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Cambridgeshire County Council

Report to those charged with governance

Report to the Audit Committee of the authority on the audit for the year ended 31 March 2015 (*ISA (UK&I) 260*)

Government and
Public Sector

December 2015

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

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An audit of the Statement of Accounts is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate.

Executive summary

Background

This report tells you about the significant findings from our audit of both the County and the Pension fund.

We presented our final plan to you in March 2015; we have reviewed the plan and concluded that our risk levels remain appropriate for the audit of the County financial statements.

However, in relation to the Pension Fund accounts, we have included an additional significant risk in relation to the Valuation of the investment in the Cambridge and Counties Bank. We had previously included this valuation within our elevated risk around unquoted investments – but now believe that the bank valuation in particular represents a separate significant risk.

Audit Summary

COUNTY

We have completed the majority of our audit work and intend to issue an unqualified audit opinion on the Statement of Accounts.

The key outstanding matters, where our work has commenced but is not yet finalised, are as follows:

- Completion procedures including subsequent events review; and
- Audit of the Whole of Government Accounts submission.

PENSION FUND

We have completed our audit work and intend to issue an unqualified audit opinion on the Statement of Accounts.

There are 5 key judgments which require the Audit Committee's attention – further details are set out commencing on page 20.

The Audit Committee need to confirm the proposed treatment of unadjusted misstatements listed in Appendix 1.

We anticipate issuing an unqualified value for money opinion. Please see further details on page 25 of this report.

We would like to thank the staff and management at the Council and the Pension fund for their assistance in completing this audit.

The final version of this report will be sent to the PSAA.

We presented to you and discussed our draft report on Tuesday 22 September 2015. Clive Everest and Claire Peacock attended the meeting from PwC. This report has been updated based on our audit work since that date.

Audit approach

Our audit approach was set in our audit plan which we presented to you in March 2015.

We have summarised below the significant and elevated risks we identified in our audit plan for each of the County and pension fund audits, the audit approach we took to address each risk and the outcome of our work.

We bring to the Audit Committee's attention that we have added an additional significant risk in relation to the Pension Fund accounts. This is to include the Valuation of the investment in the Cambridge and Counties Bank as a separate significant risk. We had previously included this valuation within our elevated risk around unquoted investments – but now believe that the bank valuation in particular represents a significant risk on its own.

We have also undertaken a significant amount of additional audit work in respect of the Assets Under Construction (AUC) balance, which has been materially amended since the draft accounts. This work has been conducted as part of our existing significant risk on PPE valuation, but the focus and extent of this work has changed and increased substantially as a result of identifying the material accounting error.

County Council Risk	Risk Level	Audit approach	Results of work performed
<p>Management override of controls</p> <p>ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In every organisation management may be in a position to override the routine day to day financial controls. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.</p>	<p>Significant</p> <p>•</p>	<p>As part of our assessment of your control environment we considered areas where management could use discretion outside of the financial controls in place to materially misstate the financial statements or to steal material assets.</p> <p>We performed the following procedures:</p> <ul style="list-style-type: none"> • Understood and evaluated your relevant controls over misreporting; • Reviewed the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; • Tested the appropriateness of journal entries and other year-end adjustments, targeting higher risk items such as those that affected the reported deficit/surplus; • Reviewed accounting estimates for bias and evaluated whether judgments and estimates used were reasonable; • Evaluated the business rationale underlying significant transactions outside the normal course of business; • Performed unpredictable procedures targeted on fraud risks. This included looking at a random selection of journals, and assessing lines within the accounts below our materiality threshold; • Assessed completeness of related parties and related party transactions disclosed in the accounts. • Understood and evaluated controls over material fraud through theft, principally through understanding and evaluating the key controls over cash payments and contract awards; and • Independently confirmed all bank and loan balances at the year end and perform testing of key reconciliations, including bank reconciliations. 	<ul style="list-style-type: none"> • No matters came to our attention which we wish to report to you in relation to our review of the accounting policies and estimation bases; • Journals were tested on a targeted risk based approach and no issues were noted; • Review of accounting estimates did not identify any circumstances producing bias; • We confirmed all bank accounts with third parties; and • Evaluation of significant or unusual transactions did not highlight any with inappropriate business rationale.

County Council Risk	Risk Level	Audit approach	Results of work performed
<p>Risk of fraud in revenue and expenditure recognition</p> <p>Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition.</p> <p>We extend this presumption to fraud in the recognition of expenditure in local government.</p>	<p>Significant</p> <p>•</p>	<p>We obtained an understanding of relevant revenue and expenditure controls and evaluated these.</p> <p>We evaluated and tested the accounting policies for income and expenditure recognition to ensure that they were consistent with the requirements of the Code of Practice on Local Authority Accounting and with prior years.</p> <p>We considered the separate income and expenditure streams and assessed the risk of fraud in each of these, and then designed and performed detailed testing of revenue and expenditure transactions, focussing on the areas we considered to be of greatest risk.</p> <p>Our work over journal entries described above also had a specific focus around income and expenditure.</p>	<ul style="list-style-type: none"> • We have obtained an understanding of relevant revenue and expenditure controls. • We have evaluated and tested the accounting policy for income and expenditure recognition to ensure that it is consistent with the requirements of the Code of Practice on Local Authority Accounting. • We have performed detailed testing of revenue and expenditure transactions, focussing on the areas we considered to be of greatest risk. • We found no significant matters to report to you in this context.

County Council Risk	Risk Level	Audit approach	Results of work performed
<p>Fixed Asset Accounting</p> <p>The scale and complexity of the Council's estate presents a number of accounting challenges.</p> <p>In particular, the value of Fixed Assets relative to materiality and the judgements applied in revaluing assets each year.</p> <p>In our previous audits, a number of areas for improvement were identified around the accuracy and valuation of Fixed Assets, including:</p> <ul style="list-style-type: none"> • Timely preparation of and processing of impairment adjustments; • Reconciling the fixed asset register to underlying records; • Clearance of historical capital adjustment balances; and • Tracking changes in the status of schools and updating the accounting records accordingly. 	<p>Significant</p> <p>•</p>	<p>We performed procedures to;</p> <ul style="list-style-type: none"> • review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; • review accounting estimates for bias and evaluate whether circumstances producing any bias represent a risk of material misstatement due to fraud; • evaluate the business rationale underlying significant transactions; • Review the work done by, and findings of, the internal and external valuers. This included engaging with our own PwC internal real estate team to get their expert view on the indexation rates used as well as the valuations performed by the Council's internal and external valuers; • Review accounting treatment of any impairments – there were noted to be only immaterial impairments in the year; • Considered the Council's assessment of any material movement in value of assets not valued by the external valuer in 14/15; and • Performed work to seek to identify any unrecorded impairments on assets which have not been revalued in the year – such as AUC and Infrastructure. See accounting issues raised on page 14. 	<ul style="list-style-type: none"> • We have assessed the revaluations performed by the internal and external valuation experts, utilising our own real estate experts. • We have tested the data used by the valuers to ensure this was adequate to support the accuracy of the valuations used. • We have considered management's assessment of the need for impairments on each asset category, and challenged for evidence where we identified that any judgement has been used. • Our PwC real estate experts assessed the Council's indexation figures and a sample of valuations for reasonableness. We did not note any issues from their review. • We showed scepticism and challenged carrying value of Infrastructure and Assets Under Construction (AUC). As a result of this we identified a material prior period error in the carrying value of AUC. Please refer to page 14 of this report where this is explained in detail. Working with the Council, we have conducted significant extra work over this balance and the resulting correcting journals, and the related disclosures.

County Council Risk	Risk Level	Audit approach	Results of work performed
<p>Change in accounting policy – Schools</p> <p>CIPFA's Local Authority Accounting Panel has issued a bulletin ("LAAP 101") that provides new guidance on the accounting treatment of non-current assets used by schools.</p> <p>LAAP 101 notes that 'it is generally the case that for religious schools, non-current assets (such as the school buildings) are not owned by the school but by another legal body'.</p> <p>The Council therefore needs to carry out an exercise to ensure that it applies the guidance in LAAP 101 to its schools.</p> <p>In line with LAAP Bulletin 101, the Council is required to adopt a change in accounting policy in respect of schools accounting – this will also potentially result in a number of prior period adjustments, since this is something which will affect both current and prior years on both the balance sheet and income and expenditure statement.</p>	<p>Elevated</p> <p>●</p>	<ul style="list-style-type: none"> We audited the Authority's approach to addressing the guidance in the LAAP bulletin. We checked the Authority had obtained sufficient evidence to enable it to form a conclusion as to whether the non-current assets of individual schools should be included within its balance sheet. We audited resulting adjustments and consider any implications for restating prior year comparatives. We will review the changes to accounting policy as detailed within the LAAP Bulletin, and assess the Council's interpretation of the required changes. We reviewed management's adjustments and working papers behind the adjustments to prior year figures, as well as looking at the entries relating to the current year to adjust for the policy changes. We performed a consistency check to ensure that the changes made are in line with our expectations. 	<ul style="list-style-type: none"> We have reviewed the treatment of schools moving both in and out of the Council's control and deemed the related adjustments to be appropriate, including the treatment and disclosure of the Prior Period Adjustment.

Although not a significant risk for the audit opinion on the accounts as defined by auditing standards, we also consider the risk related to the work to be performed on the value for money conclusion to be significant, given the financial position of the Council.

<p>Value for Money</p> <p>In meeting our statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's Code of Audit Practice (the Code) requires auditors to:</p> <ul style="list-style-type: none"> • plan their work based on consideration of the significant risks of giving a wrong conclusion; and • carry out only as much work as is appropriate to enable them to give a safe VFM conclusion. 	<p>Significant</p> <p>●</p> <p>This risk was included to highlight that we judge that there is a significant risk in relation to our value for money responsibility.</p> <ul style="list-style-type: none"> • We are required to consider value for money to be a significant risk if the Authority's medium term plan (MTP) includes material unidentified savings. • We met with the key directors to discuss their views on the Council's savings plans. • We have considered the success of the Council in achieving past savings plans and targets. • We have assessed the efficiency of the Council compared to other County Councils in England, using benchmark data. • We inspected the Authority's MTFS as updated for the current year, noting a material cumulative savings gap of £410m over the next 5 years. • We have benchmarked certain of the key assumptions in the MTFS, and looked at the Council's assessment of how the savings gap will be addressed. We have analysed the state of development of key future savings plans, and looked at how achievable they seem given past successes and targeted savings levels. <ul style="list-style-type: none"> • We have met with the Council's senior management to discuss savings plans and business processes; • We have obtained evidence to support the assertions made by senior management, where necessary. • We have assessed the historic success of the Councils savings plans which have been implemented in prior years • We have assessed the business case behind a sample of savings plans included within the MTFS. • For detail on the work done and our findings, please see separate section on Economy Efficiency and Effectiveness on page 25
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Pension Fund Risk	Risk Level	Audit approach	Results of work performed
<p>Management override of controls</p> <p>ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In every organisation, management may be in a position to override the routine day to day financial controls. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.</p>	<p>Significant</p> <p>•</p>	<p>We performed procedures to:</p> <ul style="list-style-type: none"> • Understand and evaluate relevant controls relating to fraud and misreporting; • Review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; • Test the appropriateness of journal entries; • Review accounting estimates for bias and evaluate whether circumstances producing any bias, represent a risk of material misstatement due to fraud; • Evaluate the business rationale underlying significant transactions; • Identify unusual activity, including 'unpredictable' procedures; • Assess completeness of related parties and related party transactions disclosed in the accounts; and • Independently confirm all investment balances held by third parties at the year end to confirm the assets' existence. 	<ul style="list-style-type: none"> • No matters came to our attention which we wish to report to you in relation to our review of the accounting policies and estimation bases; • Journals were tested using a targeted risk based approach and no issues were noted; • Review of accounting estimates did not identify any circumstances producing bias; • We have also confirmed all bank accounts with third parties; and • Evaluation of significant or unusual transactions did not highlight any with inappropriate business rationale

Pension Fund Risk	Risk Level	Audit approach	Results of work performed
<p>Risk of Fraud in Revenue Recognition (contribution and investment income)</p> <p>Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition.</p>	<p>Significant</p> <p>•</p>	<p>For the Pension Fund, we considered that risk of fraud in recognition in contributions and investment income was an area of significant risk. We did not consider transfers in from other pension funds to be a significant risk.</p> <p>We performed;</p> <ul style="list-style-type: none"> • Work to understand and evaluate relevant controls relating to revenue recognition for contributions and investment income; • Testing of the controls in place to reconcile the Shareholder system with investment manager and custodian reports; • An evaluation of accounting policies for income recognition to ensure that this is consistent with CIPFA/LASAAC Code of Practice on Local Authority Accounting; • Tests of detail over contributions and investment income relating to the accuracy and existence of this income; • Obtain an understanding and evaluate the controls relevant • Testing of journals affecting income on a risk basis; and • Testing of a sample of investment income amounts through to investment manager reports. 	<ul style="list-style-type: none"> • We have understood and evaluated relevant controls in place around areas of income recognition assessed as higher risk. • We have evaluated accounting policies on revenue recognition and deemed them to be appropriate. • We have tested the reconciliation of investment manager returns to the custodian return. • We have tested contributions and investment income. • We did not note any issues from our testing performed relating to revenue recognition.

Pension Fund Risk	Risk Level	Audit approach	Results of work performed
<p>Valuation of complex unquoted investments</p> <p>We have included an elevated risk in relation to the valuation of complex unquoted investments.</p> <p>This is an area of management judgement informed by the custodian and fund managers.</p> <p>£328m (representing approximately 15%) of the pension fund is invested in unquoted investments at year end.</p> <p>Our audit approach seeks to ensure that the estimated value used by management is fairly stated to a material level.</p>	<p>Elevated</p> <p>●</p>	<ul style="list-style-type: none"> We considered the valuation of unquoted investments in conjunction with the prevailing accounting standards. We deem this to be an elevated risk rather than significant risk since the Fund holds assets across different fund managers who each provide them with valuation information, therefore the valuation risk is spread. We sought assurance that these valuations had not been subject to impairment at the date of the net assets statement. We also tested on a sample basis the valuation of complex private equity funds and other alternative investments held to assess the appropriateness of the valuation methods. 	<ul style="list-style-type: none"> We have tested a sample of investments which we deemed to be more complex to value in nature. We have sample tested the accounting entries relating to the revaluation of complex unquoted investments We did not note any issues from our testing performed relating to unquoted investments – excluding Cambridge and Counties Bank investment, which is included as a separate risk below. We note that the Council used some December 2014 values to estimate the year end value of some unquoted investments as these were the latest available figures. We have raised an adjustment (see Appendix 1 for details) as the March 15 data became available to value the unquoted investments more accurately.

Pension Fund Risk	Risk Level	Audit approach	Results of work performed
<p>Valuation of the investment in Cambridge and Counties Bank</p> <p>As above, this is now considered a separate risk as the year end value of the Funds share of the investment is individually material and management's valuations obtained from an expert showed judgements would be required by the Pension Fund that could result in materially different estimates of the bank's value.</p> <p>As part of the investment strategy, in November 2011 it was agreed that the Fund, in conjunction with Trinity College, would purchase a 50% equity stake each in a bank ('Cambridge and Counties Bank').</p> <p>This bank was formed in June 2012. This will be the third year that the bank has appeared in the Fund's accounting statements and we will be seeking assurance that the value of the bank is not materially misstated and is in line with prevailing accounting standards.</p>	<p>Significant</p> <p>●</p>	<ul style="list-style-type: none"> We reviewed the valuation performed by the external experts for reasonableness. We engaged our internal PwC experts to assist in performing an assessment of the valuation of the bank. We sought evidence for assumptions made by the Pension Fund in valuing the bank, applying professional scepticism and challenging/ seeking evidence for the key assumptions made by the Council's expert valuer. See pages 17 and 18 for further details on these. 	<ul style="list-style-type: none"> We have obtained the external valuation that Hymans were engaged to perform. We note that this valuation was performed on the Bank as a whole, rather than the Pension Fund's share of the Bank. This differs as, although the two parties hold equal equity shares, the Pension fund also owns preference shares We have engaged internal experts in PwC to assist in the assessment of the valuation of the bank, which has included a review of the methodology and assumptions used by Hymans and the Pension Fund. We have concluded that the valuation in the Pension Fund is not materially misstated, but raised a number of issues over the process undertaken and the evidence to support the valuation used. See pages 17 and 18 for further detail on this.

Intelligent scoping

In our audit plan presented to you in March 2015 we reported our planned overall materiality which we used in planning the overall audit strategy.

Our materiality level included within our audit plan varied from the amounts shown below because we used recalculated using actual current year figures from the 2014/15 draft accounts. This update decreased our County overall materiality level by £2.6m and increased our Pension overall materiality level by £2.3m.

Our revised materiality levels are as follows:

	COUNTY £	PENSION FUND £
Overall materiality	16,400,000	22,800,000
Clearly trivial reporting de minimis	500,000	500,000

Overall materiality has been set at 2% of actual expenditure for the year ended 31 March 2015 for the County.

Overall materiality for the pension fund audit has been set at 1% of net assets for the year ended 31 March 2015.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are “clearly trivial” i.e. those which we do expect not to have a material effect on the financial statements even if accumulated. We agreed the de minimis threshold with the Audit Committee at its meeting in March 2015.

This level could have been higher based on our methodology, however this has been capped by the audit committee.

Significant audit and accounting matters

Auditing Standards require us to tell you about relevant matters relating to the audit of the Statement of Accounts sufficiently promptly to enable you to take appropriate action.

Accounts

COUNTY

We have completed the majority of our audit work and intend to issue an unqualified audit opinion on the Statement of Accounts.

The key outstanding matters, where our work has commenced but is not yet finalised, are as follows:

- Completion procedures including subsequent events review; and
- Audit of the Whole of Government Accounts submission.

As part of our work on the Statement of Accounts we will also examine the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government and anticipate issuing an opinion stating in our view they are consistent with the Statement of Accounts.

PENSION FUND

We have completed our audit work and intend to issue an unqualified audit opinion on the Statement of Accounts.

Accounting issues - County

Prior Period Adjustments

We noted a number of proposed and actual prior period adjustments during our audit work, some of which were proposed by management. These are detailed as 1-4 below.

1. The most significant of these was in relation to a prior period error within Assets Under Construction (AUC). This resulted in a net reduction in the AUC balance of £154m. Please see details as a separate accounting issue on page 14.

2. As part of the changes to the CIPFA Code of Practice, the Council was required to make prior period adjustments to correctly recognise its PPE balance – specifically relating to schools as detailed below.

3. The Council also initially included two other prior period adjustments. One related to the disclosure of Public Health income and expenditure. We agreed that this change should be accepted to ensure consistency year on year, but our view was that this represented a reclassification of balances, rather than a prior period restatement. The bottom line figure did not change as a result of this. This was therefore amended in the final accounts.

4. The other adjustment related to the correction of a prior period fund balance. The effects of this were immaterial, so we asked the Council to reverse this prior period adjustment. The year end position remains correct. This was therefore amended in the final accounts.

Valuation and Existence of PPE

The Council does not maintain a fixed asset register for Infrastructure assets or Assets Under Construction. We have previously reported this as a control weakness to the Council in our reports in prior years.

The combined net book value of all such assets held on the Council's draft balance sheet in respect of these balances was £887m (AUC: £189m, Infrastructure: £698m).

As a fixed asset register does not exist, we were required to perform additional procedures on our audit as detailed below.

Assets Under Construction (AUC):

AUC typically represents projects underway to build infrastructure assets and on buildings. Upon completion of any project, we would expect transfers from Assets Under Construction to these categories of PPE, or for costs to be written off if the assets concerned are not held within the Council's PPE (such as REFCUS spend).

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. As there was no supporting asset register we challenged management to produce an analysis supporting this value.

The resulting review by the Council identified that the AUC balance as at the year end was materially lower than that presented in the draft accounts, and consequently management undertook a comprehensive exercise to understand the various elements in the £189.1m. This involved analysing movements by AUC project going back to 2006/07 – a significant and time-consuming process to prepare and audit that resulted in the late finalisation of the accounts.

Following this review by management the AUC balance at 31 March 2015 was demonstrated to total £36.3m. 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 account for as a prior period adjustment.

The Council has adjusted for this error – which is set out in detail in a newly-created Note 43 to the accounts.

The £154m has been adjusted to four different areas as set out in Note 43 of the final accounts. Simplistically however, this can be represented as follows –

Adjustment	£'m
Land and buildings	4
Infrastructure assets	(11)
Revaluation reserve (Unusable Reserves)	34
Capital Adjustment account (Unusable Reserves)	127

An analysis of the net error within AUC by accounting periods is provided in the following table:

	2014/15 Amount	2013/14 Amount	Pre 2013/14 Amount	Total £'000
	£'000	£'000	£'000	
Error value within AUC	2,239	(1,681)	(154,890)	(154,332)

As the amounts relating to 2014/15 and 2013/14 are immaterial, the Council have included these within the Prior Period Adjustment for AUC recorded within the financial statements, rather than adjusting the figures for each of those years. We have therefore included this within our Summary of Uncorrected Misstatements in Appendix 1.

There are then other consequential adjustments for accumulated depreciation. The total impact on Property, Plant and Equipment (PPE) for the adjustment is therefore to reduce the value of the Council's PPE and Unusable reserves at 1 April 2013 as follows:

The adjustments above do not affect the Usable Reserves figure disclosed in the prior years' financial statements.

	Cost or Valuation £000	Accumulated depreciation £000	Net impact £000
Increase /(Reduction) in AUC	(154,332)		(154,332)
Increase /(Reduction) in Land & Buildings	4,280	(725)	3,556
Increase /(Reduction) in Infrastructure	(10,669)		(10,669)
TOTAL INCREASE/ (REDUCTION)	(160,631)	(725)	(161,445)

We have performed audit procedures as follows over each adjustment category, and the £35m remaining in AUC, to ensure that the accounts are not materially misstated.

- 1 Obtaining detailed listings for a sample of 64 projects and agreeing this to the AUC Analysis working paper;
- 2 Selecting a single cost line from each project breakdown, in order to obtain evidence for the value included in that project;
- 3 Ensuring that the project has been allocated to the correct adjustment category in the table above; and
- 4 Ensuring that the proposed double entry for each adjustment category is correct.

We have now completed our work over this error, and believe that the accounts accurately reflect the AUC position as at year end.

We have raised a significant control deficiency in respect of this matter on page 32.

Infrastructure:

Infrastructure assets include items such as bridges, pavements, streetlights and signs.

The current accounting policy for this asset category is to capitalise infrastructure assets at cost.

Depreciation is charged annually, but is not allocated to specific assets. 1/40th of the closing book value at year end is taken as the depreciation for the year. This represents the Council's best estimate of the average life of such assets, but we note this is not based on actual experience or set separately for each category of assets (unlike other PPE assets where componentisation is applied). This depreciation rate therefore represents an estimate for the Council in its accounts.

The Council does not maintain a fixed asset register for their Infrastructure assets balance, which means that it is not possible to agree the book value back to individual assets acquired. Assets within this category have been capitalised over many years, indeed decades, with relatively few large recent additions such as the PFI street lighting and busway. The Council has also been unable to identify alternative records to support the majority of this balance.

This means that the Council has a significant weakness in its controls around this category of PPE, as costs and values cannot be linked to the remaining underlying assets.

We have therefore faced practical issues in obtaining adequate audit evidence to support the ongoing existence of the majority of this balance in the accounts. We therefore considered the need for us to qualify the accounts on the grounds that this balance could not readily be supported. To ensure we considered the Council's position in line with all other councils, we consulted internally with our technical

panel on this issue. We concluded that we did not need to qualify, due to the nature of the assets, the alternative evidence we could obtain from past audit work, and indirect evidence such as from Council minutes.

This was however subject to some amendments to clarify the Council's accounting policies in this area to make the position clearer to readers of the accounts, which have been adjusted in the final accounts. We have however flagged this as an area of significant control weakness, not least as weaknesses in asset existence controls can increase fraud risk.

We note that the accounting treatment for this asset category is changing as at the start of 2016/17, and the Council should seek to improve these controls as part of the implementation of that change.

Schools Accounting

As part of a LAAP Bulletin update affecting all Councils holding schools assets on their balance sheet, the Council were required to remove the PPE for the majority of voluntary controlled schools valued at £79m from the balance sheet, and bring on the PPE of foundation schools, valued at £75m. This gave a net effect of £4m.

We identified as part of our audit plan that the changes around schools accounting would have a material effect on the financial statements this year.

We have performed work over the PPE adjustments made by the Council to remove the appropriate voluntary controlled schools from the balance sheet and to bring the appropriate foundation schools back onto the balance sheet.

Our testing did not reveal any errors in the calculation.

We also assessed the completeness and accuracy of the balances which were adjusted in the prior year comparatives,

as required by Auditing Standards. Again, no issues were noted from this work performed.

Cash

The Council's cash balance is made up of hundreds of different bank accounts held with several different banks. Many of these bank accounts are used by separate entities which are consolidated into the Councils accounts (for example schools' bank accounts).

The Council does not oversee the controls around monthly bank reconciliations, or the relationships with the banks.

We have therefore encountered issues in auditing the cash balances as,

- reconciliations have not always been performed;
- confirmations have not all been received for accounts the Council believes exist; and
- confirmations have been received for bank accounts that the Council is unaware of.

With the assistance of management, we have been able to reconcile the accounts for which we did not receive a confirmation to the accounts which were included on the GL without a confirmation.

We believe that the lack of internal controls around cash indicate an internal control deficiency, which has been explained further on page 35.

Reconciliation of Payroll records to the General Ledger

As part of our testing of the payroll expenses included in the Council's Comprehensive Income and Expenditure Statement (CIES), we are required to audit a reconciliation between the Council's general ledger and the amounts paid through on a monthly basis to Council staff.

We recommended in the prior year that the Council should ensure that these reconciliations are happening on a monthly basis. Whilst a reconciliation is now performed by the Council's Payroll department, this does not include all payroll costs recorded by the Council on its general ledger.

At our request the Councils' Corporate Finance department has now been able to provide us with a reconciliation of all payroll costs on the general ledger to all amounts paid through the monthly payroll runs.

Related Parties

Please refer to the specific section on related parties included below on page 22.

Provision for Doubtful Debts

The Council currently applies a standard percentage to each age category of outstanding debt with the exception of the Adults' team who assess each outstanding debt on its merits.

This former approach is not compliant with International Financial Reporting Standards (IFRS) but we are satisfied that the effect of this on the financial statements as a whole would not be material.

A more evidence based approach has been applied to calculating the Bad Debt Provision for sundry debtors since the prior year, and this is now calculated on the basis of age, category of debtor and an assessment of the potential recoverability of invoices. Your provision for the impairment of receivables was £0.6 million in 2014/15 (2013/14 £1.4 million). There is an inherent level of judgement involved in calculating these provisions and you rely on the knowledge of the Departments for information on specific transactions.

We have audited the provision which the Council has put in place and deem the amount to be prudent and materially correct – despite the methodology being non-compliant with the Code. A provision is put in place to account for the possibility that the Council will not receive the cash for any

debtors outstanding at year end. Given that bad debt write offs are around £300k per year, and that the Council has reduced the amount of debtors it is holding which are over 1 year old from 13% (£3.2m) to 5% (£1.5m), we do not deem the Council to have under or over-estimated their provision materially.

Segregation of Duties in the accounts payable system

As we have reported to you in previous years, the Council's Accounts Payable module of the general ledger system does not have system enforced segregation of duties.

This control deficiency exposes the Council to a significant fraud risk.

The Council should seek to minimise the number of people who have conflicting responsibilities within its accounts payable and payroll teams or should implement detective controls to identify any conflicting actions undertaken during the year.

Examples of such conflicting responsibilities include the creation of a new supplier and processing of payments to that supplier.

As a result of this audit risk we asked our specialist data team to extract information showing all of the instances in the year where the same individual had changed and approved an alteration to a supplier's details. We noted 24 instances where the same user altered and approved supplier details. Only two users were noted as being involved with this, and the combined value of invoices affected was £276k which is immaterial for our audit.

Accounting issues – Pension Fund

Valuation of Cambridge and Counties bank

In previous years, the Fund has not obtained an external professional valuation of the investment in Cambridge and Counties Bank, but carried this investment at cost, as it was

in the early years of trading. This year a valuation was commissioned by the pension Fund from Hymans Robertson, as an external expert.

On our review of the valuation we noted the following:

- The valuation was performed to obtain a value of the investment as at 31 December 2014. This is not the year end date for the Fund's accounts, however we are not aware of any significant changes since then that would affect the valuation. This also correlates with the bank's year end and hence the period for which the Fund has audited financial data on performance and profit.
- The valuation was performed on the value of the bank as a whole, rather than the Pension Fund's proportion. Management have then applied an estimate of 50% of the total value to calculate the Fund's element of this total value. This does not take account of the different shareholdings (equity and preference shares) of the Fund and Trinity College, and therefore misstates the Council's share of the total value. We have estimated the value if this misstatement below and recorded this on our SUM in Appendix 1.
- The valuation report suggested various calculation methods, of which the "PBT multiple" was chosen by the Fund on which to base its accounting value. We accept that the PBT multiple is one of the generally acceptable methods for setting valuation in valuing such organisations.
- The methods presented in the report showed a wide range of values, which at the extremes could materially affect the Fund's assets values in the accounts:

Method	Minimum Value £m	Central Value £m	Maximum Value £m
Investment value	n/a	41.33	n/a
Discounted Cash Flow	10.638	11.192	12.111
Revenue multiple	30.93	44.843	57.754
PBT multiple	34.578	65.199	101.76
Valuation by comparison	0	26.489	68.898
Comparison with recent floatations	37.13	79.897	113.592

- Using a PBT multiple of 9, the valuation report gave a range of values for the whole bank of £34.578m - £101.760m. This range arises from using PBT figures for various time periods – from 2014 actuals to forecast projections PBT up to 2017, discounted to present values. The largest value is based on projected 2017 PBT. We note that the valuations for projected PBT for future years have not used lower PBT multiples to reflect risks inherent in projected results, and hence we would have expected the higher values in this range to have been reduced by the Fund's expert.
- The Fund have taken the lower end of this range to calculate the value in the accounts, being: £34.578m (And then taken 50% of this as their share = £17.289m). The Fund have chosen this end of the range as they believe this to be prudent. Whilst we do not believe prudence is an appropriate reason to select a valuation, as this should be your best estimate of the value, for the reasons set out above we have challenged the appropriateness of the values based on future years' PBT forecasts as these are not risk-adjusted. For this reason we are not inclined to disagree with management's assumption, but the Audit Committee note that this is a significant judgement in the preparation of the Fund's accounts.

We have engaged our internal experts to review the valuation and we have noted the following:

- The valuation methods suggested by Hymans did not include the 'Price to Book' valuation method as an option. We noted in our prior year reporting that this was a common approach. As this was not provided to

the Council we have recalculated using this method, and note that this appears not to be materiality inconsistent with the PBT outcome for the Fund this year. This could give a different result in future years however. Using a P/B multiple of 2, based on comparison work performed on other start up banks, this would give an approximate value of £54.2m [(net assets at 31 Dec 14) * 2 = £54.2m]. The total difference in valuation is therefore £19.6m, of which the Council's share would be below our materiality level. This is however again a key decision in estimation that should be noted by the Audit Committee.

	31/12/2014 P/B multiple using PBT	15/06/2015 P/B multiple using PBT
Shawbrook Bank	-	3.2
One Savings Bank	2.4	3
Aldermole Group	-	2.6
Average	2.4	2.9
Low	2.4	2.6

The above table shows the implied multiples from a small sample of banks. We have deemed an acceptable multiple for the Fund's Bank to be lower than this due to the relative size, diversity, growth prospects, profitability of Cambridge and Counties Bank.

- In order to calculate the £34.578m, the multiple has been applied to the '2014 actual PBT of £3.842m'. We however note that this inconsistent with the PBT reported in the Bank's audited financial statements of £4.092m. If a PBT of £4.092m was taken, and the multiple of 9 applied, then the overall estimate would be £4.092m x 9 = £36.828m. Therefore there is an overall difference of £2.250m in the mathematical calculation. We have been unable to obtain an explanation for this, and hence an adjustment has been proposed to reflect this as part of the adjustment below and in the SUM.

- In order to calculate the PBT value, a multiple of 9 was used. This is a critical figure for the valuation and variances in this could result in a material movement in the estimate. The Hymans report did not provide any evidence to support this figure and therefore we requested that the County approach them to seek this information. As no evidence was provided we have performed our own analysis based on benchmarking to other banks. Through this work, we have noted that a multiple of up to 12 of Profit After Tax (PAT) would appear reasonable to be used. Using this would give a value of £3.216m x 12 = £38,592m.

	31/12/2014 P/E multiple using PAT	15/06/2015 P/E multiple using PAT
Shawbrook Bank	-	21.8
One Savings Bank	14.6	15.3
Aldermole Group	-	20.9
Average	14.6	19.3
Low	14.6	15.3

The above table shows the implied multiples from a small sample of banks. We have deemed an acceptable multiple in this case to be lower than this, due to the size, diversity, growth prospects, profitability of Cambridge and Counties Bank.

- Management have taken a 50% allocation of the valuation to calculate the balance in the accounts, based on the split of ownership of the ordinary shares. We however noted that this doesn't take into account the preference shares that are solely owned by the Fund. As such, a higher proportion of the overall value should have been included within the Fund's accounts. We have therefore proposed an adjustment to take into account the preference share nominal value and unpaid dividend for these, being an estimated increase in the value of circa. £5m. See Appendix 1.

	Total Value of Bank	Funds Proportion
Fund Estimate	£34,578k, per Hymans Robertson report	£17,289k, being 50% of total value
PwC Revaluation	£36,828k, being a multiple of 9 applied to the PBT per Dec 14 accounts	£22,694k, being: £36,828k - £8,560k (less preference shares and unpaid dividend at 31 Dec 14) = £28,268k £28,268k x 50% (equity share split) = £14,136k £14,136k + £8,560k = £22,694k
Difference	£2,250k	£5,405k, being the proposed adjustment

It is also worth noting that the experts were not available for further questioning of above, as the department ceased to exist in Hymans at the end of June and we were only notified, directly by them, the week before.

Misstatements and significant audit adjustments

We have to tell you about all uncorrected misstatements we found during the audit, other than those which are trivial. See Appendix 1.

We also bring to your attention the misstatements set out in Appendix 1 to this report which have been corrected by management but which we consider you should be aware of in fulfilling your governance responsibilities.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the Statement of Accounts. We will ask management to represent to us that the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Statement of Accounts have been considered. We have deemed the policies which we have reviewed to be reasonable and in line with the Local Government Code of Practice.

Judgments and accounting estimates

The Authority is required to prepare its financial statements in accordance with the CIPFA Code. Nevertheless, there are still many areas where management need to apply judgement to the recognition and measurement of items in the financial statements. The following significant judgements and accounting estimates were used in the preparation of the financial statements for the County:

Pension Liability: A significant estimate in the Statement of Accounts of the Council is in the valuation of net pension liabilities for employees in the pension fund. Your net pension liability at 31 March 2015 was £559 million (2013/14 - £438 million).

We utilised the work of actuarial experts to assess the assumptions applied by the Council and we are comfortable that the assumptions are within an acceptable range.

We validated the data supplied to the actuary on which they base their calculations.

We have sought to confirm the assets held by the pension fund with the custodian as part of that audit. We are able to rely on the assumptions applied by the actuary in determining Cambridgeshire County Council's share as shown in the Council's financial statements.

We reviewed the reasonableness of the assumptions underlying the pension liability, and we are comfortable that the assumptions are within an acceptable range. This was performed as part of the audit of the Council.

Because of timing issues, each year we identify a difference between the estimated scheme assets used within the actuarial calculation and the actual scheme assets held by the pension fund as at 31 March 2015. In comparing the asset value per the actuary's report to the admitted body's share of the audited pension fund assets, we are comparing two estimates. In effect we are using the estimated percentage share of the audited assets figure to assess the

reasonableness of the actuary's estimate. In our view as a firm, and consistent with the prior year, a reasonable threshold for an acceptable difference between the two figures would be +/- 5% of the asset value. As the difference between the actuary's estimate of the total value of the fund and the audited total value of the fund falls within the +/- 5% threshold (0.95% between these two figures which is £7.7m). We have not suggested that the Council adjust for this amount as this is an auditing technique used to assess the reasonableness of the figure used by the actuary in their work.

Guided Busway: The accounting for the Guided Busway asset and legal dispute was resolved in the 2012/13 accounts. However, we understand from management that a number of additional defects have been identified and that a new legal dispute is currently in progress. This has not currently been recognised as an asset or contingent asset due to the early stages of reaching a settlement.

Property, Plant and Equipment -Depreciation and Valuation: You charge depreciation based on an estimate of the Useful Economic Lives for the majority of your Property, Plant and Equipment (PPE). Your total depreciation charge in 2014/15 was £39.0 million (2013/14 £34.7 million). This involves a degree of estimation driven by your estimated useful lives for your assets. You also revalue a proportion of your PPE each year using external experts, in accordance with your accounting policies, to ensure that the carrying value is true and fair. This involves judgement and reliance from your valuers.

Indexation: The Council revalued approximately 20% of its PPE balance as at 1 April 2014. Given that this proportion of the PPE balance is around 1 year out of date, and the remaining 80% of values are over 1 year out of date, an indexation exercise is performed to bring the value of the Council's PPE up to an estimated 31 March 2015 value.

We have compared the indexation amounts used to industry benchmarks and deemed them reasonable.

We have also re-performed management's calculations of the year end asset values for a sample of assets.

The following significant judgements and accounting estimates were used in the preparation of the financial statements for the Pension Fund:

Unquoted investments: As stated above on page 11, this is an area of management judgement informed by the custodian and fund managers.

£1328m (representing approximately 15% of the fund) of the pension fund is invested in unquoted investments at year end.

We have obtained fund manager confirmations for these investments and also performed an audited financial statement review to support the reasonableness of the estimated values used.

We will ask you to represent to us that you are satisfied with the assumptions made in arriving at these judgements and estimates in the accounts.

Preparation of the accounts and the audit process

We appreciate how the Councils staff have made time in their days for our audit enquiries, and approached our queries in a helpful and collaborative manner.

The most significant area was the additional accounts and audit work in relation to the AUC restatement as detailed earlier in this report. This resulted in the Council needing to undertake extensive analysis of prior year transactions and this, along with the resulting additional audit work, delayed the signing of the accounts until December.

However, we would note that we encountered the following more minor difficulties during the audit which we believe

had a detrimental effect on our ability to complete this audit efficiently.

1. Accounting records

We audited areas where the accounting records which the Council maintains were not initially sufficient for us to be able to complete our audit in the most efficient manner. This was particularly an issue when auditing PPE and cash for the Council, and Unquoted Investments for the Pension Fund.

2. Timeliness of deliverables

There were several occasions where the length of time between requesting a deliverable or working paper, and actually receiving it was longer than agreed. This meant that our staff had sometimes finished their time on site for the audit by the time the information was available. This was particularly the case when auditing manual journals for both the Council and Pension Fund, as well as in auditing payroll for the Council.

3. Availability of staff

During our on-site time, we experienced difficulties getting face to face time with audit contacts throughout the audit. This was mainly relating to those not directly involved in the preparation of the accounts. If key contacts are not available to assist us throughout the audit this impacts adversely on audit efficiency.

Management representations

The final draft of the representation letter that we ask management to sign is attached in Appendix 2.

In addition to the standard representations we will request specific representations in respect of:

- The treatment of the Guided Busway in the accounts in respect of legal costs and impairment of the asset is appropriate;
- Use of the work of (valuation) experts;

- The estimate applied in valuing the investment in the Cambridge and Counties Bank is in line with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15; and
- The ownership, structure and control of LGSS has not changed and accounting for the Council's share remains appropriate.

Related parties

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

We identified the following matters during the course of our work of which we believe the Audit Committee should be aware:

- The list of related parties presented in the draft Council financial statements and Pension Fund accounting statements was not complete.

We have performed additional procedures including review of declarations of interests and expenditure listings to consider whether all material related party transactions are disclosed. Our work did not identify any additional related parties for disclosure within the accounts.

We will ask you to represent to us that the list of Related Parties disclosed in the accounts is complete and accurate.

Audit independence

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) “Communication with those charged with governance”, UK Ethical Standard 1 (Revised) “Integrity, objectivity and independence” and UK Ethical Standard 5 (Revised) “Non-audit services provided to audited entities” issued by the UK Auditing Practices Board.

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers’ firms and associated entities (“PwC”) and the Authority that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

Relationships between PwC and the Authority

We are aware of the following relationships that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity and which represent matters that have occurred during the financial year on which we are to report or up to the date of this document.

Relationships and Investments

We have not identified any potential issues in respect of personal relationships with the Authority or investments in the Authority held by individuals.

Employment of PricewaterhouseCoopers staff by the Authority

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Authority as a director or in a senior management position covering financial, accounting or control related areas.

Business relationships

We have not identified any business relationships between PwC and the Authority.

Services provided to the Authority

The audit of the Statement of Accounts is undertaken in accordance with the UK Firm’s internal policies. The audit is also subject to internal PwC quality control procedures such as peer reviews by other offices.

In addition to the audit of the Statement of Accounts, PwC has also undertaken other work for the Council in relation to VAT advice and helpline (Fee £10,000) and Teachers’ Pension services (Fee £10,000).

We have considered the nature of the VAT and Teachers’ Pension services provided and concluded that they do not pose a threat to independence because:

- Separate personnel are used to deliver the audit and the VAT services identified; and
- Management retains responsibility for making all decisions.

The Council have also asked for work to be undertaken for Regional growth fund. Please note that PwC and the Council have yet to finalise the terms of this engagement. As these are grant audits we do not believe that undertaking these would threaten our independence.

Fees

The analysis of our audit and non-audit fees for the year ended 31 March 2015 is included on page 40. In relation to the non-audit services provided, none included contingent fee arrangements.

Services to Directors and Senior Management

PwC does not provide any services e.g. personal tax services, directly to directors, senior management

Rotation

We bring to the attention of the audit committee that the 2014/15 audit will be the final Cambridgeshire County Council audit which PwC perform as part of the current engagement contract.

Gifts and hospitality

We have not identified any significant gifts or hospitality provided to, or received from, a member of Authority's Executive, senior management or staff.

Conclusion

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

We would ask the Audit Committee to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: "Delivering Good Governance in Local Government". The AGS was included in the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE "Delivering Good Governance in Local Government" framework and whether it is misleading or inconsistent with other information known to us from our audit work.

We found no areas of concern to report in this context, other than requesting the Council revise the AGS to cover the matters arising following the uncovering of the material prior period error in relation to Assets Under Construction.

Economy, efficiency and effectiveness

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

Public Sector Audit Appointments Limited guidance includes two criteria:

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We determine a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

We have completed our work, and intend to issue an unmodified value for money conclusion.

We identified the following significant matters as part of our work.

The Medium Term Financial Strategy (MTFS)

The Council has a material gap between required savings in the next 5 years, and the plans in place and reserves available to bridge this gap. A table demonstrating this has been included below.

	£'m
Cumulative Savings required by 2019/20	410
Less: Cumulative “Intended” Savings	(385)
Add back: Cumulative Savings as yet unidentified	149
Savings “Gap”	174
Usable reserves	84

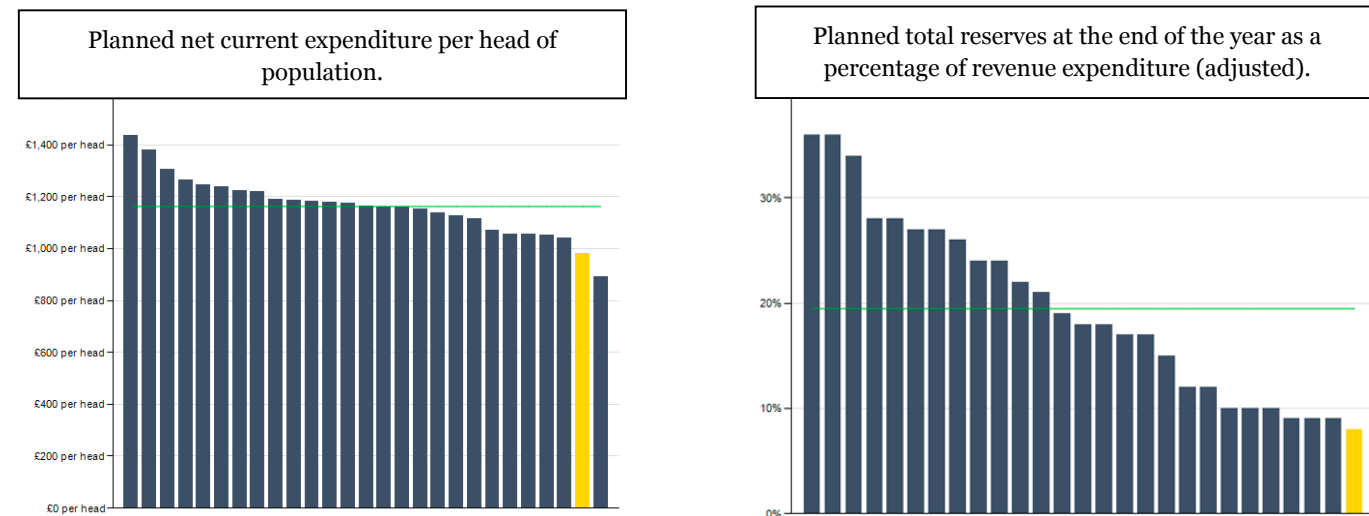
Over the next 5 years the MTFS sets out that the Council expect their cumulative gross budget to be approximately £3,801m. The £410m savings required over this period therefore represents approximately 10.7% of the Council’s estimated expenditure over the next 5 years.

Benchmarked Data

1. Efficiency compared to other councils

We have benchmarked the relative efficiency of the Council in a number of categories using the PSAA value for money tool.

We note that when compared to other County Councils and other geographically close Councils, Cambridgeshire sits in the lowest 10% of authorities in terms of “Planned net current expenditure per head of population” this means that the available funding per person in Cambridgeshire is lower than 90% of other authorities. We looked into more detail on this metric, and noted that the Council also sits in the bottom 25% for “Planned funding from central government (adjusted) per head of population” (meaning that the amount of funding per person is lower than 75% of the rest of the country) and in the lowest 5% in relation to “Planned total reserves at the end of the year as a percentage of revenue expenditure (adjusted)” – meaning that the level of reserves per person within Cambridgeshire is lower than almost all other County Councils.



The Council sits in the middle third for “Planned total service expenditure (adjusted) per head of population” and in the top third for “Planned revenue expenditure (adjusted) per head of population”.

The implications of all this for Cambridgeshire County Council are that effectively, the residents in Cambridgeshire have less money spent on them per head than most other County Councils in England. Despite this, the Council has lower reserves than most other County Councils. This shows the clear financial challenge faced by the Council.

2. MTFS Assumptions

The key assumptions included within the MTFS include the following:

- Inflation

	2015/16	2016/17	2017/18	2018/19	2019/20
Inflationary cost increase (£000)	9,655	9,863	8,946	9,344	9,237
Inflationary cost increase (%)	2.0%	2.1%	1.9%	2.0%	2.0%

Relating to inflation, the MTFS shows that the Council expect to encounter costing pressures of around 2% each year. We have compared this to two other similar County Councils, who both used a flat 2% inflation rate across the 3 years of their MTFS's. We therefore consider the assumptions around inflation made in the Cambridgeshire MTFS to be consistent with other councils.

- Demographic

	2015/16	2016/17	2017/18	2018/19	2019/20
Demographic cost increase (£000)	9,596	9,935	10,268	10,316	10,667
Demographic cost increase (%)	2.0%	2.1%	2.2%	2.3%	2.3%

Similarly, demographic pressures within the MTFS are shown to drive cost increases of approximately 2% per annum. We have compared this to two other similar County Councils. As expected, the demographic assumptions across the three vary more than inflation does, as this is driven by local factors. However, the 2.0% to 2.3% figure used by the County sits towards the top end of the ranges we benchmarked to measure demographic pressures. The range from the other two Councils considered show a low of 0% increase to a high of 1.64% - although in both instances, the MTFS only considers the next 3 financial years.

- Funding

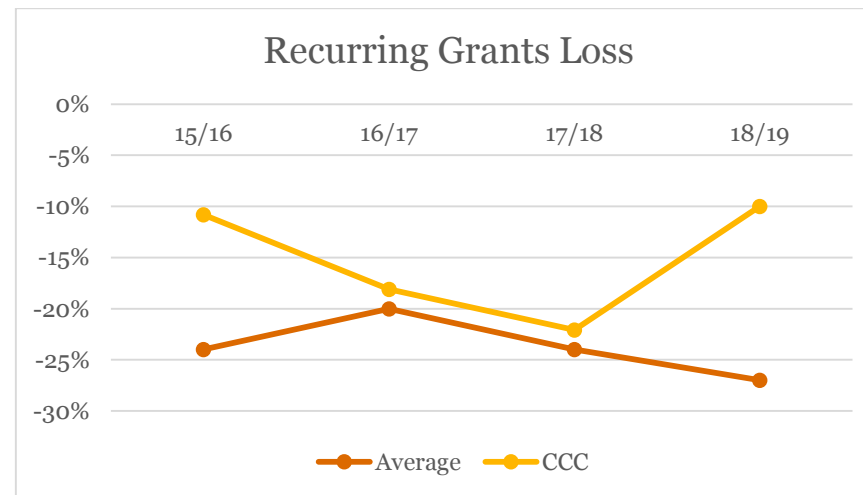
	2015/16	2016/17	2017/18	2018/19	2019/20
Government Grants (£m)	123	111	94	77	70
Business Rates (£m)	59	62	65	67	69
Fees & Charges (£m)	82	85	87	88	90
Council Tax (£m)	244	252	261	270	279
Schools Grants (£m)	260	256	253	250	247
Total Funding (£m)	768	766	760	752	755

The above table shows that the Council's MTFS indicates that the expectation is that funding will decrease slightly each year, but remain largely consistent with current levels.

We compared the funding decreases to two other County Councils in the South East, and noted that the estimated cuts to funding in those Councils ranged between 2% and 10% in total over the next 3 years. This would indicate that the Cambridgeshire projections might be optimistic on this measure, as these show up to only a 1% reduction in funding over the 5 years. We note that for every £ that this assumption is optimistic because funding levels are lower, the Council will need to find matching additional savings plans to meet the gap.

We note that Cambridgeshire County Council are projecting a fall in recurring government grants over the period. We have shown below the Council's assumptions on future government grants against other councils nationally. As shown, the Council is broadly in line with the consensus except in 2018/19 when the Council appears relatively optimistic.

In its planning, we further note that the Council anticipates that these funding reductions will be offset in partly an anticipated increase in Council Tax income, driven by the population increases in the County.



Past performance in delivering savings targets

We have also looked into how successful the Council has been at delivering against past savings plans. This has involved looking into the success of savings plans for 2013/14, as well as how the Council has delivered in this financial year (2014/15).

Savings plans are written into the budgets for the year. Having reviewed performance against budget for each of the services, we have not noted significant issues regarding the Council's historic achievement against savings plans.

Analysis of savings requirements included within the MTFS

Savings Requirement					
£'000	2015/16	2016/17	2017/18	2018/19	2019/20
Total New Savings Requirement for the Year	29,797	33,277	25,366	20,798	9,709
2015-16 Ongoing Savings		29,797	29,797	29,797	29,797
2016-17 Ongoing Savings			33,277	33,277	33,277
2017-18 Ongoing Savings				25,366	25,366
2018-19 Ongoing Savings					20,798
Total Savings Requirement for the Year	29,797	63,074	88,440	109,238	118,947
(Including ongoing savings)					
Cumulative Savings Requirement	29,797	92,871	181,311	290,549	409,496

The above table indicates the savings requirements year on year as identified by the Council, as well as ongoing savings required.

The “intended” areas analysed by service can be seen below. Note that this is currently below the requirement above.

Intended Savings Plans					
£'000	2015/16	2016/17	2017/18	2018/19	2019/20
Total New Intended Savings for the Year	- 27,910	- 31,705	- 23,017	- 20,021	- 9,038
2015-16 Ongoing Savings		- 27,910	- 27,910	- 27,910	- 27,910
2016-17 Ongoing Savings			- 31,705	- 31,705	- 31,705
2017-18 Ongoing Savings				- 23,017	- 23,017
2018-19 Ongoing Savings					- 20,021
Total Intended Savings for the Year	- 27,910	- 59,615	- 82,632	- 102,653	- 111,691
(Including ongoing savings)					
Cumulative Intended Savings	- 27,910	- 87,525	- 170,157	- 272,810	- 384,501

Of the £385m intended savings, we note however that £149m relates to savings which have not been identified in detail. These mainly relate to the final three years considered within the MTFS, with no unidentified savings relating to 2015/16. A summary of unidentified savings per year is as follows.

Unidentified Savings Plans					
£'000	2015/16	2016/17	2017/18	2018/19	2019/20
Total New Unidentified Savings for the Year	-	- 15,889	- 12,047	- 20,021	- 9,038
2015-16 Ongoing Savings		-	-	-	-
2016-17 Ongoing Savings			- 15,889	- 15,889	- 15,889
2017-18 Ongoing Savings				- 12,047	- 12,047
2018-19 Ongoing Savings					- 20,021
Total Unidentified Savings for the Year	-	- 15,889	- 27,936	- 47,957	- 56,995
(Including ongoing savings)					
Cumulative Unidentified Saving	-	- 15,889	- 43,825	- 91,782	- 148,777

The savings gap the Council faces can thus be seen below -

Savings Gap					
£'000	2015/16	2016/17	2017/18	2018/19	2019/20
Cumulative Savings requirement	29,797	92,781	181,311	290,549	409,496
Cumulative Intended Savings	- 27,910	- 87,525	- 170,157	- 272,810	- 384,501
Gap	1,887	5,256	11,154	17,739	24,995
Add Cumulative unidentified savings	-	15,889	43,825	91,782	148,777
Total Savings Gap	1,887	21,145	54,979	109,521	173,772

The Council currently has £84m of usable reserves. Therefore, if none of the savings plans relating to unidentified plans were realised, the gap could be covered by reserves until 2018/19. This gives the Council some time to assess their position and target other areas for savings.

Other considerations

We note that the Council has approximately £79m of loans which can be classified as Lender Option Buyer Option, or LOBO's. These impact on our value for money considerations as, on an annual basis, the Council may have to agree to a higher interest rate, or repay the entire loan amount.

These loans could represent poor value for money if the Council needed to accept high interest rates to obtain necessary funding. For the Council we note that the interest rates currently being imposed on these loans range from 2.8% to 4.0%, which is in line with the Council's non-LOBO loans and hence does not give any cause for concern re value for money.

Conclusion

We have concluded that the Council can cover the necessary savings requirements for the next 3 financial years through the use of reserves, through the successful implementation of planned savings schemes. We would not necessarily expect the Council to have detailed savings plans in place beyond this time period.

However, there is a need for significant savings to be met over the medium term. There is currently no overarching plan to assist the Council in meeting their required cuts.

Our review has shown that the Council are considering the areas which we would expect to make savings at a service level, however it will become more challenging over time for the Council to continue to meet savings targets in this manner.

Compared to other Councils, in our view the Council are behind in implementing a larger, County-wide strategy and transformation plan. A transformation programme which includes integrated savings plans across all services as wholesale changes is likely to be needed to be able to meet the required savings in later years and place the Council in long term financial balance.

Internal controls

Accounting systems and systems of internal control

Management are responsible for developing and implementing systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the Statement of Accounts and our review of the annual governance statement.

The matters that we wish to bring to your attention are included within the below two tables.

Reporting requirements

We have to report to you any deficiencies in internal control that we found during the audit which we believe should be brought to your attention.

Summary of significant internal control deficiencies

County or Pension	Prior year deficiency ?	Deficiency	Recommendation	Management's response
County	No	Assets under construction projects are not being transferred out of AUC on completion, or written off on a timely basis	We would recommend that management perform a regular review of the newly created AUC asset register to ensure that any projects which need to be written off or transferred on completion have been posted on a timely basis.	Now that an asset register has been created for Assets Under Construction, this will be reviewed annually as part of the closing of the accounts. All projects included within the asset register (rather than simply those that have experienced in year additions) will be assessed as to whether they have completed and need transferring out of the AUC category.

County	No	The year end review process to remove all non-capitalisable spend from AUC is not functioning effectively.	This control acts as a back-stop to the above control point, but we would recommend that management ensure that a thorough review is undertaken of the entire AUC listing to ensure that no non-capitalisable spend is held within AUC at year end.	The process for reviewing non-capitalisable spend contained within AUC was reviewed and updated and as such will continue to be implemented moving forward.
County and Pension	No	The Oracle accounting system does not prevent staff from posting and authorising their own journals	The Council should look to implement an independent review process for any journals posted over a certain value.	Although this is technically correct, authorisation of journals indirectly happens through monthly budgetary control procedures and balance sheet reconciliation i.e. any anomalies would be identified and acted on.
County	No	There is no fixed asset register detailing individual fixed assets held for Infrastructure assets, which ties to the accounts. These categories represented a net book value totalling £687m in the Councils account for 2014/15.	The Council should collate and maintain a listing of all assets to record all asset movements from this point forward. We also recommend that an exercise is undertaken to trace back all older assets which are currently included within the historic PPE balance to ensure that they are correctly categorised, and recognised at the appropriate value, and that they still exist. Relating to infrastructure, the Council are already planning to undertake an exercise such as this due to the CIPFA Code of Practice changes taking effect from 2016/17.	'The Council has undertaken an exercise to identify all assets held within AUC and the values attributed to these assets. Moving forward, the Council will use this as the basis for an AUC asset register and will continue to update it on an asset by asset basis each year. For Infrastructure assets, due to the change in the Code of Practice being implemented in 2016/17, the Council has already worked up an asset register (albeit on a different valuation basis to that which is used currently). Therefore, this issue is already being addressed, but won't be fully implemented until the 2016/17 accounts.'

County and Pension	Yes	A list of related parties is not held and maintained by the Council. Returns from members and councillors are not filled out with a sufficient level of detail and omit information about interests held.	The Council and the Pension Fund should maintain a related parties listing at all times so that the risk of engaging with a related party is mitigated.	The Finance and Pension Fund teams will engage with democratic services/ members/ senior officers during 2015/16 to establish a full listing of interests held by members/ senior officers. This can then be reviewed on a regular basis so that potential Related Parties can be flagged.
County	Yes	Lack of segregation of duties within the accounts payable cycle module in Oracle	The Council should seek to minimise the number of people who have conflicting responsibilities within its accounts payable or should implement detective controls to identify promptly any conflicting actions undertaken during the year. Examples of such conflicting responsibilities include the creation of new suppliers and processing of payments to suppliers.	All work has been completed in line with the attached framework document for access controls. All existing payables/purchasing responsibilities have been reviewed and in scenarios where conflicting responsibilities existed then the responsibilities were updated accordingly. A quarterly report is also being completed to confirm that review users responsibilities are appropriate to individuals roles.
Pension	No	Valuation of the Cambridge and Counties bank was not commissioned to the required standard	We would recommend that the Fund ensure that the valuation which is commissioned for the next financial year includes details from our findings this year (see pages 17 and 18 for details) to ensure that the work undertaken considers all of the relevant assumptions and includes the correct details regarding the Fund's ownership.	Accepted Officers will review the most appropriate method taking into account all feedback.

We also recommend that sensitivities are performed on assumptions used.

Summary of other internal control deficiencies

County or Pension	Prior year deficiency ?	Deficiency	Recommendation	Management's response
County	Yes	General Ledger to Payroll Reconciliation is not performed at year end	The Council should ensure that its general ledger and payroll systems are reconciled on at least a monthly basis – this reconciliation should include all payroll general ledger codes, not just those relating to Gross pay and national insurance.	The Council completes reconciliations using a log for each payroll transfer to the General Ledger. The Council does not perform a whole-year reconciliation of Payroll to GL.
County	No	Bank accounts are held in the Council's name which they are not aware of. Bank accounts are not held - according to the bank -where the Council believes that they exist Bank reconciliations are not performed for all bank accounts held by the Council	The Council's finance team should take responsibility for the controls surrounding cash and cash management. This will ensure that a comprehensive and up to date listing of accounts held can be maintained, and reconciliations can be performed for all accounts on a monthly basis.	The finance team will liaise with the data management team ahead of the 2015/16 audit, to look into establishing a register of all accounts held, mapped to individual GL account codes
County	Yes	Bad debt provision is not compliant with the Code	The Council should not make general provisions, but rather specific provisions against specific debts when determining their year end bad debt provision.	The Council has improved and developed the intelligence it applies to its bad debt provision process over the last 12 months. Whilst not technically compliant, it is materially correct and probably more in

				depth than many other authorities currently use. No changes are therefore proposed given the cost/benefit of assessing individual debts.
Pension	No	Late contributions are not monitored and therefore not received on a timely basis	We would recommend that the Fund begin monitoring the timing of contributions to ensure that they can manage their cash position more effectively	<p>The Fund already monitor's late payment of contributions, which are reported to the Pensions Committee quarterly.</p> <p>However, internal processes are being reviewed in particular in respect on new employers to the Fund and when they become liable for contribution income.</p>
Pension	No	A detailed reconciliation by segregated investments is not performed by the Pension Fund	We recommend that the Fund regularly reconcile custodian and fund manager returns to ensure any discrepancies are cleared up in advance of year end.	The Fund performs quarterly reconciliations of custodian and fund manager statements and challenges the relevant parties to explain variances in excess of agreed tolerances.
Pension	No	Pension data per ALTAIR is not reconciled to the payroll system.	We recommend that the Fund perform a reconciliation between the datasets on a monthly basis.	<p>Pensions Service's are undertaking a comprehensive reconciliation of all member pension information.</p> <p>This will:-</p> <p>Accommodate the audit recommendation for a comprehensive payroll reconciliation,</p> <p>Support an ongoing project to transition the pensioners payroll to the existing administration system,</p>

				<p>Deliver the HMRC requirements, in respect of the ending of contracted out.</p> <p>The move to a new payroll system in the Autumn of 2016, linked to the existing administration system, will remove the need for reconciliations of pensioner payroll between two interfaces.</p>
Pension	No	Supporting evidence for manual journals is not maintained as such that is readily available.	We recommend that the Fund implements and documents a clear process for posting manual journals.	<p>Accepted</p> <p>Officers will review adherence to existing protocols to ensure full compliance of working papers.</p>
Pension	No	The performance fee is not accrued for as at 31 March 2015.	We recommend that the fund recognises the performance fee on an accruals basis.	<p>It is already normal practice for Officers to accrue Fund Manager fees.</p> <p>The issue relates to a one off oversight, compounded by late notification of the fee by the manager concerned.</p> <p>A review of Fund Manager Fee monitoring will be undertaken with subsequent implementation of process improvements.</p>
Pension	No	General Ledger Codes are not always mapped to the	We recommend that management perform a review of all general ledger codes at year end to ensure that the	General ledger codes are regularly reviewed for adequacy and integrity of information. Officer's aware of only one

		correct Financial statement line item	accounts correctly reflect the position on the general ledger.	adjustment required in the closedown process.
County	No	<p>Backing documents are not always retained for an appropriate length of time.</p> <p>We noted this during our testing over assets under construction where the Council was not able to provide us with some documents which were dated within the year being audited.</p>	We would recommend that the Council review their document retention process to ensure that documentation is available to support all balances relevant to the financial year being audited.	The Council will review the Scheme of Financial Management and any other related guidance regarding financial regulations to ensure it clearly specifies the requirements regarding backing document retention with respect to capital projects. The guidance will be re-issued to officers, in particular to those outside of the finance team who have responsibility for capital transactions, to ensure that the requirements are understood and will be met going forward.

Risk of fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

From our enquiries and work performed, we have noted one instance of suspected fraud above the £10k threshold which requires us to report an AF70 – this was in relation to an employee raising fictional invoices. However, per our work performed on 30 July 2015 the Council was still awaiting a court date and as such PwC are still unable to submit an AF70. From our discussions with the relevant management personnel and a review of internal audit LCFS register we did not note any other frauds above £10k in year.

Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the Audit Committee

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

Your views on fraud

In our audit plan presented to the Audit Committee in March 2015 we enquired:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistle-blower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation

Fees update

Fees update for 2014/15

We reported our fee proposals in our plan.

Audit fee	Outturn	Fee Proposal	Actual Fees
	2014/15	2014/15	2013/14
	£	£	£
Audit work performed under the Code of Audit Practice	125,415	125,415	125,415
- Statement of Accounts			
- Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources			
- Whole of Government Accounts			
Pension Fund	22,410	22,410	22,410
Total Agreed Scale Fee	147,825	147,825	147,825
Additional Audit Work to Respond to Local Risks			
Council (Note 1)	16,000	16,000	13,262
Pension Fund (Note 1)	15,000	15,000	19,553
Scope changes (Note 2)	8,000	-	-
Scope change - AUC (Note 3)	TBC	-	-
Total Audit Code work		178,825	180,640
Planned non-audit work			
Teachers' Pension grant procedures		10,000	10,000
Cambridgeshire County Council			

VAT Helpline	3,670	2,000
VAT Advice on Guided Busway	-	8,000
Total fees (audit and non-audit work)	192,495	200,640

Our fee for certification of grants and claims is yet to be finalised for 2014/15 and will be reported to those charged with governance in our annual audit letter.

Note 1:

In line with the Audit Commission's guidance, as part of our audit plan that was presented and approved, the indicative fee was adjusted to reflect the known audit risks and additional work at that time.

Based on our planning work we identified that there are specific risks to the Council and Pension Fund that required additional work to address the local risks. These were approved as part of our audit plan, and we will therefore seek approval for a fee variation from PSAA.

Council

In particular, the financial position of the Council has substantially increased our audit risk and hence our audit work associated with:

- Risk of fraud in management override of controls; and
- Risk of fraud in revenue and expenditure recognition.

The challenging financial position of the Council has also increased the level of work we are required to perform on value for money: the extent of the gap in the Medium Term Plan, with a forecast gap in the Medium Term Plan of £410m over the next 5 years means that have assessed the risk in respect of our value for money work as **significant**. As such we needed to undertake additional risk-based work around the Council's future financial plans and on the extent and robustness of its savings plans.

Our plan also included a significant risk associated with the Fixed Asset Accounting, as in FY14. Given the size and the nature of this balance, the manual input to this accounts area and judgements involved, additional work is required in relation to this balance. This area has also historically seen large adjustments, therefore required increased focus for this Council.

We also noted that there has been a change in the accounting policy for Accounting for Schools. This resulted in prior year adjustments that will required auditing as well as detailed testing and review in relation to the work undertaken by the Council to these changes.

Pension Fund

Our plan identified an elevated risk in relation to the valuation of investments, including the valuation of the bank for the first time. This valuation has being undertaken by external valuers on behalf of the Council. We needed to perform additional work to assess the external valuer's work and assumptions in the current year, including the need to involve our own valuation specialists.

During the year there has also been a change in the custodian. Additional work was therefore required in the current year to understand new processes/procedures and also reviewing their reporting.

Note 2

This increase is relating to the change in our risk level from elevated to significant relating to the valuation of Cambridge and Counties bank investment, and also the extra work required due to issues identified with the evidence to support this valuation.

We received a number of deliverables late, including most significantly our journals data download, which was requested on the 3 June, but not received until the 15 July. Furthermore, we requested payroll reconciliations on 22 July, but the final deliverable received 24 August. Both of these items were included on our initial deliverables schedule which was sent to management in advance of our on site time on 2 March.

Note 3

This fee element is in relation to significant issues encountered whilst auditing PPE. This meant that we had to undertake additional work and involve our internal technical panel of technical experts to resolve the matter from both an accounting and an auditing perspective.

In particular in auditing Assets Under Construction – as noted earlier in this report – which has added approximately 10 weeks to our audit and has required the involvement of a technical panel of experts, as well as heavy engagement leader and engagement manager input to resolve.

An fee for this work will be discussed and agreed with management once the work is completed.

We based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to use, as planned, the work of internal audit;
- We do not review more than 3 iterations of the Statement of Accounts;
- We are able to obtain assurance from your management controls;
- No significant changes being made by the Audit Commission to the local value for money work requirements; and
- Our value for money conclusion and accounts opinion being unqualified.
- The Council perform a full assessment of impact of change in schools' accounting and provide supporting evidence, and we find no material issues.
- No work is required on the figures in relation to roads within WGA needs to be performed

We intend to seek a variation order to the agreed fee, to be discussed and agreed in advance with you and PSAA.

Appendices

Appendix 1: Summary of misstatements

We found the following misstatements during the audit that have not been adjusted by management. You are requested to consider these formally and determine whether you would wish the accounts to be amended. If the misstatements are not adjusted we will need a written representation from you explaining your reasons for not making the adjustments. Our SUM reporting level as agreed with the Audit Committee is £500,000.

COUNCIL

No	Adjusted ?	Description of misstatement (factual, judgemental, projected)	Income statement		Balance sheet	
			Dr	Cr	Dr	Cr
1	Yes	Dr Gain or Loss on Disposal of PPE Cr PPE Being an adjustment to correct the disposals balance for street lighting PFI replacements	F 519,000			519,000
2	Yes	Dr Accounts Receivable Dr Accounts Payable Cr Cash and Cash equivalents Being an adjustment to reclassify an element of the cash balance to the non-cash asset lines in the balance sheet.	F		113,132 734,193	847,325
3	Yes	Dr Grant income Cr Other income Being an adjustment the segmental disclosure note for grant income wrongly allocated	F 1,868,000	1,868,000		
4	Yes	Dr PPE Dr Depreciation Expenditure Cr Cash and Cash Equivalents Being an adjustment to remove a PFI Waste balance from cash, where it was previously recognised	F 1,000,000		3,401,000	4,401,000

5	Yes	Dr PPE Cr Reserves Being an adjustment to correct the indexation on Schools which are derecognised as part of change in accounting for schools policy	J	7,357,000	7,357,000	
6	Yes	Dr PPE (Land and Buildings) Dr Reserves (Capital Adjustment account) Dr Reserves (Revaluation reserve) Cr PPE (Assets under Construction) Cr PPE (Infrastructure Assets) Being the prior period adjustment for errors in AUC balance.	F		3,555,000 127,436,000 34,010,000	154,302,000 10,699,00
7	No	Dr PPE (Infrastructure) Cr Reserves (Capital Adjustment Account) Cr Depreciation Expense Being an adjustment relating to depreciation which has been overcharged as a result of the AUC adjustment above (Adjustment 6)	J		1,443,000	1,206,000
8	No	Dr PPE Cr Reserves Being the element of adjustment 6 which relates to the current year, and therefore should be posted to 2014/15, not the prior period.	F		2,239,000	2,239,000
9	No	Dr Reserves Cr PPE Being the element of adjustment 6 which relates to the prior year, and therefore should be posted to this 2013/14, not the prior period.	F		1,681,000	1,681,000
Total corrected misstatements				3,387,000	9,225,000	176,606,325
Total uncorrected misstatements				0	237,000	5,363,000

In addition we note the following below disclosure changes since the first draft of the accounts.

No	Description of disclosure change	Applied by management in final set of accounts?
1	Accounting policy for PPE was updated to reflect processes for Infrastructure and AUC correctly	Yes
2	Update of the Annual Governance Statement (AGS) to state the fact that there was a prior period error relating to PPE	Yes
3	Inclusion of note 43 to outline the changes made to the accounts as a result of the prior period error relating to AUC.	Yes
4	Several adjustments relating to an immaterial prior period adjustment which was put through the first draft of the accounts. We have requested that this be removed from the final version since it is not a material amount.	Yes
5	We also requested that management make a number of minor changes to the accounts relating to wording preferences, and casting errors we noted. These have also all been updated in the final set of accounts.	Yes

PENSION FUND

No	Adjusted ?	Description of misstatement (factual, judgemental, projected)		Income statement		Balance sheet	
				Dr	Cr	Dr	Cr
1	No	Dr Direct property Investments Cr Change in market value Being an adjustment to increase the value of the investments. Our testing of property investments back to independently obtained price data identified that the total value of property investments was understated.	F		£702,006	£702,006	

2	No	Dr Direct property investments Cr Change in market value Being an adjustment to increase the value of the investments. Our testing of property investments back to independently obtained price data identified that the total value of property investments was understated.	P	£1,723,786	£1,723,786	
3	No	Dr Private Equity investments Cr Change in Market value Being an adjustment to increase the value of the investments. Our testing of Private Equity back to independently obtained price data identified that the total value of Private Equity was understated.	P	£838,877	£838,877	
4	No	Dr Investments Cr Equity Being an adjustment to increase the value of the Cambridgeshire and Counties bank investment based on work performed over the independent valuers report.	J	5,405,000		5,405,000
Total uncorrected misstatements				0	2,425,792	7,830,792
						5,405,000

In addition we note the following below disclosure changes since the first draft of the accounts.

No	Description of disclosure change	Applied by management in final set of accounts?
1	Only minor disclosure changes to the accounts relating to wording, references, and casting errors we noted. These have also all been updated in the final set of accounts.	Yes

Appendix 2: Letter of representation

PricewaterhouseCoopers LLP

10 Bricket Road,
St. Albans,
Hertfordshire,
AL1 3JX

Dear Sirs

Representation letter – audit of Cambridgeshire County Council’s (the Authority) Statement of Accounts for the year ended 31 March 2015

Your audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts of the Authority give a true and fair view of the affairs of the Authority as at 31 March 2015 and of its deficit and cash flows for the year then ended and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 supported by the Service Reporting Code of Practice 2014/15.

I acknowledge my responsibilities as Chief Financial Officer for preparing the Statement of Accounts as set out in the Statement of Responsibilities for the Statement of Accounts. I also acknowledge my responsibility for the administration of the financial affairs of the authority and that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of the Authority with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

Statement of Accounts

- I have fulfilled my responsibilities for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 supported by the

Service Reporting Code of Practice 2014/15; in particular the Statement of Accounts give a true and fair view in accordance therewith.

- All transactions have been recorded in the accounting records and are reflected in the Statement of Accounts.
- Significant assumptions used by the Authority in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the Statement of Accounts for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 requires adjustment or disclosure have been adjusted or disclosed.
- The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the Statement of Accounts as a whole. A list of the uncorrected misstatements, grouped by category, is attached to this report above.
- The restatement made to correct a material misstatement in the prior period Statement of Accounts that affects the comparative information has been appropriately accounted for and disclosed in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Information Provided

- I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you, the authority's auditors, are aware of that information.
- I have provided you with:
 - access to all information of which I am aware that is relevant to the preparation of the Statement of Accounts such as records, documentation and other matters, including minutes of the Authority and its committees, and relevant management meetings;
 - additional information that you have requested from us for the purpose of the audit; and
 - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
- So far as I am aware, there is no relevant audit information of which you are unaware.

Accounting policies

I confirm that I have reviewed the Authority's accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the accounting policies and estimation techniques selected for use in the preparation of Statement of Accounts are appropriate to give a true and fair view for the authority's particular circumstances.

Fraud and non-compliance with laws and regulations

I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

I have disclosed to you:

- the results of our assessment of the risk that the Statement of Accounts may be materially misstated as a result of fraud.
- all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the Statement of Accounts.
- all information in relation to allegations of fraud, or suspected fraud, affecting the Authority's Statement of Accounts communicated by employees, former employees, analysts, regulators or others.
- all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the Statement of Accounts.

I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Authority conducts its business and which are central to the authority's ability to conduct its business or that could have a material effect on the Statement of Accounts.

Other than those already communicated to you, I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the Statement of Accounts.

The Authority pension fund has not made any reports to the Pensions Regulator nor am I aware of any such reports having been made by any of our advisors. I confirm that I am not aware of any late contributions or breaches of the schedule of contributions that have arisen which I considered were not required to be reported to the Pensions Regulator. I also confirm that I am not aware of any other matters which have arisen that would require a report to the Pensions Regulator.

There have been no other communications with the Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

Related party transactions

I confirm that the attached schedule to this letter is a complete list of the Authority's related parties. All transfer of resources, services or obligations between the Authority and these parties have been disclosed to you, regardless of whether a price is charged. We are unaware of any other related parties, or transactions between disclosed related parties.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.

Employee Benefits

I confirm that we have made you aware of all employee benefit schemes in which employees of the authority participate.

All significant retirement benefits that the Authority is committed to providing, including any arrangements that are statutory, contractual or implicit in the authority's actions, wherever they arise, whether funded or unfunded, approved or unapproved, have been identified and properly accounted for and/or disclosed.

All settlements and curtailments in respect of retirement benefit schemes have been identified and properly accounted for.

The following actuarial assumptions underlying the valuation of retirement benefit scheme liabilities are consistent with my knowledge of the business and in my view would lead to the best estimate of the future cash flows that will arise under the scheme liabilities:

Mortality assumptions:	
Longevity at 65 for current pensioners:	
- Men	22.5
- Women	24.5
Longevity at 65 for future pensioners:	
- Men	24.4
- Women	26.9
Rate of inflation	2.4%
Rate of increase in salaries	4.3%
Rate of increase in pensions	2.4%
Rate for discounting scheme liabilities	3.2%

The authority participates in the Teachers' Pension Scheme that is a defined benefit scheme. I confirm that the authority's share of the underlying assets and liabilities of this scheme cannot be identified and as a consequence the scheme has been accounted for as a defined contribution scheme.

Contractual arrangements/agreements

All contractual arrangements (including side-letters to agreements) entered into by the Authority have been properly reflected in the accounting records or, where material (or potentially material) to the statement of accounts, have been disclosed to you.

Litigation and claims

I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the statement of accounts and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Taxation

I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give

rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

In particular:

- In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
- I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken for the authority's benefit or any other party's benefit.
- I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the authority or any associated company for whose taxation liabilities the authority may be responsible.

Pension fund assets and liabilities

All known assets and liabilities including contingent liabilities, as at the 31 March 2015, have been taken into account or referred to in the Statement of Accounts.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2015 have been properly valued and that valuation incorporated into the Statement of Accounts.

The pension fund has satisfactory title to all assets and there are no liens or encumbrances on the pension fund's assets.

The value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the authority, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the pension fund. Any significant changes in those values since the date of the Statement of Accounts have been disclosed to you. There are no restrictions on the marketability of investments other than those already disclosed in the Statement of Accounts.

Pension fund registered status

I confirm that the Cambridgeshire Pension Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

Bank accounts

I confirm that I have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

Subsequent events

There have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the statement of accounts or in the notes thereto.

Cambridge and Counties Bank Investment

Regarding the Cambridge and Counties Bank Investment, an accounting estimate that was recognised in the Statement of Accounts with regard to valuation of this investment:

- I confirm the Authority has used appropriate measurement processes, including related assumptions and models, in determining the accounting estimate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.
- Measurement processes were consistently applied from year to year.
- The assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the authority, where relevant to the accounting estimates and disclosures.
- Disclosures related to accounting estimates are complete and appropriate under the CIPFA/ CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.
- No subsequent event requires adjustment to the accounting estimates and disclosures included in the Statement of Accounts.
- There have been no changes to overall control of Cambridge and Counties Bank.

Guided Busway

Regarding the Cambridge Guided Busway:

- I confirm the Authority has used appropriate measurement processes, including related assumptions and models, in determining the accounting estimate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

LGSS

There have been no changes to the ownership, structure and control of LGSS and I am satisfied that accounting for the authority's share remains appropriate and in line with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Provisions

- Provisions for depreciation and diminution in value including obsolescence have been made against property, plant and equipment on the bases described in the statement of accounts and at rates calculated to reduce the net book amount of each asset to its estimated residual value by the end of its probable useful life in the authority's business. In this respect I am satisfied that the probable useful lives have been realistically estimated and that the residual values are expressed in current terms.
- Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments (in particular in relation to redundancy plans) and contingencies where the items are expected to result in significant loss. Other such items, where in my opinion provision is unnecessary, have been appropriately disclosed in the statement of accounts.

Using the work of experts

I agree with the findings of Hymans Roberson, experts in determining the value of Cambridge and Counties bank investment and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the Statement of Accounts and underlying accounting records. The Authority did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

Assets and liabilities

The Authority has no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the Statement of Accounts.

In my opinion, on realisation in the ordinary course of the business the current assets in the balance sheet are expected to produce no less than the net book amounts at which they are stated.

The Authority has no plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.

The Authority has satisfactory title to all assets and there are no liens or encumbrances on the Authority's assets, except for those that are disclosed in the Statement of Accounts.

I confirm that we have carried out impairment reviews appropriately, including an assessment of when such reviews are required, where they are not mandatory. I confirm that we have used the appropriate assumptions with those reviews.

Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the year-end have been properly valued and that valuation incorporated into the statement of accounts. When appropriate, open positions in off-balance sheet financial instruments have also been properly disclosed in the Statement of Accounts.

Financial Instruments

All embedded derivatives have been identified and appropriately accounted for under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Where hedging relationships have been designated as either firm commitments or highly probable forecast transactions, I confirm that our plans and intentions are such that these relationships qualify as genuine hedge arrangements.

Where fair values have been assigned to financial instruments, I confirm that the valuation techniques, the inputs to those techniques and assumptions that have been made are appropriate and reflect market conditions at the balance sheet date, and are in line with the business environment in which we operate.

Disclosures

I confirm that the Authority has recorded or disclosed, as appropriate, all formal or informal arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line of credit or similar arrangements.

I confirm that the Authority has recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and has disclosed in the statement of accounts all guarantees that we have given to third parties, including oral guarantees made by the Authority on behalf of an affiliate, member, officer or any other third party.

Transactions with members/officers

No transactions involving members, officers and others requiring disclosure in the Statement of Accounts under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 have been entered into.

As minuted by the Audit and Accounts Committee at its meeting on 11 December 2015.

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Chief Financial Officer

For and on behalf of

Date

Schedule 1 - Related parties and related party transactions

LGSS with Northamptonshire County Council

Cambridgeshire Pension Fund

Cambridge and Counties Bank

Trinity Hall College



In the event that, pursuant to a request which Cambridgeshire County Council has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Cambridgeshire County Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Cambridgeshire County Council shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Cambridgeshire County Council discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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