

Report to the Cambridgeshire County Council Audit and Accounts Committee concerning Assets Under Construction

Background

At the September 2015 Audit and Accounts Committee meeting for the Council we reported that our audit had identified that the assets under construction ('AUC') balance of £189.1m in the draft Council Statement of Accounts for 2014/15 was not supported by a detailed breakdown by asset and project. Following this meeting management conducted a review to understand the nature of the items included in this balance and to quantify any correcting entries required. Following this review management proposed a number of correcting entries.

We performed additional procedures over management's workings to confirm the accuracy and completeness of the proposed correcting entries and full details of these are included in note 43 to the 2014/15 Council's Statement of Accounts, and in the Annual Governance Statement.

The total impact of the correcting entries was to reduce AUC in property, plant and equipment ("PPE") by £154.3m with the corresponding entries to unusable reserves. No evidence has been identified to suggest there is any physical loss or failure to safeguard the Council's assets and the correcting entries do not affect the usable reserves figures disclosed in the prior years' financial statements. Consequently this issue has not impacted upon the level of reserves used to inform decisions on levels of Council Tax.

Our audit procedures and results

Our records date back to 2007/08 and from 2008/09 onwards, we identified PPE as a significant risk in our audit. The precise focus on this risk in any particular year was dependent on the circumstances of that year, including the results of the prior year audit and whether any significant new projects had been implemented.

We focused our work on movements in PPE by testing additions (to address the risk that items had been capitalised which should have been expensed) and disposals (to confirm that assets disposed of were correctly removed from fixed assets). We also performed additional testing to address the specific PPE risks identified in the years they arose.

Between 2007/08 and 2013/14 we identified and reported to the Audit and Accounts Committee and management a number of correcting entries required to PPE identified as a result of our audits as well as making recommendations to improve the controls and processes for recording and reporting PPE including the need to enhance the approach to accounting for fixed assets. In 2014/15 our audit identified that the AUC balance was not supported by a detailed breakdown by asset and project. As a result, management conducted a review which resulted in the correcting entries set out in note 43 to the 2014/15 Council's Statement of Accounts.

A fixed asset register providing an analysis of the AUC balance was not available prior to 2014/15, and with the focus on testing movements in PPE, build-up of the balance over a period of time did not flag as a concern in our audit, particularly given the long term nature of many construction projects.

Next steps

In the Annual Governance Statement for 2014/15, the Council notes:

“The Balance Sheet in the draft accounts for 2014-15 published on 30 June 2015 included Assets Under Construction (AUC) as at 31 March 2015 of £189.1m. Further detailed work, undertaken after the publication of the draft accounts, has identified that Assets Under Construction at 31 March 2015 totalled £34.8m. The majority of the difference related to a prior period error in recording transactions occurring between 2006-07 and 2012-13 and has therefore been accounted for as a prior period adjustment.

The nature of the error relates to the technical accounting for the classification and recognition of assets, and no evidence has been identified to suggest there is any material physical loss or failures to safeguard the Council’s assets.”

We note this and believe that the correcting entries to AUC recorded in the current year are appropriate.

We have discussed with management the controls and processes which are required to mitigate against this going forward and we have recommended that management implement a fixed asset register (which includes AUC) to ensure that any projects which need to be written off or transferred on completion have been posted on a timely basis. We have also recommended that the newly created fixed assets register is reviewed annually as part of closing of the accounts. The Audit and Accounts Committee has seen our recommendations and they have been accepted by management.

Management have already included AUC in the fixed asset register as at 31 March 2015 as part of their investigation into this matter and have also implemented a control to review all assets in the register on an annual basis.

PricewaterhouseCoopers LLP

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