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Cambridgeshire County Council and Cambridgeshire Pension Fund

Government and
Public Sector

September 2014

Report to those charged with governance

Report to the Audit and Accounts Committee of the authority on the audit for the year ended 31 March 2014 *(ISA (UK&I)) 260)*

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.

Contents

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 the financial statements of the Council, including the pension fund. We presented our plan to you in January 2014; we have reviewed the plan and concluded that it remains appropriate for the audit of the financial statements. However, in relation to our Use of Resources conclusion, specifically the arrangements in place at the Council for securing financial resilience, we have reconsidered our risk assessment. The gap in the Council's Medium Term Financial Plan, that is, the level of total unidentified savings required over the period of the MTFP is material. On that basis, we have included a new significant risk in our audit plan in relation to identification of the required savings, and have performed appropriate procedures to address this new significant risk.

Audit Summary

- We have completed the majority of our audit work.
- The key outstanding matters, where our work has commenced but is not yet finalised, are:
  - review of the pension fund annual report for consistency with the accounting statements;
  - completion of our testing on disclosure items in the pension fund accounting statements;
  - receipt of bank and investment confirmations for the county council, including schools;
  - completion of our work on the impairment analysis on the council's property, plant and equipment portfolio, including the indexation analysis;
  - receipt of a paper in relation to the treatment of the guided busway asset in the accounts;
  - completion of our Whole of Government Accounts work;
  - review of the detailed disclosures in the updated Statement of Accounts;
  - approval of the Statement of Accounts and letters of representation; and
  - completion procedures including subsequent events review.
- There are 5 key judgments which require the Audit Committee/those charged with governance's attention – further details are set out on page 15.
- The Audit Committee need to confirm the proposed treatment of unadjusted misstatements listed in Appendix 1.

Please note that this report could be sent to the Audit Commission in accordance with the requirements of its standing guidance.

We look forward to discussing our report with you on 23 September 2014. Attending the meeting from PwC will be Julian Rickett and Charlotte Kennedy.

Audit approach

Our audit approach was set in our audit plan which we presented to you in January 2014. As set out above we varied our audit approach to include an additional significant risk in respect of the Council's arrangements in place for securing financial resilience.

We have summarised below the significant risks we identified in our audit plan, the audit approach we took to address each risk and the outcome of our work. We also summarise for your information the same in relation to the elevated risk identified in the audit plan.

Risk	Categorisation	Audit approach	Results of work performed
Cambridgeshire County Council Audit			
Management override of controls 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.	Significant ●	As part of our assessment of your control environment we will consider those areas where management could use discretion outside of the financial controls in place to misstate the financial statements. We will perform procedures to: • 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 and other year-end adjustments, targeting higher risk items such as those that affect the reported deficit/surplus; • Review accounting estimates for bias and evaluate whether judgment and estimates used are reasonable (for example pension scheme assumptions, valuation and impairment assumptions); • Evaluate the business rationale underlying significant	• 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 to date; • Review of accounting estimates did not identify any circumstances producing bias; • We are also seeking to confirm all bank accounts with third parties however this work remains ongoing at the time of writing; • Evaluation of significant transactions did not highlight any inappropriate business rationale; and • Our unpredictable procedures covering immaterial journals and classification of voluntary controlled schools within the PPE note and the financial reporting thereof did not identify any

Risk	Categorisation	Audit approach	Results of work performed
		- transactions outside the normal course of business; and - Perform unpredictable procedures targeted on fraud risks. We may perform other audit procedures if necessary.	exceptions.
Risk of fraud in revenue and expenditure recognition Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition. We extend this presumption to the recognition of expenditure in local government.	Significant ●	We will obtain an understanding of revenue and expenditure controls. We will evaluate and test the accounting policy for income and expenditure recognition to ensure that this is consistent with the requirements of the Code of Practice on Local Authority Accounting. We will also perform detailed testing of revenue and expenditure transactions, focussing on the areas we consider to be of greatest risk.	We have obtained an understanding of 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.
Financial Resilience Savings requirements as a result of increasing demand for services as well as a decrease in budget allocations from central government mean that the council has to find new and innovative ways to balance its budget through a number of measures including reductions in service provision, increased charging, alternative	Significant ●	We will review your savings plan. We will undertake a detailed review of how you manage the plan, and will investigate the reasons behind any significant variations from the plan. We will specifically consider: - your record in delivering savings; - the governance structure in place to deliver the targets (including extent of Member involvement); - the level and extent of accountability; - project management arrangements; - monitoring and reporting; and - progress on delivering the plan.	We have obtained and reviewed the savings plan and Medium Term Financial Plan document, including the assumptions utilised in identifying any funding gaps arising. The funding gap identified each year of the MTFP is as follows: - 2014/15: £38.2m - 2015/16: £30.7m - 2016/17: £32.7m - 2017/18: £25.3m - 2018/19: £22.2m **- Total: £149.1m** We understand that these savings are recurrent in nature. At the time of writing, the Council had

Risk	Categorisation	Audit approach	Results of work performed
service delivery models and more. There is an increased risk that the Council finds it increasingly challenging to secure economy, efficiency and effectiveness in its use of resources and demonstrate that it is a financially resilient council.		We will consider the accounting implications of your savings plans and we will consider the impact of the efficiency challenge on the recognition of both income and expenditure.	undertaken a process to update its MTFP and a paper was taken to the General Purposes Committee in early September which revised the budget gaps in each year reducing the total required savings over the period of the plan to £125.5m. The total savings required over the period of the MTFP for which plans do not currently exist are circa £8m, primarily in 2016/17. However a number of new cost pressures have now been identified in 2014/15, primarily in Adults Services, which the Council is identifying mitigation for. We have considered the Council's historic record in delivering savings; the monitoring and reporting arrangements in place and the governance structure in place. Whilst the ongoing achievement of savings, together with the impact of future financial settlements should remain a key focus for the Council, we found no significant matters to report to you at this stage in respect of the arrangements the Council has put in place to secure financial resilience.

Risk	Categorisation	Audit approach	Results of work performed
Fixed Asset Accounting The scale and complexity of the Council's estate presents a number of accounting challenges. In our previous audits, a number of areas for improvement were identified including: • 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.	Significant ●	We will continue to perform substantive tests of detail to be satisfied that the Council's property, plant and equipment balances (as shown in the financial statements) are free from material misstatement. We have requested that the Finance and Valuations team perform earlier work on: • processing and evidencing the cyclical valuation; • compiling the impairment valuation paper; and • putting through adjustments and preparing working papers on a timely basis. We will involve our valuations team when considering the key assumptions used in the valuation process.	We have performed substantive tests of detail to be satisfied that the Council's property, plant and equipment balances (as shown in the financial statements) are free from material misstatement. We noted a number of issues as part of the audit work on PPE including: - misclassification of expenditure the prior year accounts; - late availability of working papers to support the balances included in the financial statements; and - incomplete listings of leases. The results of this work are discussed in more detail on page 10.

Risk	Categorisation	Audit approach	Results of work performed
Cambridgeshire Pension Fund Audit			
Management override of controls 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.	Significant ●	We will perform procedures to; • 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 biases and evaluate whether circumstances producing any bias, represent a risk of material misstatement due to fraud; • evaluate the business rationale underlying significant transactions; and • perform 'unpredictable' procedures. We may perform other audit procedures if necessary.	We have performed procedures to: • 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; • test the appropriateness of journal entries; • review accounting estimates for biases and evaluate whether circumstances producing any bias, represent a risk of material misstatement due to fraud; • evaluate the business rationale underlying significant transactions; and • introduce an element of 'unpredictability' into the audit which involved considered individuals within the pensions team who may have access to amend their own pension data. We identified a significant control weakness in relation to unbalanced journals. This is discussed in more detail on page 13 below.

Risk	Categorisation	Audit approach	Results of work performed
Cambridge and Counties Bank Investment As part of the investment strategy, in November 2011, it was agreed that the Fund, in conjunction with Trinity College, would purchase a 50% stake each in a bank ('Cambridge and Counties Bank'). This bank was formed in June 2012. This will be the second 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.	Elevated ●	We will consider the valuation of the Cambridge and Counties Bank Investment in conjunction with the prevailing accounting standards. We will seek assurance that the valuation has not been subject to impairment at the date of the net assets statement. We will test the Fund's assumptions in generating the valuation applied to the Bank. We will involve our investment valuations team when considering the key assumptions used in the valuation process.	We have reviewed the pension fund's assessment of the value of its Cambridge and Counties Bank Investment. The pension fund has utilised its actuaries to provide a range of possible valuations of the bank as at 31 March 2014. The pension fund continues to carry this investment at cost as the range of possible valuations is considered to cast doubt on any variation from this. This is in line with the accounting policy set out in the accounting statements. Our valuation experts have assessed the valuation of the bank at cost. Whilst we are satisfied that the bank is not materially misstated, in the context of the truth and fairness of the accounts as a whole, given the bank is in its 3rd year of trading and has been making a consistent profit, the Council should obtain an alternative professional valuation to assess the fair value. The most common approach would be to use a 'price to book multiple' method. In addition, consideration should be given to applying a differential valuation of the equity and preference shares. This is discussed in more detail on pages 13 and 14 below.

Intelligent scoping

In our audit plan presented to you in January 2014 we reported our planned overall materiality which we used in planning the overall audit strategy. Our materiality varied because the draft financial statements for 2013/14 had increased expenditure when compared to the final 2012/13 financial statements, on which we based our initial calculation.

Our revised materiality levels are as follows:

	£
Overall materiality (County Council)	19,000,000
Overall materiality (Pension Fund)	20,500,000
Clearly trivial reporting de minimis	250,000

Overall materiality has been set at 2% of actual expenditure for the year ended 31 March 2014.

Overall materiality for the pension fund audit has been set at 1% of net assets for the year ended 31 March 2014.

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 January 2014.

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

We have completed our audit, subject to the following outstanding matters:

- review of the pension fund annual report for consistency with the accounting statements;
- completion of our testing on disclosure items in the pension fund accounting statements;
- receipt of bank and investment confirmations for the county council, including schools;
- completion of our work on the impairment analysis on the council's property, plant and equipment portfolio, including the indexation analysis;
- receipt of a paper in relation to the treatment of the guided busway asset in the accounts;
- completion of our Whole of Government Accounts work;
- review of the detailed disclosures in the updated Statement of Accounts;
- approval of the Statement of Accounts and letters of representation; and
- completion procedures including subsequent events review.

As part of our work on the Statement of Accounts we are also required to examine the Whole of Government Accounts schedules submitted to the Department for Communities and Local Government. This work is outstanding at the time of writing and we will therefore provide the Committee with an update at its meeting on 23 September 2014.

Accounting issues – County Council

Property, plant and equipment

The Council has a large and complex property, plant and equipment portfolio and historically we and the Council have identified a number of issues in relation to accounting entries and adjustments to the PPE balances.

Your draft accounts include total fixed assets with a net book value of £1,723 million, largely made up of land and buildings (net book value of £799 million,) and infrastructure assets (net book value of £665 million). The Council is required to ensure these assets are carried at an appropriate and current valuation at the balance sheet date.

Our work to review the work of the Council's internal valuers includes utilising our own valuation expert to review the assumptions that have been applied by the Council's valuations team. This work is ongoing at the time of writing this report, however, we will provide the Committee with a verbal update at its meeting on 23 September.

The indexation analysis prepared by the Council on an annual basis was not done in advance of 30 June deadline and was presented to us late on in the audit process, as was the case in 2012/13. We note that there are differences in the reasoning behind this late presentation. Whereas in 2012/13 the Council did not build this into its year end processes, in 2013/14, the Council initially judged that the analysis was not required as there would be no impact from indexation. It is now accepted that this will be part of the routine closedown procedures going forward. The Council is also considering changing its valuation date from 1 April to 31 March which would negate the need for an annual indexation analysis of in year valued assets. We reiterate that the Council should ensure that all material PPE adjustments are processed in advance of 30 June deadline for the preparation of accounts in future years.

Due to the timing of this work, we have not yet concluded our audit work in this area and will provide a verbal update to the committee at its meeting.

We have tested that assets exist by physically inspecting a sample of your PPE. We did not find any matters to report to you in this regard.

The generation of the property, plant and equipment balances in the statement of financial position remains an incredibly complex and manual process requiring a significant number of adjustments to be processed through a spreadsheet. The manual nature of the process increases the risk of error and requires significant audit input from us to ensure that all adjustments are explainable and supported by underlying documentation. This process is more complex than that seen at other councils and therefore the Council should seek to rationalise its process and ensure that its systems are fit for purposes for the preparation of the statement of accounts. We have noted this in previous reports to the Audit Committee and management has informed us that significant work has been undertaken to streamline and automate the process. The benefits of this work are expected to be seen in 2014/15.

Treatment of Revenue expenditure funded through capital under statute (REFCUS)

At the time of writing, management has identified an error in relation to the prior year in which the Council categorised £6.7m of expenditure incorrectly. There are errors in both directions, that is, some items of expenditure were treated as REFCUS incorrectly when they should have been capitalised (£18.6m) and some items of expenditure were not treated as REFCUS that should have been (£15.1m).

In addition, a number of varied errors were identified by management whereby expenditure had been capitalised into 'assets under construction' (£10.2m) but either did not meet the Council's threshold or definition for capitalisation or the asset was not, in fact, owned by the Council. The largest part of this was the devolved formula capital grant paid to schools which was capitalised against the policy of the Council.

The Council has assessed the error against the trigger in the CIPFA Code for a prior period adjustment and the Council is of the view that an in year adjustment is sufficient to correct this error. The net book value of PPE in the draft accounts was £1,723m.We have assessed the Council's justification for this and note that as there is no material effect on any financial statement line item within the financial statements, we are satisfied with an in year correction of these errors. These are shown in Appendix 1 to this report.

Leases

Our testing of leases identified four new leases as recorded by the property valuations team that had not been identified by the corporate finance team and therefore included in the draft financial statements. Whilst we have been able to satisfy ourselves that the effect on the financial statements is not material or above our clearly trivial level for reporting to the Audit and Accounts Committee, the Council should seek to ensure that its processes for entering into new lease agreements includes a step whereby the finance team considers value for money and accounting implications.

Our testing of leases also identified that the prior year comparative was incorrect and whilst this does not represent a material change and therefore no prior period adjustment is required, the Council has restated its prior year comparatives to ensure the accounts present a consistent and comparative accounting treatment and disclosure for leases.

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.

Management will provide us with a briefing paper as to the status of this dispute, associated disclosures and the implications for the accounting treatment which may need to be reflected in the financial statements. We will update the Committee on our view on this at its meeting on 23 September.

Testing of schools expenditure

Our routine testing of schools expenditure identified a small error in the year end cut off applied amounting to £61 for one transaction. Our extrapolation of this error across the schools expenditure population results in an error that is above our clearly trivial reporting threshold and it is therefore included in Appendix 1.

Allowance for Doubtful Debt

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.

Segregation of Duties in the Payroll and Accounts Payable systems

As we have reported to you in previous years, the Council's Accounts Payable module of the general ledger system and the Payroll system do not have system enforced segregation of duties. The Council has not taken any action to address the recommendations made in 2012/13 as part of our ISA260 report.

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 and the ability to process payroll and make changes to standing data.

Payroll to General Ledger Reconciliation

As part of our testing of the payroll expenses included in the Council's Comprehensive Income and Expenditure Statement (CIES), we noted that the payroll costs according to the general ledger did not match the payroll costs according to the payroll system and that the Council does not perform a systematic reconciliation between the two systems.

The Council has now provided us with this reconciliation to enable us to complete this work.

Pensions liability

The valuation of net pension liabilities for employees in the Cambridgeshire pension fund is a significant estimate in the Council's statement of accounts. Your share of the net pension liability included in the County Council accounts at 31 March 2014 was £438 million (2013 - £440 million).

The 2013 triennial valuation has been finalised and the effect on the accounts is as follows:

- The present value of the defined benefit obligation has decreased by £13.696m;
- The fair value of plan assets has increased by £7.712m; and
- Total remeasurements recognised in the CIES were therefore £21.408m.

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 to 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.

Changes to IAS 19: Employee Benefits

From 2013/14 there have been changes to the accounting for defined benefit schemes and termination benefits. These changes had partly been reflected in the Authority's draft financial statements. The Council has subsequently reflected all of the required changes within its updated financial statements.

Accounting issues – Pension Fund

Preparation of the Accounts

The process for preparing the pension fund accounting statements during 2013/14 has not been as effective and robust as it has been in previous years. Most notably, management performed a review of the mapping of the trial balance codes within the accounting statements and made a number of changes to the mapping in 2013/14. On review of these changes, we found that a number of these had been made in error and had not been reviewed appropriately by senior management. This resulted in a large number of material adjustments and significant additional audit work and delays to the process.

In addition, in order to support the pension fund team in a faster closedown process, at their request, we brought forward our audit by 3 weeks this year. Unfortunately the working papers to support the audit were not ready and available for us to review when we arrived on site and the first draft of the accounts was not complete.

The pension fund team should review its closedown practices to ensure that they are fit for purpose to produce high quality accounting statements and supporting working papers first time.

Journals Posting

Our testing of journals identified that journals can be created that post part of the journal into the pension fund general ledger and part of the journal into the Council ledger. This results in an unbalanced accounting entry which is automatically posted to a suspense account. We have reviewed the suspense account at 31 March 2014 and are satisfied that the unbalanced entries have been resolved within a tolerable materiality limit, however, this creates a significant manual workaround.

Our testing of the trial balance mapping within the pension fund and county council audits identified that pension fund costs centres had incorrectly been included in the draft County Council financial statements.

Management should investigate the possibility of restricting journal postings to each 'company' within the Oracle general ledger system to avoid cross postings between the County Council and the pension fund.

Late Receipt of Contributions Income

Our testing of contributions income identified that a significant amount of Cambridgeshire County Council contributions were not received on a timely basis. £13.2m out of a total of £21.8 m were not received until April 2014. The processes that the pension fund has in place to monitor late receipt of contributions are not operating effectively in respect of the administering authority. It appears to be primarily because Cambridgeshire County Council does not complete PEN18 forms as other admitted bodies do.

In order to rectify this, we recommend that the pension fund introduces a PEN18 requirement for Cambridgeshire County Council to monitor the late payment of contributions. As part of this, the County Council should ensure that it is paying over its contributions to the pension fund on a timely basis.

Pension Fund Bank Account

Through discussions with management, we identified that not all payments and receipts are being processed through the pension fund bank account as is now required. Some transactions continue to be processed through the County Council bank account. The pension fund team should ensure that all transactions are processed through its own bank account in line with regulations.

Cambridge and Counties Bank

In November 2011, the Cambridgeshire Pension Fund agreed to enter into a joint venture with Trinity Hall to set up a Bank with the remit of lending to small and medium sized businesses. The Cambridge and Counties Bank started trading in June 2012.

As part of our audit procedures, we have considered legality, governance, accounting and valuation.

We have reviewed the legal form of the Bank and the share that the Cambridgeshire Pension Fund holds as well as consideration of whether either party has overall control over the bank. Management's view is that the Bank is a jointly owned operation with no overall control by either party and that the pension fund is not required to prepared group accounts under *IFRS 3 Business Combinations* and can account for its share only. We have assessed this against the requirements of IFRS3 and agree with management's assessment of this.

The draft accounts included this investment at cost as a proxy for fair value, as in the prior year. Our valuation experts have assessed the valuation of the bank at cost. Whilst we are satisfied that the bank is not materially misstated, in the context of the truth and fairness of the accounts as a whole, given the bank is in its 3rd year of trading and has been making a consistent profit, the Council should obtain an alternative professional valuation to assess the fair value. The most common approach would be to use a 'price to book multiple' method. In addition, consideration should be given to applying a differential valuation of the equity and preference shares.

We recommend that such a valuation is obtained for the 2014/15 financial statements. In addition, the pension fund has also purchased preference shares during 2013/14. The valuation of preference shares is different to that of the equity shares initially purchased by the pension fund. This should be factored into any future valuation. The pension fund should engage with specialist valuers in order to do this due to the materiality of the transaction, the profile of the Bank and the judgemental element of the valuation.

Private Equity Investments

As has been the case in previous years, the private equity investment valuations arrived late on in the audit process. Management has posted the adjustment to the accounting statements which resulted in a £3.3m increase in the private equity investment balance.

Our testing of the revised private equity balance identified differences in exchange rates of £1.2m. This is shown as an unadjusted difference in Appendix 1.

Investment manager confirmations

As has been the case in previous years, the pension fund has used the custodian confirmations as its primary source of evidence for completion of the accounting statements. Our audit procedures also require us to confirm that the accounting statements therefore agree to the custodian report that we have obtained independently. This work remains ongoing at the time of writing. In addition we confirm the investment balances with the investment managers and as part of this work we have identified some differences between the two sources of evidence. At the time of writing, it is thought that these relate primarily to pricing differences. These are shown in Appendix 1. We are undertaking additional work to finalise this testing and will update the Audit Committee at its meeting on 23 September.

It should be noted that the pension fund team should be reconciling its investment manager confirmations to its custodian reports (for both price and unit numbers) on a regular basis and investigating differences as a matter of course.

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. These are shown in Appendix 1 to this report.

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

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.

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:

- **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 2013/14 was £35.2 million (2012/13 £40.7 million). This involves a degree of estimation. You also value your PPE in accordance with your accounting policies to ensure that the carrying value is true and fair. This involves judgement and reliance on your valuers.

- **Bad Debt Provision:** Your Bad Debt Provision for sundry debtors is calculated on the basis of age and an assessment of the potential recoverability of invoices. Your provision for the impairment of receivables was £1.388 million in 2013/14 (2012/13 £0.376 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.

- **Accruals:** You raise accruals for expenditure where an invoice has not been raised or received at the year end, but you know there is a liability to be met which relates to the current year. This involves a degree of estimation. Accruals are not disclosed separately but are contained within accounts payable in the statement of accounts.

- **Provisions:** Provisions at 31 March 2014 total £9.3 million (£10.4 million as at 31 March 2013). Because provisions are liabilities of an uncertain timing or amount, there is an inherent level of judgement to be applied.

Pensions (IAS19 disclosures): See consideration on page 12. You rely on the work of an actuary in calculating these balances.

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.

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:

- The treatment of the Guided Busway in the accounts in respect of legal costs and impairment of the asset is appropriate;
- The treatment of the prior year errors in the PPE balance relating to revenue expenditure funded through capital under statute is in line with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and a prior period adjustment is not required. In year correction of the balance does not affect the truth and fairness of the financial statements, when taken as a whole;
- 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 2013/14; 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.

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 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 of the pension fund engagement is subject to an independent partner review of all significant judgements taken, including our reporting to the Audit Committee and a review of the annual report. The audit is also subject to other 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:

1. VAT advice on Guided Busway (Fee £8,000)

2. VAT helpline (Fee £2,000)

We have considered the nature of the services to be 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.

Fees

The analysis of our audit and non-audit fees for the year ended 31 March 2014 is included on page 24. 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

It is the Audit Commission's policy that engagement leaders at an audited body at which a full Code audit is required to be carried out should act for an initial period of five years. The Commission's view is that generally the range of regulatory safeguards it applies within its audit regime is sufficient to reduce any threats to independence that may otherwise arise at the end of this period to an acceptable level. Therefore, to safeguard audit quality, and in accordance with APB Ethical Standard 3, it will subsequently approve engagement leaders for an additional period of up to no more than two years, provided that there are no considerations that compromise, or could be perceived to compromise, the auditor's independence or objectivity.

Julian Rickett, as your engagement leader, is currently in his 7th year of appointment.

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 and Accounts 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.

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.

The Audit Commission 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 anticipate issuing an unqualified value for money conclusion. However, we have identified the following matters which we wish to bring to your attention:

- The current budget strategy within the Business Plan shows a budget gap of £149.1m of recurring savings. That is the gap between the current base budget and the future budget requirements to 2018/19.

- We have considered the overall arrangements that the Council has in place to secure financial resilience as we are required to do under our Audit Commission Code of Audit Practice Responsibilities. We have reviewed the savings plans in place to bridge the identified gap and whilst there are some plans in place that are fully formed and costed which management consider deliverable, there remain some plans which are less well defined. For example, our review found that plans within the Children, Families and Adults departments remain challenging and assume a level of demand reduction that we would consider to be optimistic.

- Our review identified that the Council still has an £8m gap between its savings requirements in 2016/17 and the level of plans in place.

Considering the Council's arrangements in place and considerations set out above, we do not deem it necessary to modify our conclusion in respect of the use of resources for 2013/14.

As set out on page 4 above, we have obtained and reviewed the savings plan and Medium Term Financial Plan which covers the period 2014/15 – 2018/19. We have reviewed the assumptions you have applied in formulating this document and have included below some sensitivity analysis and benchmarking of your MTFS in Appendix 3 of this report.

The funding gaps identified in each year of the MTFP are as follows (as published on the Council's website):

Year	Budget Gap (£m)
2014/15	38.2
2015/16	30.7
2016/17	32.7
2017/18	25.3
2018/19	22.2
Total	149.1

At the time of writing, the Council had undertaken a process to update its MTFP and a paper was taken to the General Purposes Committee in early September which revised the budget gaps in each year reducing the total required savings over the period of the plan to £125.5m.

The total savings required over the period of the MTFP for which plans do not currently exist are circa £8m, primarily in 2016/17. However a number of new cost pressures amounting to circa £3.5m have now been identified in 2014/15, primarily in Adults Services which the Council is considering mitigation for.

The Council has £82.6m of usable reserves of which £12.3 m is a general reserve. The Council has a policy of maintaining its general reserves at 2% of net expenditure. The Council is projecting that its general reserves will fall to 1.5% of net expenditure by the end of the 2015/2016 financial year.

It should be noted that use of reserves to bridge a funding gap is not a sustainable or long term solution. Whilst it would address the MTFP shortfall over the medium term, it would do nothing to address the underlying shortfall.

Considering the Council's arrangements in place and considerations set out above, we do not deem it necessary to modify our conclusion in respect of the use of resources for 2013/14.However the Council faces a significant challenging in balancing its budget given projected demographic changes and funding shortfalls. The Council should therefore seek to identify further recurrent, sustainable savings solutions that result in real transformational change to ensure that it is resilient as an organisation into the longer term.

Other reporting requirements

During the 2013/14, we have been contacted by a number of local electors who wished to raise matters with us. We have discussed each of these matters with management and have written to the electors explain our responsibilities as your auditors and also their rights as local electors.

We have not received any formal objections to the financial statements to date.

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.

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.

We have to report to you any significant 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

Deficiency	Recommendation	Management's response
PPE Accounts Preparation	We recommend that the Council reviews its processes and procedures for accounting for PPE and generating the year end position. This should encompass consideration of systems and processes as well as specifically considering accounting for REFCUS, recording and consideration of leases and processing of impairments.	Work has already been undertaken to improve the Council's use of the Fixed Asset's system (which will benefit the 2014-15 accounts), and this will continue over the coming year. The Council is also looking once again to bring forward the timetable for completion of valuation and systems work, in order to provide more flexibility and time to prepare the accounts. The process for calculating AUC balances, including REFCUS transactions, has already been identified by the Council as an area to improve and it is as a result of the first stage of this work that there have been some adjustments to the accounts this year. The Council has made small improvements to its processes for accounting for leases in the past three years; however the introduction of the new Asset Management System later this year will enable us to make further and more significant progress within this area. Finally, the Council is exploring the possibility of changing the valuation date for assets revalued in year, in order to reduce the likelihood of needing to make impairment adjustments.

Lack of segregation of duties within the accounts payable cycle **Lack of segregation of duties within the accounts payroll module in Oracle**	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 new suppliers and processing of payments to suppliers and the ability to process payroll and make changes to standing data.	The restructure and centralisation of teams and functions for Accounts Payable has provided the necessary segregation of duties and responsibilities, and minimised the users who have this access. Supplier Maintenance takes place in the Data Management Team based at NCC and Invoice Processing takes place in Processing Operations based at CCC. Staff within the teams only have the access to complete their jobs and responsibilities have been end dated accordingly.
General Ledger to Payroll Reconciliation	The Council should ensure that its general ledger and payroll systems are reconciled on at least a monthly basis.	Monthly reconciliations take place across the general ledger and payroll areas with suitable quality and sign off processes incorporated into the process. This process will be reviewed in the light of audit fieldwork findings.
Preparation of Pension Fund Accounts	The pension fund team should review its closedown practices to ensure that they are fit for purpose to produce high quality accounting statements and supporting working papers first time.	This recommendation is acknowledged and will be taken on board for the 2014-15 close down. There are a number of actions which are already being implemented. These include: • Further housekeeping within the share point site. • Greater focus on reconciliations during the year, and inclusion of these within the soft closedown. • Improved communication on the timetable and the Annual Report.
Use of suspense accounts and posting between PF and CC general ledgers	Management should investigate the possibility of restricting journal postings to each ‘company’ within the Oracle general ledger system to avoid cross postings between the county council and the pension fund.	This recommendation is noted and will be investigated as suggested. It should be noted that historic cross postings (involving balancing segment 03) have now been cleared and the use of the P0 segment should maintain clarity in the segregation of the 2 ledgers.

Late Contributions Income	The pension fund should consider introducing a PEN18 requirement for Cambridgeshire County Council to monitor the late payment of contributions. As part of this, the Council should ensure that it is paying over its contributions to the pension fund on a timely basis.	Engagement internally with Payroll Services is ongoing to improve Cambridgeshire County Council's specific provision of contribution information and transfer of monies to the Pension Fund Bank Account.
Pension Fund Bank Account	The pension fund should ensure that all transactions are processed through its own bank account in line with regulations.	A review of existing processes regarding Pension Fund bank transactions is being undertaken to ensure the integrity of payments and receipts.
Reconciliation of investment manager confirmations to custodian reports	The pension fund should be reconciling its investment manager confirmations to its custodian reports on a regular basis and investigating differences as a matter of course.	The team operates a reconciliation process working to agreed tolerances with the Custodian and Fund Managers. This process will be reviewed in the light of audit fieldwork findings.

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.

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 and Accounts 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 and Accounts Committee in January 2014 we enquired:

- Whether you have knowledge of fraud, 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 2013/14

We reported our fee proposals in our plan. As discussed with management and in line with previous year's fee arrangements, we are required to agree fee variations from scale with the Audit Commission. We varied our fee in 2013/14 because additional risk work was undertaken in the following areas:

1. As part of the county council audit:
   - Review of PFI schemes not built into the base fee
   - Additional work to consider questions raised by members of the public

2. As part of the pension fund audit:
   - IAS19 protocol work not built into the base fee
   - Additional work as part of the relocation of the pension fund team to Northampton not built into the base fee
   - review of the valuation of the pension fund bank not built into the base fee

Our fees charged were therefore:

Audit fee	Provisional outturn fee 2013/14 £	Indicative fee 2013/14 £	Final fee 2012/13 £
Audit work performed under the Code of Audit Practice	129,092	125,415	139,636
- 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	32,679	22,410	39,227
Certification of Claims and Returns	0	4,800	6,359
Total Audit Code work	**161,771**	**152,625**	**185,222**
Planned non-audit work			
- VAT Helpline	2,000	2,000	3,000
- VAT advice on Guided Busway	8,000	8,000	0
- VAT advice on schools	0	0	5,000
Total fees (audit and non-audit work)	**171,771**	**162,625**	**193,222**

The requirement to certify the Teachers' Pension Return (PEN05) has been removed by the Audit Commission and therefore our fee for certification of grants and claims of £4,800 as reported in our audit plan has now been reduced to £nil.

We have not yet finalised our audit work and therefore it is too early in the process to report to you a final fee. We will be discussing with management the additional work that we have performed in relation to finalising the pension fund audit and in our audit of property, plant and equipment in the council accounts.

Appendices

Appendix 1: Summary of uncorrected and corrected 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.

No	Description of misstatement (factual, judgemental, projected)		Income statement		Balance sheet	
			Dr	**Cr**	**Dr**	**Cr**
Cambridgeshire County Council – uncorrected misstatements						
1	Dr Cash and Cash Equivalents	F			61	
	Cr Schools Expenditure			61		
	Dr Cash and Cash Equivalents	P			353,555	
	Cr Schools Expenditure			353,555		
	Our testing of schools expenditure identified one item that had incorrectly been included in the 2013/14 financial year that related to 2014/15.					
	Total known differences amounted to £61 however as a result of our testing strategy this extrapolates to £353,616 over the whole population.					
Total uncorrected misstatements in the county council financial statements			**0**	**353,616**	**353,616**	**0**

No	Description of misstatement (factual, judgemental, projected)		Fund account		Net asset statement	
			Dr	Cr	Dr	Cr
Cambridgeshire Pension Fund – uncorrected misstatements						
1	Dr Quoted Equity Investments	F			170,074	
	Cr Change in Market Value			170,074		
	Dr Quoted Equity Investments				577,041	
	Cr Change in Market Value	P		577,041		
	Our testing of quote equity investments back to independently obtained price data identified a number of differences in the valuation of investments at 31 March 2014. Total known differences amounted to £170,074 however as a result of our testing strategy this extrapolates to £747,115 over the whole population.					
2	Dr Change in Market Value	J	1,048,470			
	Cr Property Investments					1,048,480
	Our testing of property investments back to independently obtained price data identified that the total value of property investments was overstated.					
3	Dr Private Equity Investments	J			1,156,173	
	Cr Change in Market Value			1,156,173		
	As discussed above, our testing of the private equity investments identified variances in the foreign exchange rates used by the pension fund compared to our own independently obtained rate.					
Total uncorrected misstatements in the pension fund accounting statements			**1,048,470**	**1,903,288**	**1,903,288**	**1,048,480**

We also found the following misstatements during the audit that have been adjusted by management. We report these to you so that you can fulfil your responsibilities as those charged with governance.

No	Description of misstatement (factual, judgemental, projected)	Income statement		Balance sheet	
		Dr	**Cr**	**Dr**	**Cr**
Cambridgeshire County Council – corrected misstatements					
1	Dr CIES: Cost of Services	7,285,000			
	Cr CIES: Capital Grants and Contributions		549,000		
	Cr Assets Under Construction				6,736,000
	Dr Capital Adjustment Account (REFCUS)			7,285,000	
	Cr Capital Adjustment Account (Capital Grants and Contributions)				549,000
	Cr General Fund				6,736,000
	Being the correction of the prior year error noted in relation to revenue expenditure funded by capital under statute as discussed on pages 10 and 11 above.				
2	Dr Property, plant and equipment			20,305,000	
	Cr CIES: Impairment		20,305,000		
	Dr General Fund			20,305,000	
	Cr Revaluation Reserve				8,987,000
	Cr Capital Adjustment Account				11,318,000
	Being the adjustment to the accounts to reflect the indexation analysis processed after the draft accounts were submitted for audit.				
Total corrected misstatements		**7,285,000**	**20,854,000**	**47,895,000**	**34,326,000**

No	Description of misstatement (factual, judgemental, projected)		Fund account		Net asset statement	
			Dr	Cr	Dr	Cr
Cambridgeshire Pension Fund – corrected misstatements						
1	Dr Contributions	F	632,000			
	Cr Debtors					632,000
	Our testing of debtors and contributions identified an amount from the Ministry of Justice that arose on the transfer of the Magistrates function which had been double counted within the accounting statements.					
2	Dr Private Equity Investments	F			3,324,451	
	Cr Change in Market Value			3,324,451		
	As discussed above, a time lag exists for the valuation of private equity investments. This adjustment is to reflect the processing of the valuation adjustment in relation to private equity investments					
Total corrected misstatements			**632,000**	**3,324,451**	**3,324,451**	**632,000**

As part of our audit of the accounts, we also found a number of disclosure adjustments which management has updated in its final accounts. None of these were individually or cumulatively significant enough to report to you here.

Appendix 2: Letter of representation

PricewaterhouseCoopers LLP
3 St James Court
Whitefriars
Norwich
NR3 1RJ

Dear Sirs

Representation letter – audit of Cambridgeshire County Council's (the Authority) Statement of Accounts for the year ended 31 March 2014

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 2014 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 2013/14 supported by the Service Reporting Code of Practice 2013/14.

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 2013/14 supported by the Service Reporting Code of Practice 2013/14; 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 2013/14 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 is shown below:
-

No	Description of misstatement (factual, judgemental, projected)		Income statement		Balance sheet	
			Dr	Cr	Dr	Cr
Cambridgeshire County Council – uncorrected misstatements						
1	Dr Cash and Cash Equivalents	F			61	
	Cr Schools Expenditure			61		
	Dr Cash and Cash Equivalents	P			353,555	
	Cr Schools Expenditure			353,555		
	Our testing of schools expenditure identified one item that had incorrectly been included in the 2013/14 financial year that related to 2014/15.					
	Total known differences amounted to £61 however as a result of our testing strategy this extrapolates to £353,616 over the whole population.					
Total uncorrected misstatements in the county council financial statements			**0**	**353,616**	**353,616**	**0**

No	Description of misstatement (factual, judgemental, projected)		Fund account		Net asset statement	
			Dr	Cr	Dr	Cr
Cambridgeshire Pension Fund – uncorrected misstatements						
1	Dr Quoted Equity Investments	F			170,074	
	Cr Change in Market Value			170,074		
	Dr Quoted Equity Investments				577,041	
	Cr Change in Market Value	P		577,041		
	Our testing of quote equity investments back to independently obtained price data identified a number of differences in the valuation of investments at 31 March 2014. Total known differences amounted to £170,074 however as a result of our testing strategy this extrapolates to £747,115 over the whole population.					
2	Dr Change in Market Value	J	1,048,470			
	Cr Property Investments					1,048,480
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3	Dr Private Equity Investments	J			1,156,173	
	Cr Change in Market Value			1,156,173		
	As discussed above, our testing of the private equity investments identified variances in the foreign exchange rates used by the pension fund compared to our own independently obtained rate.					
Total uncorrected misstatements in the pension fund accounting statements			**1,048,470**	**1,903,288**	**1,903,288**	**1,048,480**

The treatment of the prior year errors in the PPE balance relating to revenue expenditure funded through capital under statute is in line with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and a prior period adjustment is not required. In year correction of the balance does not affect the truth and fairness of the financial statements, when taken as a whole

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 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.

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 payment 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 appendix 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 2013/14.

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 the Authority has made you aware of all employee benefit schemes in which employees of the Council and the group participate. All significant retirement benefits that the Authority and the group is committed to providing, including any arrangements that are statutory, contractual or implicit in the Authority's and the group's actions, wherever they arise, whether funded or unfunded, approved or unapproved, have been identified and properly accounted for in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and 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:

Rate of Inflation	2.8%
Rate of Increase in Salaries	4.6%
Rate of Increase in Pensions	2.8%
Discount Rate	4.3%
Longevity at 65 for current pensioners	
Men	22.5 years
Women	24.5 years
Longevity at 65 for future pensioners	
Men	24.4 years
Women	26.9 years

We have considered the assumptions made by our actuary in relation to the take-up of the entitlement to a lump sum under Regulation 3 of the Local Government Pension Scheme (Amendment) Regulations 2006 (Statutory Instrument 2006/966), and, in our view, the assumption of 50% take-up reflected in the accounts is the most appropriate assumption for the preparation of our financial statements and leads to the best estimate of scheme liabilities.

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 2013/14.

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 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 2014, 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 2014 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.

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 2013/14.
- 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, where relevant to the accounting estimates and disclosures.
- Disclosures related to accounting estimates are complete and appropriate under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
- 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 Guided Busway:

- I confirm the treatment of the Guided Busway in the statement of accounts in respect of legal costs and impairment of the asset is appropriate and in line with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

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 2013/14.

Using the work of experts

I agree with the findings of the Council's experts in evaluating the valuation of fixed assets and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the financial statements 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 financial statements.

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 financial statements.

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.

Regarding the valuations of fixed assets, an accounting estimate that was recognised in the financial statements:

- 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 2013/14.
- 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 2013/14.
- No subsequent event requires adjustment to the accounting estimates and disclosures included in the financial statements.

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 2013/14.

Where we have designated hedging relationships of 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 we have assigned fair values 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

Where appropriate, the following have been properly recorded and adequately disclosed in the financial statements:

- The identity of, and balances and transactions with, related parties.
- Losses arising from sale and purchase commitments.
- Agreements and options to buy back assets previously sold.
- Assets pledged as collateral.

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.

The authority has recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and has disclosed in the financial statements 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

Except as disclosed in the financial statements, no transactions involving members, officers and others requiring disclosure in the financial statements under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 have been entered into.

Provisions

Provisions for depreciation and diminution in value including obsolescence have been made against property, plant and equipment on the bases described in the financial statements 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 financial statements.

As minuted by the Audit and Accounts Committee at its meeting on 23 September 2014

……………………………….

Chief Financial Officer

For and on behalf of Cambridgeshire County Council

Date:

Appendix 1 – Related Parties

All bodies within the Whole of Government Account boundary

LGSS with Northamptonshire County Council
Cambridge and Counties Bank
Trinity Hall College
Councillor Batchelor
Councillor Hickford
Councillor Seaton
David Brooks
Matthew Pink
John Walker

Appendix 3: MTFS Benchmarking

PwC has prepared benchmarking of the MTFS against other, similar organisations. Figures used in this analysis have been drawn from the final year end Budget Strategy per the Council's website.

The Council has assumed that inflation will increase at a slower rate than RPI but will be higher than CPI. This is a higher than average assumption compared to other Councils. This means that costs are expected to increase by a higher percentage and indicates a relatively prudent approach in budgeting.

Similarly relatively prudent, the Council is assuming that there will be a continued fall in the amount of Revenue Support Grant from 2014/15, anticipating that this will fall by up to 10% every year, which is greater than the benchmark average decrease. This assumption will force the Council to begin to look for other revenue streams and will further highlight the importance of cost efficiencies.

The Council expects to increase Council Tax (CT) income by 1.99% each year; this is in line with expected inflation rates and reflects the increase for 13/14. The Council expects to continue to raise CT in line with this percentage year on year. This is higher than other Councils which instead opt to freeze CT and receive a grant from central government instead.

Per the benchmarking exercise, the Council has the largest cost saving figure to achieve over the next five years, at £149.1m. This is a higher than average as a percentage of its net budget at 27.72% (compared to the average 25.59%). The efficiencies saving requirement is the second highest at £38.3m. The Council will need to ensure that it is planning sufficiently to achieve these savings.

The benchmarking shows that the Council does not have a strong reserves balance. It has a lower than average general fund balance of around £12m (compared to an average of £14.14m). In light of this the Council is budgeting for minimal usage of its reserves balances in the next five years.

Conclusion

The Council has been relatively prudent in a number of its assumptions, including non-pay inflation and revenue support grant losses which is causing a larger budget gap to be identified and managed. Although this is the largest budget gap according to the benchmarking analysis, it is only just above average as a percentage of the net budget.

The Council will be stretched financially in the coming years, more so than other councils considered in this benchmarking, as it has growth pressures and a lower than average reserves balances to manage any short term cash flow issues.

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