24 November 2010 compared to April 2010 for 2008/09 claims. As a result the cost of certification work has fallen to £37,000.

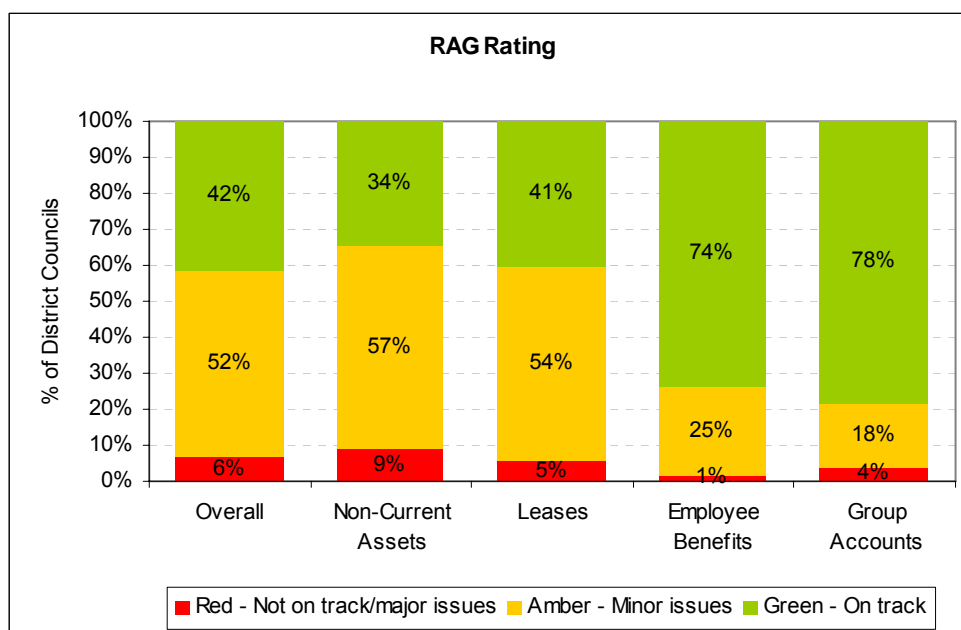
## International Financial Reporting Standards

**12** Local authorities have to produce their accounts under IFRS for the first time for 2010/11. The Council has a plan for this work and has reported progress to the Corporate Governance Committee. The Committee has challenged officers over the progress made.

**13** The Audit Commission undertook a survey of auditors of all local authorities in summer 2010 to assess local authority readiness for IFRS. As part of this survey, I rated South Cambridgeshire as having only minor issues in respect of non current assets and leases. I therefore concluded that the Council was not at high risk of failing to deliver good quality IFRS-compliant accounts on all areas assessed (group accounts are not applicable). My assessment of South Cambridgeshire's preparedness compared to other district councils is highlighted in figure 1.

Figure 1: **Overall readiness for IFRS**

South Cambridgeshire's position is consistent with other district councils.



Source: Auditor survey summer 2010

**14** In order to meet the new requirements, the Council will need to restate the opening balance sheet at 1 April 2009 and the 2009/10 financial statements and produce a skeleton set of 2010/11 IFRS-compliant accounts. It plans to do this by 31 December 2010. Over the last year, officers have discussed and agreed the accounting treatment and approach to key areas with members of my audit team. This work, together with the proposed timescale, will allow time for my audit team to review the work undertaken by the Council well before the financial year-end.



## Recommendation

**R1** Monitor delivery of the existing plan for producing IFRS compliant accounts within the set timescale.

---

# Value for money

**I considered whether the Council is managing and using its money, time and people to deliver value for money.**

**I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.**

## **2009/10 use of resources assessments**

**15** At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on CAA would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

**16** However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

**17** I report the significant findings from the work I have carried out to support the vfm conclusion.

## **VFM conclusion**

**18** I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

**19** This is a summary of my findings.

Criteria	Adequate arrangements?
<b>Managing finances</b>	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial Reporting	Yes
<b>Governing the business</b>	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
<b>Managing resources</b>	
Natural Resources	No

**20** As a result, I issued a qualified conclusion on 30 September 2010. This stated that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources in all areas except for the use of natural resources.

**21** In respect of the Council's use of natural resources my work identified that the Council:

- had limited understanding of its own use of natural resources and could not identify all the main influencing factors;
- had not taken action to address high levels of electricity usage at South Cambridgeshire Hall that had been identified by the monitoring undertaken;
- did not understand how sub metering that was undertaken on site related to the current office configuration;
- struggled to manage its performance to reduce its impact on the environment in the absence of reliable baseline data; and
- did not yet have a complete and systematic baseline for measurement of natural resources, although this was starting to be developed.

**22** In addition, both the depot and South Cambridgeshire Hall are in locations which are not easily accessible by sustainable transport. There is a 'travel to work plan', but there is little evidence that this is having any quantifiable impact. When the Council offices were based in Cambridge, lone car usage was below 50 per cent. According to the Council's own annual travel survey the figure is now above 70 per cent.

**23** The Council does however proactively use procurement activity to help manage its impact on the environment. Sustainability considerations are a key requirement and have been for a long time; for example, photocopies are on recycled paper and the Council makes use of green electricity and recyclables. Life cycle costing and the costs of disposal are also routine considerations.

**24** Towards the end of the year the Council established an action plan to start to address a number of the issues identified in respect of the use of natural resources. Key actions include:

- the appointment of a dedicated facilities manager for South Cambridgeshire Hall who is re-establishing the energy management sub systems within the broader building management system;
- a targeted 10 per cent reduction in emissions for 2010/11; and
- changes to the Council's recycling service collection rounds to reduce diesel consumption for the waste freighters.

**25** Officers are actively monitoring progress against this plan to ensure the targeted financial and environmental benefits are delivered.

## **Approach to local value for money work from 2010/11**

**26** Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local VFM audit work. The Commission aims to introduce a new, more targeted and better value approach to my local VFM audit work.

**27** My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

**28** I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual governance report to those charged with governance and in my annual audit letter.

## Recommendation

**R2** Monitor delivery of the use of natural resources action plan.

---

# Current and future challenges

## Financial pressures

**29** The Council reassessed its medium term financial strategy as part of the 2010/11 budget setting exercise. It assessed the impact of the recession and planned to reduce expenditure across the Council by some £2.1 million in 2010/11. Achievement of these savings involves staff reductions and impacts on service provision.

**30** Since then, the Government has made clear its priority to tackle the UK's deficit. On 24 May 2010, the Chancellor of the Exchequer and Chief Secretary to the Treasury announced the first step in tackling the deficit, setting out how the government intended to save over £6 billion from spending in 2010/11. The Government subsequently announced details of how the Comprehensive Spending Review would be conducted.

**31** The Comprehensive Spending Review, reported on 20 October 2010, set spending limits for every government department for the period 2011/12 to 2014/15. It also included annual funding reductions of 7.1 per cent for four years for local authorities (totalling approximately 28 per cent over the four years). The Council will need to build the outcome of the Comprehensive Spending Review into its financial plans and revisit the assumptions contained in its MTFS as outlined below.

**32** The Council's latest MTFS, as reported to Cabinet on 9 September 2010, anticipated the impact of the Comprehensive Spending Review to be a cut in general government grants of 30 per cent over four years. The anticipated balance on the General Fund at 31 March 2016 was predicted to be £3 million. However, this was on the basis of the Council making further unidentified savings of £1.2 million each year from part way through 2011/12 and drawing on balances. In 2015/16, the underlying annual General Fund deficit would be £2.1 million. The current level of predicted balances and reserves would not be sufficient to support this level of underlying deficit going forward. Additional savings would therefore be necessary.

**33** A more accurate assessment of the impact of the Comprehensive Spending Review will not be produced until the provisional financial settlement is announced in December 2010. Some of the other assumptions within the MTFS, such as the triennial pension review, will however crystallise over the next few months. It is therefore a time of uncertainty and the cumulative effect of the savings required is unprecedented. It is therefore crucial that the next budget round identifies the areas where the significant savings will be achieved.

## Partnership working

34 The Council is involved in a number of partnerships with public, private and voluntary sector organisations. In the current financial climate, many organisations are reconsidering their respective priorities and the benefits they obtain from partnership working. As well as considering the cost benefit that it receives from such partnerships, the Council should also identify and assess the risks of partners withdrawing from key partnerships.

## Housing Revenue Account subsidy reforms

35 Prior to the Comprehensive Spending Review the Government announced that it would be looking to overhaul the current housing subsidy arrangements. The Housing Minister stated that:

**"Subject to the Comprehensive Spending Review, we will offer councils the opportunity to keep the rents they collect and the receipts from any house or land sales. This is a key step to transfer powers to councils and communities, so they are free to improve their local services in a way that best meets the needs of local people."**

36 A spokeswoman for the Department for Communities and Local Government said:

**"In return for this greater freedom, some councils would take on additional housing debt - but no council will take on a level of debt that is not sustainable for the long term."**

37 There may therefore be the potential for the Council to retain the current £11.6 million that it pays to the government in 'negative' subsidy and the pooling of capital receipts in return for taking on housing debt. The exact nature of the costs and benefits from any such changes will need to be assessed following the publication of the Decentralisation and Localism Bill.

### Recommendation

**R3** Continue to monitor the financial position closely, making the necessary decisions about levels of funding and service standards in order to tackle the underlying General Fund deficit and balance the budget in the medium term.

**R4** The Council should:

- Assess the benefit it derives from existing partnership arrangements; and
- identify and assess the risks of partners withdrawing from key partnerships.

## Recommendation

**R5** Carry out a cost/benefit evaluation of the opportunity that the Decentralisation and Localism Bill offers to improve the provision of housing in South Cambridgeshire.

---



## Closing remarks

**38** I have discussed and agreed this letter with the Chief Executive and the Executive Director, Corporate Services. I will present this letter at the Corporate Governance Committee on 12 January 2011 and will provide copies to all Committee members by the end of November 2010.

**39** Further detailed findings, conclusions and recommendations in the areas covered by my audit are included in my Annual Governance Report issued in September 2010.

**40** The Council has taken a positive and helpful approach to our audit. I wish to thank the Council staff for their support and cooperation during the audit.

Debbie Hanson  
District Auditor  
November 2010

## Appendix 1 Audit fees

	Actual £	Proposed £	Variance £
Financial statements and annual governance statement	93,350	93,350	Nil
Value for money	31,150	31,150	Nil
Total audit fees	124,500	124,500	Nil
Non-audit work	0	0	Nil
Certification work (estimate)	37,000	33,131	+3, 869
Total	161,500	157,631	+3, 869

## Appendix 2 Glossary

### **Annual governance statement**

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.

It comprises the systems and processes, 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.

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 opinion**

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.

### **Financial statements**

The annual accounts and accompanying notes.

### **Qualified**

The auditor has some reservations or concerns.

### **Unqualified**

The auditor does not have any reservations.

### **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 money, people and time.

## Appendix 3 Action Plan

### Recommendations

#### Recommendation 1

Monitor delivery of the existing plan for producing IFRS compliant accounts within the set timescale.

#### Responsibility

**Priority** High

#### Date

#### Comments

#### Recommendation 2

Monitor delivery of the use of natural resources action plan.

#### Responsibility

**Priority** Medium

#### Date

#### Comments

#### Recommendation 3

Continue to monitor the financial position closely, making the necessary decisions about levels of funding and service standards in order to tackle the underlying General Fund deficit and balance the budget in the medium term.

#### Responsibility

**Priority** High

#### Date

#### Comments

#### Recommendation 4

The Council should:

- Assess the benefit it derives from existing partnership arrangements; and
- identify and assess the risks of partners withdrawing from key partnerships.

#### Responsibility

**Priority** Medium

#### Date

#### Comments

### Recommendation 5

Carry out a cost/benefit evaluation of the opportunity that the Decentralisation and Localism Bill offers to improve the provision of housing in South Cambridgeshire.

---

**Responsibility**

---

**Priority**

High

---

**Date**

---

**Comments**

---

If you require a copy of this document in an alternative format or in a language other than English, please call:  
**0844 798 7070**

© Audit Commission 2010.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

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 non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

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



Audit Commission

1st Floor  
Millbank Tower  
Millbank  
London  
SW1P 4HQ

Telephone: 0844 798 3131

Fax: 0844 798 2945

Textphone (minicom): 0844 798 2946