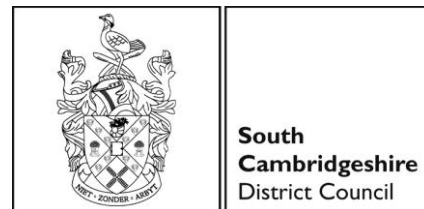


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14 October 2016

To: Chairman – Councillor Andrew Fraser  
Members of the Audit and Corporate Governance Committee – Councillors  
John Batchelor, Grenville Chamberlain, Simon Crocker, Christopher Cross,  
Roger Hall, Douglas de Lacey, Tony Orgee and John Williams

Quorum: 3

Dear Councillor

This is a supplement to the previously-published agenda for the meeting of **AUDIT AND CORPORATE GOVERNANCE COMMITTEE** on **FRIDAY, 21 OCTOBER 2016**, containing those reports which had not been received by the original publication deadline.

Yours faithfully  
**JEAN HUNTER**  
Chief Executive

Requests for a large print agenda must be received at least 48 hours before the meeting.

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## AGENDA

6. External Audit Results 2015-16 - Report to follow

**PAGES**  
**1 - 30**

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# Agenda Item 6

## **South Cambridgeshire District Council**

Audit Results Report - ISA (UK and Ireland) 260  
for the year ended 31 March 2016

OCTOBER 2016

Ernst & Young LLP



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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk))

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

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. We, as appointed auditor, take no responsibility to any third party.

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

# 1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit and Corporate Governance Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Below are the results and conclusions on the significant areas of the audit process.

Status of the audit	<p>Our audit of the financial statements of South Cambridgeshire District Council for the financial year ended 31 March 2016 is substantially complete. Subject to satisfactory completion of the outstanding items included in Appendix C we will issue an audit opinion in the form which appears in Appendix F.</p> <p>Subject to the items listed in Appendix C we have performed the procedures outlined in our Audit Plan and anticipate issuing an unqualified opinion on the Authority's financial statements.</p> <p>We have concluded that you have put in place proper arrangements to secure value for money in your use of resources.</p> <p>We have completed the procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission. We do not have any issues to report.</p> <p>We expect to issue the audit certificate at the same time as the audit opinion.</p>
Audit differences	<p>We have identified one unadjusted audit difference within the draft financial statements, which management have chosen not to adjust. We ask the Audit and Corporate Governance Committee to consider approving management's rationale as to why this correction has not been made and, if approved, include this in the Letter of Representation. Appendix A to this report sets out the uncorrected misstatement. We do not consider this to be material to our audit opinion.</p> <p>Our audit identified a number of further audit differences which our team have highlighted to management for amendment. These have been corrected during the course of our work and further details of the more significant amendments are provided at Appendix B. These adjustments have not had an impact on useable reserves.</p> <p>We will update the Committee at the meeting to be held on 21 October if we identify any further adjusted or unadjusted amendments which we wish to bring to your attention.</p>
Scope and materiality	<p>In our audit plan presented at the March Audit and Corporate Governance Committee meeting, we communicated that our audit procedures would be performed using a materiality of £1.3 million. We have reassessed this based on the actual results for the financial year and have increased this amount to £1.7 million due to higher gross revenue expenditure in 2015-16 than the previous year.</p> <p>The threshold for reporting audit differences which impact the financial statements has increased from £66,000 to £84,000. The basis of our</p>

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assessment is 2% of gross operating expenditure, which has remained consistent with prior years.

We carried out our work in accordance with our Audit Plan.

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Significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our audit plan:

- Valuation and Impairment of Property Plant and Equipment
- Pension Liability
- Risk of fraud in revenue recognition
- Risk of management override

The 'addressing audit risks' section of this report sets out how we have gained audit assurance over those issues.

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Other reporting issues

The vast majority of our audit has taken place from late August 2016. We started our audit in the middle of July 2016. However we struggled to progress the audit as the officers available to us at the time did not have sufficient knowledge of the financial statements or supporting work papers to enable us to progress our audit effectively. We took what was a difficult decision with the Council to pull out to allow key members of the Council's finance team sufficient opportunity to address a significant volume of queries and information requests we had in the earlier stages of our audit.

Our audit remains in progress and despite the best efforts of Council officers and the audit team we were unable to conclude our work by the 30<sup>th</sup> September 2016 deadline.

We accept that there was no continuity and knowledge in the audit team from the previous year and that the Council were surprised and disappointed with the points we were raising at the end of July 2016 compared with their experience in the previous year. However, it is worth noting that our audit team are following a consistent audit methodology and have access to last year's audit files.

Our audit report last year commented on the preparedness and improvements the Council needs to make for earlier closedown of accounts. It explained that 'the Council's closedown processes and working papers are adequate to support the current audit timescales. However, they are not adequate to meet the demands of the faster close audit deadlines in 2017/18. There are also areas where the supporting documentation would improve the efficiency of the audit process.'

We think these comments still stand. Our view is that this is not about the competence and capability of the Council's finance staff, who we think are technically good and have worked hard to address our audit requirements, especially in the tight and pressurised timeframes we were working towards.

We believe the finance team are heavily reliant on key individuals and would benefit from additional capacity and resilience, now and in the future. The Council should explore opportunities to do so.

We recognise that the Council's finance team was ready for the audit to restart before the end of August and that this was not possible due to our resource constraints. We accept that we need to improve our resourcing and scheduling of the audit in the future as part of our own preparations for faster closure of accounts that will take effect from the 2017/18 financial year.

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We will work with the Council to share learning from this year's audit and ensure that steps are taken by both the audit team and the Council to identify where we can both secure more efficiency and transparency in the audit process throughout the year.

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Control  
observations

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

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We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Neil Harris

Executive Director  
For and on behalf of Ernst & Young LLP



## **2. Responsibilities and purpose of our work**

### **The Council's responsibilities**

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

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

### **Purpose of our work**

Our audit was designed to:

- Express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- Report on an exception basis on the Annual Governance Statement;
- Consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- Discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

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

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

### 3. Financial statements audit

#### Addressing audit risks

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

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p><b>Valuation and Impairment of Property, Plant and Equipment</b></p> <p>Property, Plant and Equipment (PPE) represent the largest asset values on the Council's balance sheet.</p> <p>Land and buildings are initially measured at cost and then revalued to fair value. Council dwellings are revalued annually whilst other land and buildings and investment property are revalued on a 5 year rolling basis.</p> <p>This is carried out by an external expert valuer and is based on a number of complex assumptions. Annually assets are assessed to identify whether there is any indication of impairment.</p> <p>ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of external experts and assumptions underlying fair value estimates.</p>	<p>We obtained an understanding of and evaluate key controls over the valuation of PPE.</p> <p>Where asset valuations were undertaken in-year we:</p> <ul style="list-style-type: none"> <li>• agreed the source data used by your valuer to supporting records;</li> <li>• assessed the work of your valuer; and</li> <li>• agreed the outputs to your fixed asset register and statements</li> </ul> <p>Where the Council proposes significant changes to valuation bases we will evaluate the rationale.</p> <p>Where assets are not revalued in-year, we will review the Council's impairment assessment and consideration of whether the carrying values of these assets remain appropriate.</p>	<p>Our planned procedures in relation to this risk are substantially complete.</p> <p>Whilst we did not identify any errors in the valuation of PPE we did note material errors in the revaluation disclosures made in the note to the Statement of Accounts. See Appendix B for further details.</p>
<p><b>Pension Liability</b></p> <p>The Council operates a defined benefits pension scheme. Accounting for this scheme involves significant estimation and judgement. The Pension liability is the largest balance on the balance sheet. Due to the nature, volume and size of the transactions we consider this to be a significant risk.</p>	<p>We obtained an understanding of and evaluated key controls over the valuation of the pension liability.</p> <p>We considered:</p> <ul style="list-style-type: none"> <li>► the expertise of the Actuary used by the Council;</li> <li>► the reasonableness of the estimations and judgements used; and the completeness and accuracy of the data provided to the Actuary</li> </ul>	<p>Our planned procedures in relation to this risk are complete.</p> <p>We received notification from the Pension Fund auditor that scheme assets were understated.</p> <p>Officers recalculated the Council's share of scheme assets based on the information provided by the Pension Fund auditor and adjusted the Statement of Accounts. Further details are provided in Appendix A.</p> <p>There are no other issues to report to the Committee at this stage.</p>

<p><b>Risk of management override</b></p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<ul style="list-style-type: none"> <li>• Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements</li> <li>• Reviewed accounting estimates for evidence of management bias; and</li> <li>• Evaluated the business rationale for any significant unusual transactions.</li> <li>• Reviewed capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.</li> </ul>	<p>Our planned procedures in relation to this risk are complete.</p> <p>There are no issues to report to the Committee to date.</p>
<p><b>Risk of fraud in revenue recognition</b></p> <p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p>	<ul style="list-style-type: none"> <li>• Reviewed and tested revenue and expenditure recognition policies;</li> <li>• Reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias;</li> <li>• Developed a testing strategy to test material revenue and expenditure streams; and</li> <li>• Reviewed and tested revenue cut-off at the period end date.</li> </ul>	<p>Our planned procedures in relation to this risk are complete.</p> <p>There are no issues to report to the Committee to date.</p>

## Other matters

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

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

We have no matters we wish to report.

## Control themes and observations

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

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

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

Description	Impact
NDR Appeals provision	<p>The Council relies on figures provided by their management expert, Analyse Local, to form the basis of their provision for NDR appeals. Neither Analyse Local nor Council Officers were able to provide reports from the Valuation Office Agency (VOA) that agreed to Analyse Local's figures.</p> <p>We were provided with VOA reports that were run before and after the data used by Analyse Local and used those as a proxy for the reports provided by Analyse Local. Officers should retain audit trails to support figures provided by their expert to facilitate efficient audit.</p> <p>The appeals provision incorporates an estimate of appeals that will not be successful. We identified arithmetical errors in the calculation of this estimate. Officers should ensure that such calculations are checked for arithmetical error before presenting them for audit.</p> <p>We did not require any adjustment to be made in respect of NDR appeals provision as we agreed that the variance was within an acceptable range of estimation uncertainty.</p>

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Property Plant and Equipment (PPE) revaluation disclosures

We identified material errors in the property plant and equipment note in relation to the presentation of valuation movements and the book values of disposed assets.

The valuation movements shown in the Comprehensive Income and Expenditure Statement; Revaluation Reserve, Housing Revenue Account and PPE notes were all inconsistent and the PPE note was materially misstated.

This was caused by a working paper that was picking up incorrect figures from the asset register which had a knock on effect to other disclosures in the note.

There were similar errors in the 2014/15 PPE note and we therefore agreed an amendment to the prior year.

We worked with officers to identify a pragmatic solution. We recommend Officers continue to work on their working papers to ensure consistency of these areas going forward.

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We have reviewed the Annual Governance Statement and can confirm that it not misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council.

## **Request for written representations**

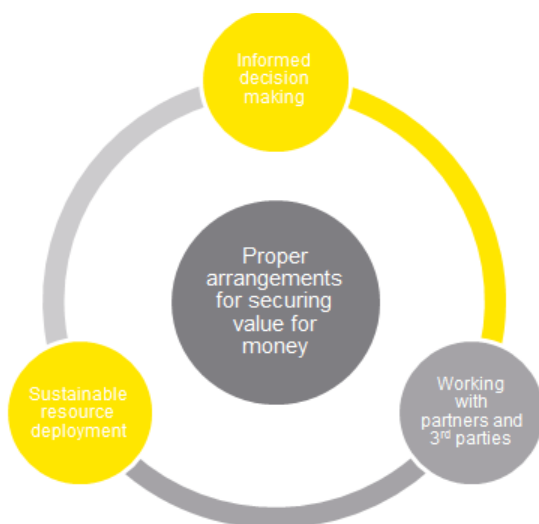
We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix G.

## **Whole of Government Accounts**

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

We have completed our work in this area and have no matters to report in this regard.

## 4. Value for money



We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ Take informed decisions;
- ▶ Deploy resources in a sustainable manner; and
- ▶ Work with partners and other third parties.

In recent years the Council has responded well to the financial pressures arising from the recent economic downturn, and reductions in the level of central government funding to local government. These factors will continue to impact the Council's medium term financial strategy during the current and forthcoming financial years.

We reviewed the Council's Medium Term Financial Strategy 2016-21. The Council has well established arrangements for reviewing its medium term financial plan which incorporates key assumptions and sensitivity review. The Council has a proven track record of achieving savings and achieving its budget. The General Fund balance at £10.6 million comfortably exceeds the Council's minimum level of £2.5 million. In addition the Council holds £10.9 million of earmarked reserves. The Council plans to reduce its General Fund balance to £2.5 million by the end of 2020/21. It is developing plans to tackle the cumulative £4 million additional income / savings required to achieve that goal.

On the basis of the work undertaken we have concluded that the Council has good arrangements in place for deploying resources in a sustainable manner.

### Overall conclusion

We have performed the procedures outlined in our audit plan and we have not identified any significant risks or weaknesses in relation to these criteria in our work to date.

We therefore conclude that you have put in place proper arrangements to secure value for money in your use of resources.

## Appendix A – Uncorrected audit differences

The following differences, which are greater than £84,000, have been identified during the course of our audit and have not been considered material by management or by us for adjustments. We are bringing them to the Committee's attention to enable you to form your own view on these items.

### Balance sheet and Statement of comprehensive income and expenditure

Item of account	Balance sheet (Decrease) / Increase £[000/m]	Comprehensive income and expenditure statement Decrease / (Increase) £[000/m]
Short term creditors	(108)	
Net cost of services		108
Under accrual. Extrapolated error based on a sample test of accruals. The actual error recorded was £15,630		
Cumulative effect of unadjusted differences	(108)	108

## Appendix B – Corrected audit differences

The following corrected differences, which are greater than £1.26 million, have been identified during the course of our audit and warrant communicating to you.

These items have been corrected by management within the revised financial statements.

### Balance sheet and Comprehensive Income and Expenditure Statement

Item of account	Balance sheet (Decrease) / Increase £000	Comprehensive income and expenditure statement Decrease / (Increase) £000
Group Balance sheet: Investment Property	1,505	
Group Balance sheet: Short-term creditors	(1,505)	
To recognise investment property at the point when the risks and rewards of ownership transferred to the group.		
Group and Council - Short term debtors	(2,557)	
Group and Council - Short term creditors	2,557	
To transfer debtor balances against associated creditors where the balance is an overall credit and there is right of set-off		
Cumulative effect of unadjusted differences	100	100

### Disclosures

Disclosure	Description of difference
Defined Benefit Pension Scheme Assets	<p>We received a response from the Pension Fund Auditor on 20 September 2016 which provided evidence that the fair value of the scheme assets as at 31 March 2016 was understated. The relative values of equity; private equity and other investment funds were corrected as a result.</p> <p>The fair value of scheme assets in Private Equity increased by £1.28 million as a result of this amendment. The total fair value of the Council's share of scheme assets increased by £0.5 million.</p>



Property Plant and Equipment	<p>The control weakness referred to above in section 3 of the report led to the following changes to the PPE note:</p> <ul style="list-style-type: none"> <li>• Revaluation increase/decrease through revaluation reserve -£2.8 million (2014/15 -£19.0 million);</li> <li>• Revaluation increase/decrease through surplus/deficit on provision of services £3.1 million (2014/15 -£21.6 million)</li> <li>• Impairment charged to surplus/deficit £0.3 million (2014/15 -£1.7 million)</li> <li>• Impairment charged to revaluation reserve £nil (2014/15 -£0.9 million)</li> <li>• Depreciation written out to Revaluation Reserve £11 million (2014/15 -£9.0 million)</li> <li>• Depreciation written out to Surplus/Deficit on the Provision of Services -£11 million (2014/15 -£9 million).</li> </ul> <p>The control weakness also affected; the movement in reserves statement and associated note; Assets Held for Sale; HRA and impairment note to the HRA.</p>
Revaluation Reserve	<p>The draft statement of accounts disclosed £5.58 million reversal of impairment through the revaluation reserve. This reversal had been credited to the Comprehensive Income and Expenditure Statement and should therefore not be included in the revaluation reserve.</p> <p>Revaluation gains were restated to as £35.8 million rather than £41.4 million (2014/15 £60.1 million rather than £81.9 million).</p>

## Appendix C – Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report

Item	Actions to resolve	Responsibility
Management representation letter	Receipt of signed letter of representation	Management and Audit and Corporate Governance Committee
Subsequent events review	Completion of the subsequent events procedures to the date of signing the audit report	EY and management
Final completion of audit procedures; Manager review; and Engagement Partner review	<p>Management and EY to work together to complete all outstanding work.</p> <p>Key areas outstanding at the time of drafting this report include:</p> <ul style="list-style-type: none"> <li>▶ Group Accounts consolidation including agreement of material balances in South Cambs Ltd</li> <li>▶ Agreement of final amendments to the revised financial statements.</li> </ul>	EY and management

## Appendix D – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 2 February 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit and Corporate Governance Committee on 21 October 2016.

We confirm that we have met the reporting requirements to the Audit and Corporate Governance Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 2 February 2016.

## Appendix E – Auditor fees

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

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £	Variation comments
<b>Total Audit Fee - Code work</b>	TBC	51,975	See below
<b>Certification of claims and returns</b>	TBC	9,190	See below

Our actual fee is in line with the scale fee set by the PSAA at this point in time, subject to satisfactory clearance of the outstanding work.

Since 2014/15 the Council has prepared Group Accounts. Due to the growing complexity and size of the subsidiary and the production of the group accounts this represents a change in scope of the original audit and we will seek to agree additional fee in this regards with management.

In addition, as noted in the Executive Summary, we have experienced unexpected delays in concluding our audit work. We are reviewing the implications this has had on our time and costs which we will conclude at the end of the audit. When we have done so, we will discuss with management if we anticipate requesting an additional fee. We will update the Committee on our proposed final fee position once we have discussed this with management.

Any additional fees agreed with management are subject to further approval by Public Sector Audit Appointments Limited.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

## Appendix F – Draft audit report

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL**

#### **Opinion on the Authority's financial statements**

We have audited the financial statements of South Cambridgeshire District Council for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement
- Authority and Group Comprehensive Income and Expenditure Statement
- Authority and Group Balance Sheet
- Authority and Group Cash Flow Statement
- Notes to the main financial statements 1 to 37
- Housing Revenue Account Income and Expenditure Account, Statement of Movement on the Housing Revenue Account Balance, and related notes 38 to 43
- Collection Fund and related notes 44 to 46, and
- Notes to the Group Accounts 1 to 7

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of South Cambridgeshire District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of the Executive Director (Corporate Services) as Chief Finance Officer and auditor**

As explained more fully in the Statement of Responsibilities set out on page 20, the Executive Director (Corporate Services) as Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to

the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director (Corporate Services) as Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2015/16 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of South Cambridgeshire District Council as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

### **Opinion on other matters**

In our opinion, the information given in the Statement of Accounts 2015/16 for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we report by exception**

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

## **Conclusion on South Cambridgeshire District Council's arrangements for securing economy, efficiency and effectiveness in the use of resources**

### **Authority's responsibilities**

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### **Auditor's responsibilities**

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2015, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Conclusion**

On the basis of our work, having regard to the guidance issued by the C&AG in November 2015, we are satisfied that, in all significant respects, South Cambridgeshire District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

## **Certificate**

We certify that we have completed the audit of the accounts of South Cambridgeshire District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

*Neil Harris*  
*for and on behalf of Ernst & Young LLP, Appointed Auditor*  
*Luton*  
*October 2016*



## Appendix G – Management representation letter

21 October 2016

Mr N Harris  
Executive Director  
Ernst & Young  
400 Capability Green  
Luton  
LU1 3LU

This letter of representations is provided in connection with your audit of the financial statements of South Cambridgeshire District Council (“the Council”) for the year ended 31 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of South Cambridgeshire District Council as of 31 March 2016 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### **A. Financial Statements and Financial Records**

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with [the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [ ].

### **B. Fraud**

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

### **C. Compliance with Laws and Regulations**

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

#### **D. Information Provided and Completeness of Information and Transactions**

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council and Cabinet (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date:

Council 22 September 2016

Cabinet 15 September 2016
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

#### **E. Liabilities and Contingencies**

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 34 to the financial statements all guarantees that we have given to third parties.

**F. Subsequent Events**

1. Other than as described in Note 22 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

Yours sincerely,

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Executive Director (Corporate Services) as Chief Finance Officer

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Chair of the Audit and Corporate Governance Committee

## Appendix H – Required communications with the Audit and Corporate Governance Committee

There are certain communications that we must provide to the Audit and Corporate Governance Committee of UK clients. These are detailed here:

Required communication	Reference
<b>Planning and audit approach</b> Communication of the planned scope and timing of the audit, including any limitations.	Audit Plan
<b>Significant findings from the audit</b> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit Results Report
<b>Going concern</b> Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	Audit Results Report
<b>Misstatements</b> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	Audit Results Report
<b>Fraud</b> <ul style="list-style-type: none"> <li>▶ Enquiries of the Audit and Corporate Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	We have made enquiries of management. We have not become aware of any fraud or illegal acts during our audit.
<b>Related parties</b> Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	We have no matters we wish to report.

Required communication	Reference
<b>External confirmations</b> <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	We have received all requested confirmations.
<b>Consideration of laws and regulations</b> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the Audit and Corporate Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Corporate Governance Committee may be aware of</li> </ul>	We have not identified any material instances of non-compliance with laws and regulations.
<b>Independence</b> Communication of all significant facts and matters that bear on EY's objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	Audit Plan and Audit Results Report
<b>Significant deficiencies in internal controls identified during the audit</b>	Audit Results Report
<b>Fee Information</b> <ul style="list-style-type: none"> <li>▶ Breakdown of fee information at the agreement of the initial audit plan</li> <li>▶ Breakdown of fee information at the completion of the audit</li> </ul>	Audit Plan Audit Results Report Annual Audit Letter if considered necessary
<b>Certification work</b> <ul style="list-style-type: none"> <li>▶ Summary of certification work undertaken</li> </ul>	Certification Report

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