CAMBRIDGESHIRE COUNTY COUNCIL

PLANNING REPORT TO THE AUDIT AND ACCOUNTS COMMITTEE

Audit for the year ended 31 March 2016

Date of issue: 6 May 2016

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INTRODUCTION

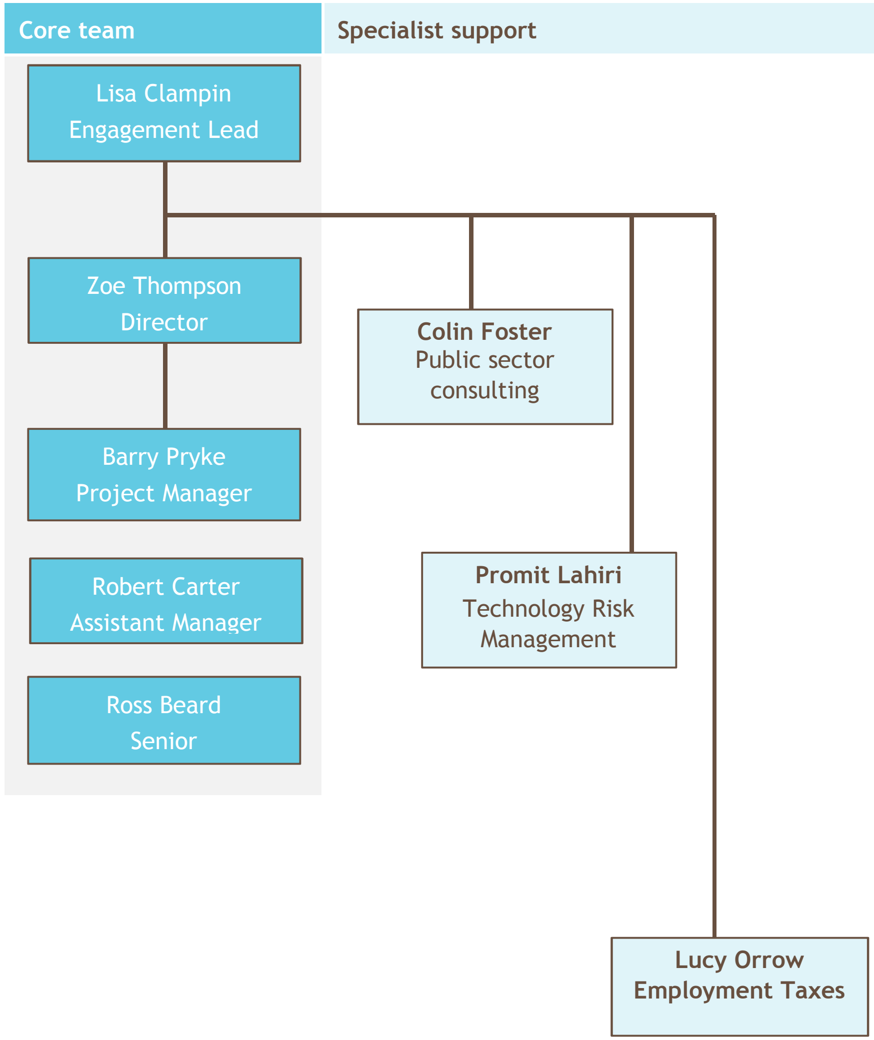
PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements and use of resources of Cambridgeshire County Council (the Council) for the year ended 31 March 2016. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

This report has been prepared solely for the use of the Audit and Accounts Committee and should not be shown to any other person without our express permission in writing.

In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person to whom it is shown or into whose hands it may come, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

YOUR BDO TEAM



Name	Contact details	Key responsibilities
Lisa Clampin **Engagement Lead**	Tel: 01473 320 716 lisa.clampin@bdo.co.uk	Oversee the audit and sign the audit report
Zoe Thompson **Director**	Tel: 01473 320734 Zoe.thompson@bdo.co.uk	Oversee the audit
Colin Foster **Associate Director**	Tel: 020 7893 2498 Colin.foster@bdo.co.uk	Management and delivery of the use of resources assessment and value for money conclusion work
Barry Pryke **Project Manager**	Tel: 01473 320 793 barry.pryke@bdo.co.uk	Management of the audit
Robert Carter **Assistant Manager**	Tel: 01473 320 736 robert.carter@bdo.co.uk	Day to day management and supervision of the audit
Ross Beard **Senior**	Tel: 01473 320 785 ross beard@bdo.co.uk	Day to day supervision of the on-site audit
Promit Lahiri **Technology Risk Manager**	Tel: 0207 893 3526 promit.lahiri@bdo.co.uk	Manage IT review for audit purposes
Lucy Orrow **Employment Tax Manager**	Tel: 01473 320 746 lucy.j.orrow@bdo.co.uk	Manage employment tax review for audit purposes

Lisa Clampin is the engagement lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements.

In meeting this responsibility, she will ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that:

- the financial statements are free from material misstatement, whether due to fraud or error
- the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

She is also responsible for the overall quality of the engagement.

OUR CLIENT SERVICE COMMITMENT TO YOU

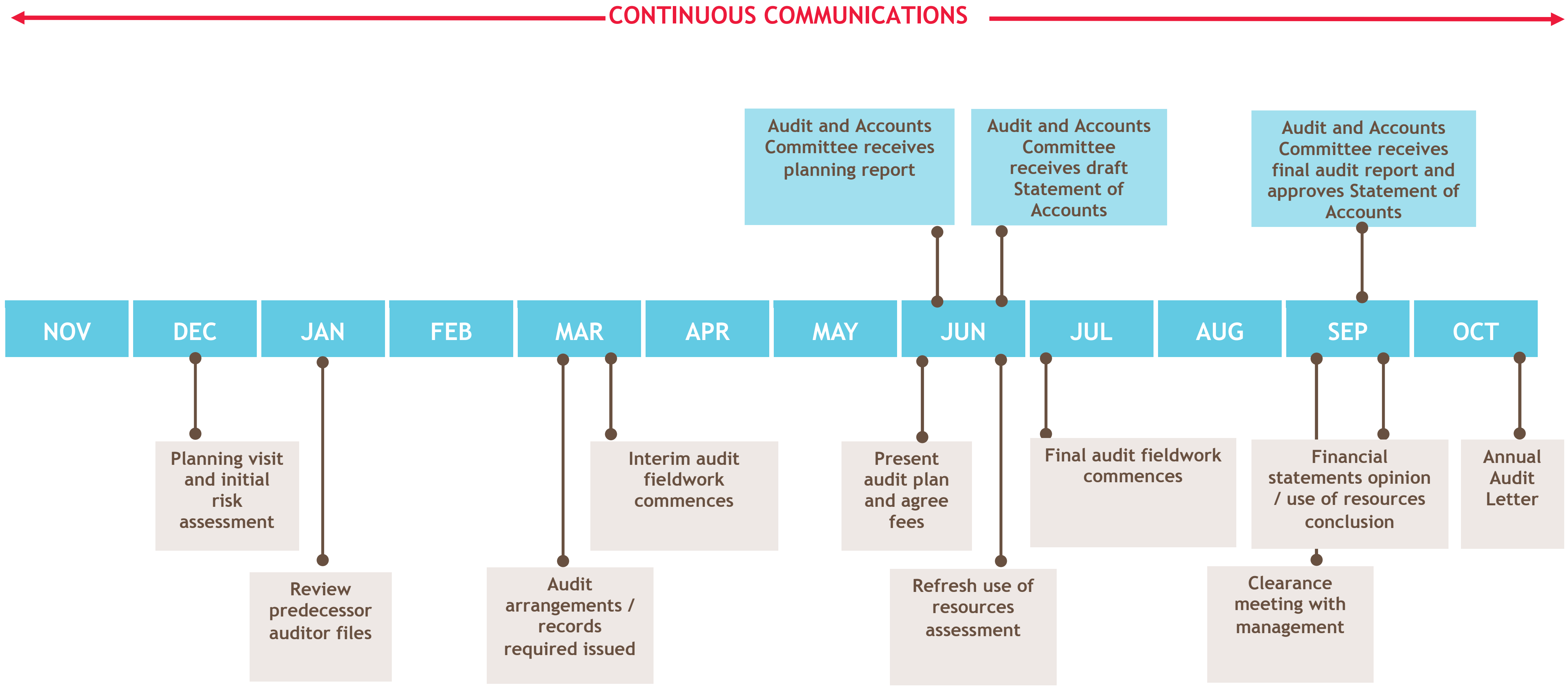
CLIENT SERVICE EXPECTATIONS

1	2	3	4	5	6	7	8
High quality audit service at a reasonable cost.	A quality team, with relevant expertise.	Clear communication.	Concentrating our work on areas of higher risk.	Avoiding surprises through timely reporting of issues.	Consulting with management to resolve matters early.	Meeting deadlines.	Identifying shortcomings in controls and processes.

ENGAGEMENT TIMETABLE

TIMETABLE

The timeline below identifies the key dates and anticipated meetings for the production and approval of the audited financial statements and completion of the use of resources audit.



AUDIT SCOPE AND OBJECTIVES

SCOPE AND OBJECTIVES

Our audit scope covers the audit in accordance with the NAO Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the NAO.

To form an opinion on whether:

FINANCIAL STATEMENTS

1 The financial statements give a true and fair view of the financial position of the authority and its expenditure and income for the period in question.

2 The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

OTHER INFORMATION

3 Other information published together with the audited financial statements is consistent with the financial statements (including the governance statement).

WGA CONSOLIDATION

4 The return required to facilitate the preparation of WGA consolidated accounts is consistent with the audited financial statements.

USE OF RESOURCES

5 The authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

ADDITIONAL POWERS AND DUTIES

6 To consider the issue of a report in the public interest.

To make a written recommendation to the authority, where necessary.

7 To allow electors to raise questions about the accounts and consider objections.

To apply to the court for a declaration that an item of account is contrary to law, where necessary.

To consider whether to issue an advisory notice or to make an application for judicial review.

MATERIALITY

AUTHORITY MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Council	12,500,000	250,000

Please see Appendix I for detailed definitions of materiality and triviality.

Planning materiality for the Council has been based on 1.5% of the gross expenditure on provision of services reported in the 2014/15 audited financial statements. This will be revisited when the 2015/16 draft financial statements are received for audit.

The clearly trivial amount is based on 2% of the materiality level.

OVERALL AUDIT STRATEGY

We will perform a risk based audit on the authority's financial statements and use of resources

This enables us to focus our work on key audit areas.

Our starting point is to document our understanding of the authority's business and the specific risks it faces. We discussed the changes to the business and management's own view of potential audit risk during our planning visit in order to gain an understanding of the authority's activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

For the financial statements audit, we also confirm our understanding of the accounting systems in order to ensure their adequacy as a basis for the preparation of the financial statements and that proper accounting records have been maintained.

For the use of resources audit, we consider the significance of business and operational risks insofar as they relate to 'proper arrangements', including risks at both sector and authority-specific level, and draw on relevant cost and performance information as appropriate.

We then carry out our audit procedures in response to risks.

Risks and planned audit responses

For the financial statements audit, under International Standard on Auditing 315 "Identifying and assessing the risks of material misstatement through understanding the entity and its environment", we are required to consider significant risks that require special audit attention.

In assessing a risk as significant, we exclude the effects of identified controls related to the risk. The ISA requires us at least to consider:

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

For the use of resources audit, the NAO has provided information on potential significant risks such as:

- Organisational change and transformation
- Significant funding gaps in financial planning
- Legislative or policy changes
- Repeated financial difficulties or persistently poor performance
- Information from other inspectorates and review agencies suggesting governance issues or poor service performance.

We consider the relevance of these risks to the authority in forming our risk assessment and audit strategy.

Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will consider these reports as part of our audit planning and consider whether to place any reliance on internal audit work as evidence of the soundness of the control environment.

KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk ■ Other issue

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Management override	The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud. Under International Standards on Auditing (UK and Ireland) 240, there is a presumed significant risk of management override of the system of internal controls.	Our audit is designed to provide reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent. We consider the manipulation of financial results through the use of journals and management estimates as a significant fraud risk. In every organisation, management may be in a position to override routine day to day financial controls. Accordingly, our audit has been designed to consider this risk and adapt procedures accordingly.	Not applicable.
Revenue recognition	Under International Standard on Auditing 240 “The Auditor’s responsibility to consider fraud in an audit of financial statements” there is a presumption that income recognition presents a fraud risk. For local authorities, the risks can be identified as affecting the completeness, accuracy and existence of income. In particular, we consider there to be a significant risk in relation to the completeness and existence of fees and charges recorded in the CIES.	We will carry out audit procedures to gain an understanding of the authority’s internal control environment for the significant income streams, including how this operates to prevent loss of income and ensure that income is recognised in the correct accounting period. We will test a sample of fees and charges to ensure income has been recorded in the correct period and that all income that should have been recorded has been recorded.	Government grant funding will be agreed to information published by the sponsoring Department.

KEY AUDIT RISKS AND OTHER MATTERS
Continued

AUDIT RISK AREAS – FINANCIAL STATEMENTS			
RISK	**DESCRIPTION**	**PLANNED AUDIT RESPONSE**	**EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE**
Opening balances - Transport infrastructure assets	The predecessor auditor identified that the Council do not maintain a sufficiently detailed asset register to support the transport infrastructure assets balance recognised in the balance sheet. These assets had a net book value of £687m as at 31 March 2015. The nature of the assets meant that the Council were unable to construct an asset register to support the existing balance. Due to this issues identified in the prior year, there is a risk that the brought forward balances associated with this category of asset are materially misstated.	We will consider the conclusions reached by the predecessor auditor to satisfy ourselves that the risk of material misstatement in the brought forward balances has been reduced to an acceptably low level. We will consider to what extent the Council's recognition and measurement of transport infrastructure assets is consistent with our understanding of the methodology employed by the wider local government sector.	Not applicable.
Assets under construction	In response to concerns raised during the audit of the 2014/15 financial statements, the Council undertook a significant amount of work to determine a materially accurate balance for assets under construction recognised in the balance sheet. Following this work, the external auditor raised a recommendation that the year-end position be reviewed on an annual basis to ensure the correct treatment of assets under construction completed during the year.	We will obtain evidence to demonstrate that the Council has implemented the recommendation made by the external auditors in the prior year. We will perform audit procedures to satisfy ourselves that the assets under construction balance is materially correct, including that assets recognised in this category exist and that the balance reflects work completed on assets as at the balance sheet date.	Not applicable.
Better Care Fund	2015/16 is the first year of operation of the Better Care Fund. This is a pooled budget arrangement between the Council and local clinical commissioning groups (CCGs). The treatment of the Better Care Fund is subject to the requirements of three accounting standards: • IFRS 10 – Consolidated Financial Statements • IFRS 11 – Joint Arrangements • IFRS 12 – Disclosure of interests in other entities	We will review management's assessment of the governance and risk sharing agreement of the Better Care Fund to determine the appropriate treatment of transactions and balances in the Council's financial statements. Our planned audit response will provide us with assurance over the accuracy of expenditure recognised in the Council's financial statements.	Not applicable.

	For the purposes of preparing local government financial statements, CIPFA has prepared guidance in the form of "Accounting for Collaboration in Local Government" which provides further guidance on the implementation of the above standards. Given the value of the scheme, the potentially complex considerations required to determine the accounting treatment and the risk of non-compliance with the relevant standards and guidance, this is considered to be a risk of material misstatement.		
Property, plant and equipment valuations	Local authorities are required to ensure that the carrying value of property, plant and equipment (PPE) is not materially different to the fair value at the balance sheet date. The Council undertake a rolling revaluation programme, ensuring that all land and buildings are revalued at least once every five years. Valuations are performed by both internal and external valuers. There is a risk over the valuation of land and buildings where valuations are based on assumptions or where updated valuations have not been provided for a class of assets at year-end.	We will review the instructions provided to the valuer and review the valuer's skills and expertise in order to determine if we can rely on the management expert. We will confirm that the basis of valuation for assets valued in year is appropriate based on their usage. We will confirm that an instant build modern equivalent asset basis has been used for assets valued at DRC. We will review valuation movements against indices of price movements for similar classes of assets and follow up valuation movements that appear unusual against indices.	We will review independent data that shows indices and price movements for classes of assets against the percentage movement applied by the Council.
Pension liability assumptions	The net pension liability comprises the Council's share of the market value of assets held in the Cambridgeshire Pension Fund and the estimated future liability to pay pensions. An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability. There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.	We will agree the disclosures to the information provided by the pension fund actuary. As the auditors of the Cambridgeshire Pension Fund, we will review the controls for providing accurate membership data to the actuary. We will review the reasonableness of the assumptions used in the calculation against other local government actuaries and other observable data.	We will agree the disclosures to the report received from the actuary. We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.

KEY AUDIT RISKS AND OTHER MATTERS
Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS			
RISK	**DESCRIPTION**	**PLANNED AUDIT RESPONSE**	**EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE**
Narrative reporting	The Council will be required to produce a 'Narrative Report' replacing the Explanatory Foreword in the financial statements. The Narrative Report includes additional information not previously included in the Explanatory Foreword.	We will compare the narrative report against the Code requirements to ensure that all elements of the narrative report are correctly included. We will review the narrative report to ensure consistency with our understanding of the entity and the financial statements.	Not applicable.
Fraud and error	We are required to discuss with you the possibility of material misstatement, due to fraud or error. We are informed by management that there have not been any cases of material fraud or error, to their knowledge.	We will continue to consider throughout the audit process and discuss with management.	Not applicable.
Transport infrastructure assets - requirements of 2016/17 Code of Practice	The Code will adopt the revised basis for valuations of highways network assets from 2016/17 (depreciated historic cost to depreciated replacement cost), and this will require implementation from 1 April 2016 but with no restatement for 2015/16. Should the Council fail to produce an accurate transport infrastructure asset register in a timely fashion, it is unlikely that they will be unable to record the necessary information to allow recognition of an accurate balance in the 2016/17 financial statements.	We will review the Council's progress on implementing systems to facilitate compliance with the new reporting requirements. This includes whether or not there is an adequate system to identify and record transport infrastructure assets at an appropriate level of detail. We will review the 'new standards adopted but not yet implemented' disclosure note to ensure that the potential impact (where quantified) on the 2016/17 financial statements on the valuation of the highways network asset is disclosed.	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS
Continued

AUDIT RISK AREAS – USE OF RESOURCES			
RISK	**DESCRIPTION**	**PLANNED AUDIT RESPONSE**	**EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE**
Sustainable finances	The Council, like other authorities, is facing a significant reduction in grants. The 2016/17 budget includes expected funding of £542m excluding grants retained by schools which equates to a 12% reduction compared to 2015/16. The Council needs to deliver £51m of savings in 2016/17 alone and £123m over the next five years. This represents a substantial challenge for the Council and will require robust project management and significant transformation of services and the Council as a whole. Inevitably, difficult decisions will need to be made in order to deliver the new priority outcomes based model. There is a significant risk that without appropriate arrangements in place, the Council will fail to deliver the required level of savings.	We will review the assumptions contained within the medium term financial plan to assess their reasonableness, review in detail some of the savings plans both delivered and proposed and conduct interviews with a number of officers to challenge the proposed plans. We will also review the process of designing and plans for implementing new operating models to achieve transformational savings. We will review the budget setting process and the in-year financial monitoring to ensure there are robust and accurate processes in place. We will review the governance arrangements and processes in place to ensure that high quality and timely information is provided to support informed decision making.	Benchmarking of assumptions

INDEPENDENCE

INDEPENDENCE

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to 'those charged with governance'. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Audit and Accounts Committee as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm's independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ended 31 March 2016. We have not identified any potential threats to our independence as auditors.

On the following page, we have recorded details of any non audit services provided. We do not consider these to present a threat to our independence.

We confirm that the firm complies with the Financial Reporting Council's Ethical Standards for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired. These policies include partner and manager rotation. The table in appendix II sets out the length of involvement of key members of the audit team and the planned year of rotation.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

FEES

FEES SUMMARY

Our proposed fees, excluding VAT, for the year ended 31 March 2016 are:

	£
Audit fee	94,061
Total audit fee:	**94,061**
Fees for non audit services – other (see below)	7,794
TOTAL FEES	101,855

NON AUDIT SERVICES FEES ANALYSIS	£
Non audit services:	
Skills Funding Agency – controls over subcontracting	3,794
Local Transport Plan Major Projects Grant	(1)4,000
Total	**7,794**

(1) This is the proposed fee based on the minimum requirements specified in assurance instruction LTPMP (14-15) issued by the Department of Transport. Should it be necessary to perform additional procedures beyond the minimum requirements, we will discuss an increase in the proposed fee with management.

We are currently consulting with management and PSAA regarding proposed additional fees to reflect the risk profile of the Council, which we consider to be higher than that assumed by the scale fee, following completion of the prior year audit and our updated risk assessment.

We note that we may be engaged by management to provide reporting accountant assurance on the teachers' pensions return. This work is outside of the framework which governs the Code audit work. Should we be appointed to undertake similar work in 2015/16, we will report the fee to the Audit and Accounts Committee once agreed with management.

Fee invoices were raised as set out below:

- instalment 1 £47,030.50 – July 2015
- instalment 2 £47,030.50 – January 2016
- The Skills Funding Agency work was completed in January 2016 and was billed following completion.

Our fee is based on the following assumptions

The complete draft financial statements and supporting work papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.

Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the final audit fieldwork.

We will receive only one draft of the Statement of Accounts prior to receiving the final versions for signing.

Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

APPENDIX I: MATERIALITY

CONCEPT AND DEFINITION

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.
- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.
- Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):
  - Narrative disclosure e.g. accounting policies, going concern
  - Instances when greater precision is required (e.g. senior management remuneration disclosures).
- International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

CALCULATION AND DETERMINATION

- We have determined materiality based on professional judgement in the context of our knowledge of the authority, including consideration of factors such as sector developments, financial stability and reporting requirements for the financial statements.
- We determine materiality in order to:
  - Assist in establishing the scope of our audit engagement and audit tests
  - Calculate sample sizes
  - Assist in evaluating the effect of known and likely misstatements on the financial statements.

APPENDIX I: MATERIALITY
Continued

REASSESSMENT OF MATERIALITY

- We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.
- Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope. If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.
- You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

UNADJUSTED ERRORS

- In accordance with auditing standards, we will communicate to the Audit and Accounts Committee all uncorrected misstatements identified during our audit, other than those which we believe are ‘clearly trivial’.
- Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.
- We will obtain written representations from the Audit and Accounts Committee confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.
- There are a number of areas where we would strongly recommend/request any misstatements identified during the audit process being adjusted. These include:
  - Clear cut errors whose correction would cause non-compliance with statutory requirements, management remuneration, other contractual obligations or governmental regulations that we consider are significant.
  - Other misstatements that we believe are material or clearly wrong.

APPENDIX II: INDEPENDENCE

INDEPENDENCE - ENGAGEMENT TEAM ROTATION		
SENIOR TEAM MEMBERS	**NUMBER OF YEARS INVOLVED**	**ROTATION TO TAKE PLACE IN YEAR ENDED**
Lisa Clampin- Engagement lead	1	31 March 2021
Barry Pryke - Project manager	1	31 March 2026

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