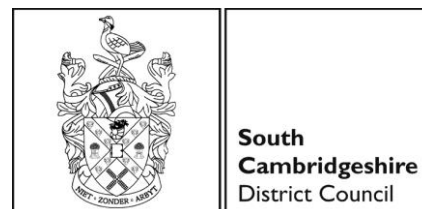


South Cambridgeshire Hall  
Cambourne Business Park  
Cambourne  
Cambridge  
CB23 6EA

t: 01954 713000

f: 01954 713149

[www.scambs.gov.uk](http://www.scambs.gov.uk)



29 November 2021

To: Chair – Councillor Tony Mason  
Vice-Chair – Councillor Nick Sample  
Members of the Audit and Corporate Governance Committee –  
Councillors Jose Hales, Geoff Harvey, Mark Howell and Heather Williams

Quorum: 3

Dear Councillor

This is a supplement to the previously-published agenda for the meeting of **Audit and Corporate Governance Committee** on **Wednesday, 1 December 2021** containing those reports which had not been received by the original publication deadline.

Yours faithfully

**Liz Watts**

Chief Executive

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

---

Agenda		Pages
7.	<b>External Audit Update - report to follow</b>	<b>1 - 8</b>

This page is left blank intentionally.

# **South Cambridgeshire District Council Audit Progress report**

Year ended 31 March 2019

23 November 2021

Page 1

Agenda Item 7



24 November 2021

Dear Audit and Corporate Governance Committee Members

The purpose of the report is to update you on our external audit of the Council's 2018/19 financial statement, further to the Audit Progress Report presented to the Audit and Corporate Governance Committee on 28 September 2021.

Following our presentation of our Audit Progress Report to the Audit and Corporate Governance Committee we requested the following key working papers and supporting information from the Council by 15 October 2021:

Revaluation Reserve 2018/19 Opening Position:

- Finalised technical paper with evidence to support Council's plan for a prior period adjustment in the opening 2018/19 position of the revaluation reserve.
- Workings to support a sample of assets selected by EY.
- The Council's proposed prior period adjustments disclosure note.

Nil Value Surplus Assets:

- Finalised technical paper and supporting documentation which evidences the Council work over the nil value surplus assets including update on the site visits for the 'unidentified' surplus assets.
- Council's agreed delivery date for the external valuer report.

We confirm that we received the requested information by the date required.

Following receipt of this information we have been working closely with the Council to progress and resolve the outstanding items as reported in our Audit Progress Report. Whilst we received the initial working papers requested to allow us to progress the audit, our subsequent detailed audit work has continued to identify complexities and issues regarding the accounting for and disclosures of, property, plant and equipment. As at the date of this report we have yet to conclude our audit procedures. We have set out the outstanding matters in this report below and will need to conclude on these before we can confirm that we expect to issue an unqualified audit opinion on the financial statements. We continue to plan to complete the work required before the end of December 2021, with a view to closing the audit and providing our opinion in January 2022, however this is dependent on the Council being able to provide final evidence required and revised financial statements within the next three weeks.



We reported in our Audit Results Report and subsequent progress report that we would be issuing a qualified Value for Money Conclusion for 2018/19 as this year is the fourth consecutive year that the Council has been unable to prepare and publish its accounts by the dates outlined in the Accounts and Audit (A&A) Regulations 2014.

In our September 2021 Audit Progress Report we reported that we were planning to report significant weaknesses in the Value for Money arrangements in place at the Council during 2020/21, as required by the CIPFA Code of Practice 2020/21, due to the continued protracted nature of the audit and the inability of the Council to resolve the issues referenced in this and previous reports to the Audit and Corporate Governance Committee.

We also reported that we were considering issuing statutory recommendations to the Council under Section 24 Schedule 7 of the Local Accountability and Audit Act 2014. Areas of significant weakness identified were:

- The capacity and capability of officers in the Council to adequately address issues and technical accounting queries in a timely manner;
- Inability to effectively prioritise resources to manage delivery of audit requirements; and
- The Governance arrangements and processes in place to respond to and address the weaknesses above.

To date we have not issued statutory recommendations on the above. On completion of the audit, we will report our findings and conclusions to the Audit Committee in our Audit Results Report. In that report, we will set out the context of the issues and delays experienced in the audit, any control weaknesses that we have identified and set our view on the actions being taken by the Council to address the issues raised. At that stage, we will also conclude on whether or not we have further recommendations and if further reporting under those statutory powers is required.

I look forward to discussing the progress of the audit with the committee on 1 December 2021.

Janet Dawson

Partner

# Executive Summary

## Status of the audit

In September 2021 we reported to the Committee that the Council had yet to finalise and conclude on significant issues with the Council's accounting for and disclosure of property, plant and equipment, particularly in relation to the supporting reconciliations with the Council's new fixed asset register (FAR) which should underpin those balances. Between September and November 2021 the Council has continued to carry out work to review and correct the information held in its new fixed asset register to ensure it adequately reflects the true position of the Council's property, plant and equipment balances. As at 23 November 2021 we have not been able to conclude our audit procedures as the Council has not been able to provide information and evidence to support the proposed accounting balances in respect of its property, plant and equipment.

There remain four key issues in regard to property, plant and equipment which we have set out below with an update as to progress since September 2021 based on our current understanding of the position:

### 1. Revaluation Reserve 2018/19 opening position

As previously reported we identified a difference of £6.4 million between the opening balance on the revaluation reserve in the new fixed asset register and the closing position in the audited 2017/18 statement of accounts and the Council's previous fixed asset register.

The Council has undertaken a review of the revaluation reserve to determine the correct opening position and identified two issues which result in the difference identified:

- i. Accounting adjustments posted to the 2017/18 Statement of Accounts to derive the revaluation reserve and related accumulated impairment recorded in the comprehensive income and expenditure statement were incorrectly calculated resulting in a £4.2 million understatement in the revaluation reserve in 2017/18.

We have completed our audit procedures over this element of the difference and subject to final review and approval concur with the Council's findings.

A material prior period adjustment will be required between the revaluation reserve in the Balance Sheet and the (Surplus)/Deficit on Revaluation of Property Plant and Equipment in the Comprehensive Income and Expenditure Statement. This will require additional disclosure, in the form of a prior period adjustments note, in the statement of accounts.



## Status of the audit

- ii. Calculation differences between the Council's old fixed asset register and the new CIPFA Asset Management System (AMS) have resulted in different 2018/19 opening balances in the revaluation reserve and related accumulated impairment for a number of individual non-current assets. The total impact of these calculation differences is an understatement of the revaluation reserve in the old fixed asset register and 2017/18 statement of accounts of £2.2 million. Management assert that the new fixed asset register is showing the correct opening position as the calculation in the new fixed asset register is calculating the revaluation reserve on a more granular level and their review of the previous fixed asset register has identified some issues with the previous calculations.

We are currently undertaking procedures to obtain assurance over management's assertion but to date have yet to conclude on this work.

We were originally told by the Council that all of the historic data since 2007 held in the Council's old fixed asset registers had been transferred to the new CIPFA AMS to allow the new CIPFA AMS to recalculate the revaluation reserve and related accumulated impairment in the comprehensive income and expenditure statement. We designed our testing approach on this basis to gain assurance over the difference identified and requested sample information to support the calculation being undertaken in the CIPFA FAR.

We were subsequently informed in October 2021 that the data transferred to the new CIPFA AMS was from 2011 due to a change in fixed asset register in that year. We revised our testing approach on this basis taking into account the change in information. In October 2021 the Council requested reports from CIPFA to show and evidence this historic information held in the AMS to allow us to perform our audit procedures, however this report remained outstanding throughout October 2021.

In November 2021 we were informed by the Council that the data transferred to the new CIPFA AMS was the cumulative carried forward position as at the end of 2016/17. As such the pending historic information requested from CIPFA was not available as it was not held within the new CIPFA AMS.

We have again revised our testing approach on this basis taking into account the change in information and are currently undertaking our detailed audit procedures on this basis.

At this stage, we have a detailed breakdown of the elements making up the £2.2m difference and have been provided with further reports from the system. However we have raised a number of detailed questions to help the officers to explain the reconciliation of the reports to the differences, and to provide the audit trail to support the explanation of those differences. We have also provided an example working paper for officers to follow in setting out their supporting evidence.



# Executive Summary

## Status of the audit

### 2. Nil value Surplus Assets

As reported in our Audit Results Report in July 2021 and Audit Progress report in September 2021 we identified that the new CIPFA AMS fixed asset register included 259 items of surplus land assets with nil value which had not been revalued within the last 5 years as required by the CIPFA Code of Practice. The Council was investigating the nil value surplus assets to determine which the Council still owned and would be valued by the Council's external valuer.

During September to November 2021 they continued to work on these assets and concluded that of the 259 nil value surplus assets it still owned 158, the other assets having been previously disposed of.

The Council's external valuers provided a desktop valuation which determined an existing use value for the 158 assets of £0.92 million. These assets are surplus assets which as per accounting standards should be valued at fair value at highest and best use and as such the valuation method employed is not wholly appropriate. The Council has determined that due to the nature of the assets, it is not possible for the Council to determine the future development potential of these assets and therefore cannot assign a highest and best use fair valuation. This results in a higher level of estimation uncertainty for these surplus assets and the Council will be required to update their Note 4. Assumptions Made About the Future and Other Major Sources of Estimation / Uncertainty note in the 2018/19 statement of accounts to reflect this.

We will need to consider this in the context of our audit opinion which may result in the inclusion of an emphasis of matter paragraph pointing out the increased disclosure to the reader of the accounts.

### 3. Implementation of new fixed asset register – transfer of data

The Council began the process of implementing its new fixed asset register (CIPFA Asset Manager Software) for use in its 2017/18 statement of accounts. The use of the new fixed asset register was postponed until 2018/19 but the data transferred between the old fixed asset register and new CIPFA AMS was the closing position in 2016/17 to create the opening 2017/18 position.

We are currently finalising our procedures over the data transfer, in particular a test of 25 items to confirm that information from the old fixed asset register has been completely and accurately transferred to the new CIPFA AMS.

It has been confirmed by the Council that there were no formal processes or controls put in place by the Council, other than those required by the CIPFA migration validation routines, to manage the implementation of the new fixed asset register during 2017/18. We will consider the impact of this and our findings from our audit procedures on property, plant and equipment, before issuing our final audit results report and opinion.





# Executive Summary

## Status of the audit

### 4. Final version of Fixed asset register and Property, Plant and Equipment note

The new CIPFA AMS fixed asset register has been updated by the Council to resolve issues identified with opening balances, namely: incorrect classification of operational assets upon their completion from asset under construction, impacting additions, disposals and reclassification lines; and other adjustments required to ensure correct presentation of the property, plant and equipment accounting note and related disclosures. The fixed asset register and accounting note will require further updating upon conclusion of outstanding audit procedures.

Once the new fixed asset register has been fully updated, finalised and checked by management we will need all relevant reports from the new fixed asset register, with full reconciliation of these reports to the revised Property, Plant and Equipment note in statement of accounts and other related accounting disclosures, including reconciliation of the opening position to the prior year closing position with working papers to support any adjustments made to this opening position.

In addition to the above, the following procedures remain incomplete:

• Review of the section 106 balances held within short term liabilities.

In December 2020 we identified that a number of Developer (S106) contributions had been reversed out of the 2017/18 creditors balance and then brought back into creditors in 2018/19. The Council's initial conclusion was that this resulted in a £1.1 million understatement of the 2017/18 creditors balance as supporting evidence indicated that the Council had the obligation to these creditors in the financial year of 2017/18.

We requested that the Council review all Developer (S106) contributions to determine when the Council took on the obligation to the section 106 monies received in advance to confirm the extent of any potential prior period adjustment.

The Council have subsequently asserted that this is not an error in the 2017/18 creditors balance but a disclosure issue as the Developer (S106) Contribution monies were taken out of the Developer (S106) Contributions account and transferred to sundry creditors. We are currently waiting for the Council's final determination and evidence to support their conclusion.

- Going concern - the Council provided its going concern assessment and disclosure in July 2021 and we have undertaken a review of that assessment. Given the amount of time that has passed since this assessment we will require an updated going concern assessment from management which we will need to review. Due to the impact of Covid-19 on the finances of Council, once we have completed our review of the Council's assessment we are required to consult internally to ensure we form the appropriate conclusion on the adequacy of the Council's disclosures.
- Audit review of other notes and disclosures related to property, plant and equipment - this is dependent on the Council resolving the issues above.
- Receiving and checking the final version of the statement of accounts.
- Completing our final review processes.
- Completing a subsequent events review.
- Requesting, receiving and reviewing the signed management representation letter.

This page is left blank intentionally.