

South Cambridgeshire District Council

Corporate Governance Committee Summary

For the year ended 31 March 2014

Audit Results Report – ISA (UK & Ireland) 260

18 September 2014



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Executive summary

Key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Corporate Governance Committee - on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

This report summarises the findings from the 2013/14 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

- ▶ As of 18 September 2014, we expect to issue an unqualified opinion on the financial statements.

Value for money

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.

Whole of Government Accounts

- ▶ Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. .

Audit certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year. We expect to issue the audit certificate at the same time as the audit opinion.

Extent and purpose of our work

The Authority's responsibilities

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

Our audit was designed to:

- Express an opinion on the 2013/14 financial statements;
- Report on any exception on the governance statement or other information included in the foreword;
- Consider and report any matters that prevent us being satisfied that the Authority had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion).

In addition, this report contains our findings related to the areas of audit emphasis, our views on the Authority's accounting policies and judgments and significant deficiencies in internal control.

As a component auditor, we also follow the group instructions and send to the National Audit Office our group assurance certificate, audit results report and auditor's report on the consolidation schedule.

This report is intended solely for the information and use of the Authority. It is not intended to be and should not be used by anyone other than the specified party.

Addressing audit risks

Significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over those issues.

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
<p><u>Fraud and Management Override Risk</u></p> <p>As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>An area we identified as being susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment.</p>	<ul style="list-style-type: none"> • Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • Reviewed accounting estimates for evidence of management bias; • Evaluated the business rationale for any significant unusual transactions; and • Tested additions to the Property Plant and Equipment balance to ensure they are properly classified as capital expenditure. 	<p>All our planned procedures are in progress.</p> <p>At this stage there are no findings that indicate a risk of misstatement due to fraud or error.</p>

Addressing audit risks (Continued)

Significant audit risks

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
<p><u>Property, Plant & Equipment</u></p> <p>Valuation of property assets and capital expenditure are significant accounting estimates that have a material impact on the financial statements.</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> • Reliance on management's expert. • Reliance on auditor expert. • Testing of valuation movements. 	<p>All our planned procedures are complete.</p> <p>No issues have been identified</p>
<p><u>Localisation of business rates retention</u></p> <p>There have been significant changes in the arrangements for business rate arrangements from April 2013. The detailed accounting arrangements for the new arrangement are not yet clear and this therefore presents a risk in terms of the financial statements.</p> <p>One of the main changes is that individual councils now need to provide for rating appeals. This includes not only claims from 1 April 2013 but claims that relate to earlier periods. As appeals are made to the Valuation Office, Councils may not be aware of the level or extent of claims. Councils may also find it difficult to obtain sufficient information to establish a reliable estimate for the appeal provision.</p>	<ul style="list-style-type: none"> • We will review the detailed accounting for business rates to ensure the Council's accounts are materially accurate and compliant with the CIPFA Code of practice. • We will review the Council's provision for business rate appeals to ensure it has been calculated on a reasonable basis in line with IAS 37. As part of this we will ensure the provision is supported by appropriate evidence and that the level of estimation uncertainty is adequately disclosed in the accounts. 	<p>All our planned procedures are complete.</p> <p>The value of the business rate appeals provision of £4.0 million has been assessed as reasonable.</p> <p>The Authority's share of this provision of £1.6 million (40%) had been included within the Balance Sheet as a Creditor. Under the requirements of IAS 37 (Provisions) we believe that this amount should be reflected within the Balance Sheet as a provision.</p> <p>The Authority have amended for this error. Further details are set out in Appendix 1.</p>

Addressing audit risks (Continued)

Other audit risks

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Significant audit risks (including fraud risks)		
<p><u>Formation of trading company</u></p> <p>The Council have set up a wholly owned subsidiary trading company in 2013/14. Whilst the company is expected to have limited transactions, if any, in 2013/14. If transactions are included within the company financial statements, the council will need to consider the requirements for the production of group accounts.</p>	<p>We reviewed:</p> <ul style="list-style-type: none">• The Council's proposal for not preparing group accounts.	<p>The Council have asserted that the wholly owned subsidiary trading company had no business transactions in 2013/14. Subject to written confirmation, we agree with the Council's assertion that it did not therefore need to prepare group accounts.</p>

Financial statements audit

Issues and misstatements arising from the audit

Progress of our audit

- ▶ The following areas of our work programme remain to be completed:
 - ▶ Receipt of a Letter of Representation
 - ▶ A number of substantive tests in respect of testing for Assets held for sale, IAS 19 Pension entries, subsequent events and payroll.
 - ▶ Final audit closing and review procedures.

We will provide an update of progress at the Corporate Governance Committee meeting.

- ▶ Subject to the satisfactory resolution of the above items, based on the work completed to date, we propose to issue an unqualified audit report on the financial statements.

Uncorrected Errors

There are currently no unadjusted errors for your consideration.

Corrected Misstatements

Our audit identified one reclassification adjustment of £1.6 million between Creditors and Provisions within the Balance Sheet in respect of Business Rate appeals. The Authority has made this adjustment, which has no impact on the General Fund reserve.

Our audit identified a small number of disclosure errors which our team have highlighted to management for amendment. All of these have been adjusted during the course of our work. None of these are of significance to report to you.

Other Matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Authority's financial reporting process including the following:

- ▶ Qualitative aspects of your accounting practices; estimates and disclosures;
- ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions; and,
- ▶ Any significant difficulties encountered during the audit; and
- ▶ Other audit matters of governance interest.

We would like to work with the Authority throughout the year to develop the working papers required for audit. This will ensure superfluous working papers are avoided and there is a structured approach to providing supporting information to ensure audit requirements are met efficiently.

Financial statements audit (continued)

Internal Control, Written Representations & Whole of Government Accounts

Internal Control

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have tested the controls of the Authority only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.

We have reviewed the Annual Governance Statement and can confirm that:

- ▶ It complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
- ▶ It is consistent with other information that we are aware of from our audit of the financial statements.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Request for written representations

We have requested a management representation letter to gain management's confirmation in relation to a number of matters.

In addition to the standard representations, we have requested a specific representation in relation to:

- ▶ Confirmation that the Council's wholly owned trading company had no business transactions in 2013/14.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of my report are specified by the National Audit Office.

The Authority's WGA return falls below the threshold for a full audit. We therefore only need to undertake the limited procedures required in such circumstances.

We have no matters to report.

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that South Cambridgeshire District Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Authority's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criteria 1 - Arrangements for securing financial resilience

▶ *“Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future”*

▶ We did not identify any significant risks in relation to this criteria.

We have no issues to report in relation to this criteria

Criteria 2 - Arrangements for securing economy, efficiency and effectiveness

▶ *“Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.”*

▶ We did not identify any significant risks in relation to this criteria.

We have no issues to report in relation to this criteria

We have no other issues to report.

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated March 2014.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code of Audit Practice and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view.

If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Corporate Governance Committee on 26 September 2014..

- ▶ We confirm that we have met the reporting requirements to the Corporate Governance Committee, as 'those charged with governance' under International Standards on Auditing (UK&I) 260. Our communication plan to meet these requirements were set out in our Audit Plan of March 2014.

Audit fees

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

	Proposed final fee 2013-14	Scale fee 2013-14	Variation comments
	£s	£s	
Total audit fee - Code work	68,400	68,400	None

- ▶ Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

Appendix 1 - Corrected audit misstatements

- The following corrected misstatements, have been identified during the course of our audit and warrant communicating to you.
- These items have been corrected by management within the revised financial statements.

Balance Sheet and Statement of Comprehensive Income and Expenditure

Item of Account	Nature	Type	Balance Sheet	Statement of Comprehensive Income & Expenditure
	Description	F, P, J	Debit/(Credit)	Debit/(Credit)
1. Balance Sheet - Creditors	The Authority share of Business Rate appeals was shown as a Creditor within the Balance Sheet. Under IAS 37 (Provisions) this should be shown as a Provision.	F	£1,600,000	
2. Balance Sheet - Provisions			(£1,600,000)	
Cumulative effect of uncorrected misstatement			£0	

Key

- F – Factual misstatement
- P – Projected misstatement based on audit sample error and population extrapolation
- J – Judgemental misstatement

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

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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

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

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

