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13 January 2023

To: Chair – Councillor Michael Atkins
Vice-Chair – Councillor Peter Sandford
Members of the Audit and Corporate Governance Committee –
Councillors Geoff Harvey, Mark Howell, Helene Leeming, Richard Stobart
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 **Thursday, 19 January 2023** 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

4. **Draft Audit Results Report 2019/20**

The draft report will summarise the current position of the 2019/20 audit and list the areas that still have some outstanding queries at the time of writing.

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South Cambridgeshire District Council Audit results report

Year ended 31 March 2020

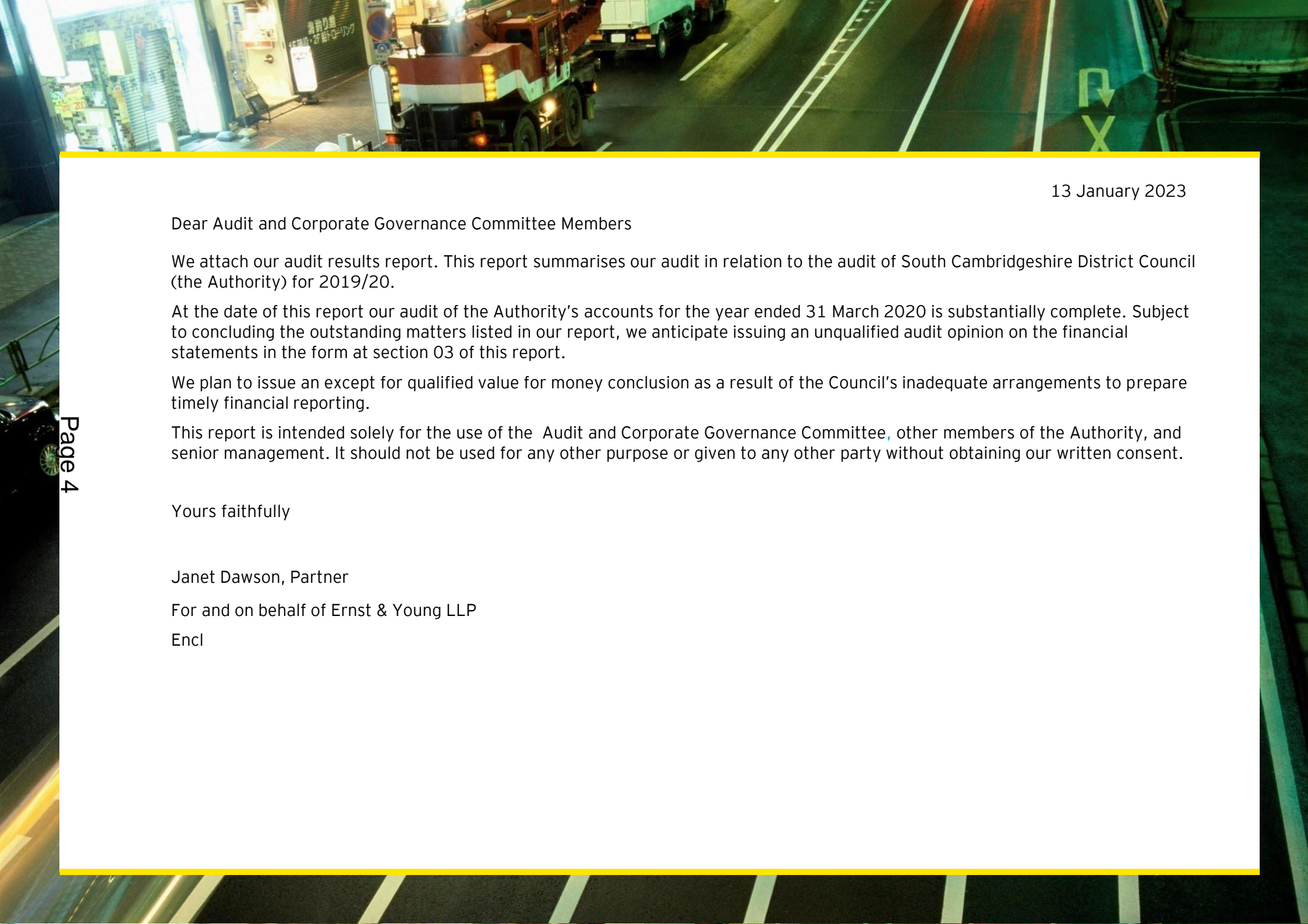
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Agenda Item 4

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y'.

Building a better
working world



13 January 2023

Dear Audit and Corporate Governance Committee Members

We attach our audit results report. This report summarises our audit in relation to the audit of South Cambridgeshire District Council (the Authority) for 2019/20.

At the date of this report our audit of the Authority's accounts for the year ended 31 March 2020 is substantially complete. Subject to concluding the outstanding matters listed in our report, we anticipate issuing an unqualified audit opinion on the financial statements in the form at section 03 of this report.

We plan to issue an except for qualified value for money conclusion as a result of the Council's inadequate arrangements to prepare timely financial reporting.

This report is intended solely for the use of the Audit and Corporate Governance Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

Yours faithfully

Janet Dawson, Partner

For and on behalf of Ernst & Young LLP

Encl

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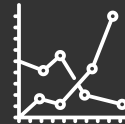
02 Areas of Audit Focus



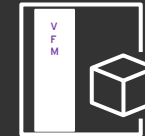
03 Audit Report



04 Audit Differences



05 Value for Money



06 Other reporting issues

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk). This 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 (updated April 2018)' 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. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.



01

Executive Summary

Executive Summary

Scope update

In our Audit Planning Report presented at the 28 July 2022 Audit and Corporate Governance Committee (the Committee) meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan.

Status of the audit

As reported in our Audit Progress report dated 21 November 2022 there has been a marked improvement in comparison to prior years in the ability of management to prepare its financial statement from underlying accounting records and management's ability to answer audit queries and support balances within its draft 2019/20 financial statements. Management's new process for populating its financial statements from underlying accounting records appears, from our testing of management's 2019/20 test version, to be a further significant improvement on previous methods as it provides clear links between the underlying accounting system and the financial statements. For the financial statements of 2020/21 and subsequent years this will provide further efficiencies for management and for the audit process.

Management recognise, and we concur, that it will take a number of reporting cycles to get fully back on track and to a position where the Council can efficiently and effectively produce a set of quality financial statements and supporting working papers, and be confident in responding fully to audit queries first time.

Given the improvements the production of the financial statements to date, the next key step for the Council is to show similar improvements in its ability to evidence and respond to audit queries as we still experience a number of instances where responses to audit queries for evidence and /or clarification of accounting treatment are not fully provided resulting in further queries and impacting on audit delivery. Part of this is due to the historic nature of the balance being tested and difficulties in tracking down evidence within the Council's systems. Management are planning to provide training to officers (in conjunction with audit) to refresh their understanding of audit evidence and support of balances after the completion of the 2019/20 audit.

We have substantially completed our audit of South Cambridgeshire District Council financial statements for the year 31 March 2020 and have performed the procedures outlined in our Audit Planning Report. Appendix C of this report summarises the status of the audit procedures to help inform the Committee of progress and findings to date.

Subject to satisfactory completion of the outstanding items in appendix C we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 03. However until work is complete, further amendments may arise.

Executive Summary

Findings against identified risks and areas of audit focus

Our audit plan identified significant risks and areas of focus for our audit of the Council's financial statements. We summarise below our findings.

Significant risk	Findings & conclusions
Misstatements due to fraud or error - management override of controls	We have completed our testing and found no indication of management overriding controls.
Misstatements due to fraud or error - the incorrect capitalisation of revenue expenditure	We have completed our testing and found no indications that revenue expenditure has been inappropriately charged to capital.
Capital accounting entries	We have completed our audit procedures in this area. We identified one audit adjustment of £1.08 million, the details of which are included in section 04 of this report.
Valuation of Investment Properties	We have completed our audit procedures in this area. We identified one audit adjustment of £0.80 million, the details of which are included in section 04 of this report.

Area of audit focus	Findings & conclusions
Non-domestic rate (NDR) appeals provision	We have substantially completed our audit procedures in this area. We currently concluding our work in this area through review of responses to our audit queries regarding how the provision has been calculated from underlying reports.
Presentation and disclosure of accounting items	From audit procedures completed to date we have identified a number of disclosure adjustments required to bring the financial statements in line with the requirements of the CIPFA code of practice. Further details of this adjustments can be found in section 04 of this report.
Valuation of other land & buildings and housing assets	We have completed our testing on the valuation of other land & buildings and housing assets and have identified one audit difference of £0.58 million regarding the valuation of Housing assets the details of which are included in section 04 of this report.
Pension Liability Valuation & other pension disclosures	We have completed our testing on the Council's pension liability and have no matters to report.

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Executive Summary

Findings against identified risks and areas of audit focus (continued)

Area of audit focus	Findings & conclusions
Group accounts	Our audit procedures are substantially complete and we awaiting response to our final queries regarding the accounting of leases within the group.
Going concern	We have not completed our procedures in relation to going concern. Management will be required to update their going concern assessment for 12 months post anticipated opinion date upon which we will undertake our procedures.

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This report sets out our observations and conclusions on the above matters, and any others identified, in the "Areas of Audit Focus" section of this report. We ask you to review these and any other matters in this report to ensure:

- 9 There are no other considerations or matters that could have an impact on these issues; and
- ▶ You agree with the resolution of the issues; and there are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to your attention.

Audit differences

We have identified an number of audit differences during the course of the audit, we expect these to be adjusted for by management, details of audit adjustments can be found in section 04 of this report.

Executive Summary

Value for money (VFM)

For 2019/20 we identified a significant risk in respect of the VFM criteria 'Informed decision making' and the Council's arrangements for producing reliable and timely financial reporting that supports the delivery of strategic priorities. As 2019/20 represents the fifth consecutive year that the Council has not been able to publish its draft statements by the dates specified in the Accounts and Audit Regulations, we have issued an "except for" VFM conclusion. The form of the qualified conclusion is included in section 03. We include further details in section 05.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. However, from undertaking the audit we have identified weaknesses in the Council's preparation of the accounts and supporting working papers. We include details of the issues identified, actions taken to date by the Council and areas for improvement in section 07.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no other matters to report as a result of this work. We have also reviewed the Council's Narrative Report for consistency with the financial statements and our knowledge. We have no other matters to report as a result of this work.

We are not reporting any matters to the National Audit Office (NAO) regarding the Whole of Government Accounts submission as the Council falls below the £500 million threshold for review as per the NAO's group instructions, and the Council is no longer required to report on 2019/20, due to the lateness of its accounts.

We have received correspondence from members of the public concerning procurement activities and have taken the matters raised to us into account in planning and undertaking our audit.



Executive Summary

Independence

Please refer to section 08 for our update on Independence.

Fees

The audit risks and issues we have reported to the Committee in our Audit Planning Report, the November 2022 Progress Report, this Audit Results Report and the protracted nature of the audit has required additional audit resources to complete the audit. As detailed throughout this report, whilst the audit is substantially complete, we have not yet concluded our procedures and as such are not able to provide a final fee breakdown for the audit. Upon completion of our audit, in the first instance we will provide details of our proposed fees to the Section 151 officer for discussion. On the basis of that discussion, we will then update the Audit and Governance Committee on the proposed fee. Our fee is subject to approval by the PSAA.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 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.

As part of our work to identify fraud risks during the planning stages, we have identified those areas of the accounts that involve management estimates and judgements as the key areas at risk of manipulation. Our specific response to this risk is set out in the next slide.

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What judgements are we focused on?

We have considered the risk of management override and the areas of the financial statements that may be most susceptible to this risk. For the Council, we have identified the potential for the incorrect classification of revenue spend as capital as a particular areas where there is a risk of fraud or error.

What did we do?

- ▶ Identified fraud risks during the planning stages.
- ▶ Asked management about risks of fraud and the controls put in place to address those risks.
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud.
- ▶ Considered the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determined an appropriate strategy to address those identified risks of fraud.
- ▶ Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- ▶ Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- ▶ Assessed key accounting estimates for evidence of management bias; and
- ▶ Evaluated the business rationale for significant unusual transactions.

What are our conclusions?

We have completed our work in this area.

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

Our testing of journals is completed and we have not identified adjustments outside of the normal course of business. All journals tested have appropriate rationale.

We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.



Areas of Audit Focus

Significant risk

Incorrect capitalisation of revenue expenditure

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. 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.

We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. In arriving at this conclusion we have considered the continuing pressure on the revenue budget and the financial value of its annual capital programme which is many times out materiality level.

This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.

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What judgements are we focused on?

How management decides on appropriate capitalisation of revenue expenditure.

How the capital programme complies with proper capital strategy principles.

What did we do?

- Tested property, plant and equipment additions to ensure that the expenditure incurred and capitalised was capital in nature.
- Identified and obtained an understanding of the basis for significant journals transferring expenditure from revenue to capital codes on the general ledger at the end of the year.

What are our conclusions?

We have completed our work in this area.

We have not identified any additions that were incorrectly capitalised.

Our testing of year end journals did not identify any movements from expenditure to capital outside of the normal course of business.



Areas of Audit Focus

Significant risk

Capital accounting entries

What did we do?

- Undertook a detailed review of the reports from the CIPFA Asset Management System to gain assurance that capital balances internally reconcile and are correctly classified;
- Undertook detailed testing of the opening balances within CIPFA Asset Management system;
- Performed detailed testing of the in year movements within CIPFA Asset Management system; and
- Tested the consistency between the CIPFA Asset Management System, draft 2019/20 Statement of Accounts and trial balance.

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What is the risk?

In 2018/19 the Council implemented a new fixed asset register (CIPFA Asset Management System). We identified:

- A lack of understanding of how the new FAR operated resulting in multiple attempts to produce reports from the new FAR that reconciled to the closing balances from 2017/18, the Council's trial balance and the statement of accounts;
- A number of data input errors into the new FAR;
- Material audit adjustments in the property, plant and equipment note required to ensure that the opening balances reflected the correct valuations, classifications and associated revaluation reserve balances;
- A material prior year adjustment of £6.4m on the opening revaluation reserve balance;
- Material adjustments to the Property, Plant and Equipment note to correct for classification errors;
- Audit adjustments relating to a significant number of surplus assets which were held at nil value in the 2018/19 draft statement of accounts that had not be revalued as required by the CIPFA Code of practice

These findings resulted in significant additional work to address the issues identified.

Better understanding of the system and its operation improved during 2021/22 as a result of the 2018/19 audit process that took place during that time. Therefore the significant risk that capital accounting entries and disclosures may be materially misstated remains in 2019/20 as the system was operating before that understanding was developed.

What are our conclusions?

We have completed our audit procedures in this area.

We identified one audit adjustment where a manual adjustment made to the fixed asset register to reclassify an asset to land (previously recorded as a building) was incorrectly processed as it was accounted for as an asset disposal and addition rather than a correction to the fixed asset register. This results in a misstatement in the draft statement of accounts as the historic revaluation impairment loss of £1.08 million in the CIES had been incorrectly reversed and a revaluation gain of £1.08 million had been incorrectly recorded in the revaluation reserve as a result of capitalising the land asset as an addition.

Given the nature and value of the misstatements identified we were required to perform additional testing over other adjustments posted to the fixed asset register to gain assurance that no further adjustments have been incorrectly made. We have completed these additional procedures and did not identify any additional audit differences.



Areas of Audit Focus

Significant risk

Valuation of investment properties

What is the risk?

During 2019/20 the Council purchased three investment property assets totalling £25.4 million. At the balance sheet date these assets should be valued at fair value where operational or where these assets are still held as an asset under construction they should be accounted for at cost unless their fair value can be reliably measured.

The valuation of these investment properties represent significant balance in the statement of accounts and their valuation requires management to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What are our conclusions?

We have completed our audit procedures in this area.

We did not identify any issues with our review of the work performed by the valuer over the Council's investment properties, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.

We found that the valuation of investment properties fell within a reasonable range determined by our internal valuer and that the assumptions and methodologies employed by the Council's external valuer were appropriate.

We have identified that the loss on revaluation of £0.80 million had been incorrectly posted to expenditure within net cost of services in the comprehensive income and expenditure statement. This revaluation loss should be included within Financing and Investment Income and Expenditure in the comprehensive income and expenditure statement.

During March 2020 the UK entered lockdown in response to the increasing impact of the COVID pandemic. Due to this lock down the Council's external valuers along with all valuation firms included material uncertainty clauses within their valuation reports as there was reduced availability of market data as at the balance sheet date (31 March 2020). This heightened estimation / uncertainty requires disclosure within the Council's Note 4 Assumptions Made About the Future and Other Major Sources of Estimation/Uncertainty.

What did we do?

Considered the work performed by the valuer over the Investment Property assets, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;

- Engaged our own internal valuers, EY Real Estates, to review 100% of investment property assets and test the assumptions and methodologies employed by the Council's external valuer;
- Tested that accounting entries had been correctly processed in the financial statements; and
- Reviewed the disclosures to ensure that adequate disclosures were made in relation to estimation uncertainty.

Audit risks

Other inherent risks

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?

Non-domestic rate (NDR) appeals provision

For 2019/20 the Council has employed a new expert, Wilkes Head and Eve (previously Analyse LOCAL), to value its NDR appeals provision estimate. The NDR appeals provision in 2019/20 is £4.5 million (2018/19 £3.5 million). Given the material nature of the estimate there is an increased risk that the balance as determined by their new expert maybe materially misstated.

What did we do?

- Considered the work performed by the Council's expert, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested key information used by the expert in performing their estimation (e.g. rateable value, estimation of new appeals and likelihood of successful appeals); and
- Tested to ensure accounting entries and disclosures have been correctly processed in the financial statements.

Conclusions

We have substantially completed our audit procedures in this area.

We currently concluding our work in this area through review of responses to our audit queries regarding how the provision has been calculated from underlying reports.

Audit risks

Other inherent risks (continued)

What is the risk/area of focus?

Presentation and disclosure of accounting items

Our 2018/19 audit included a significant risk over the presentation and disclosure of accounting items across the whole of the 2018/19 statement of accounts due to prior year findings on the quality of supporting working papers and the significant level of audit adjustments identified as a result of weaknesses in the capacity and capability in the finance team.

Whilst we identified significant issues and deficiencies regarding property, plant and equipment as reflected in our significant risk, Capital accounting entries, we did identify some improvements across other areas of the statement of accounts in 2018/19 in regard to reduced audit adjustments.

The Council has also strengthened its finance team for the 2019/20 statement of accounts process, undertaking a detailed quality review of its working papers and supporting evidence. At the planning stage we believe that this reduces the audit risk over other areas of the accounts (other than property, plant and equipment) to an inherent risk for 2019/20.

As the audit progresses we will keep this risk assessment in review and will communicate to the Audit and Corporate Governance Committee should we need to reassess the level of this risk.

What did we do?

- Undertook a detailed review of the statement of accounts to assess the overall quality of accounts presented for audit;
- Reviewed the statement of accounts against the CIPFA disclosure checklist to assess whether they meet the requirements of the CIPFA CODE of practice;
- Reviewed the adequacy of the working papers provided on each area of the accounts before we commence detailed audit work and provide feedback as to their quality to management; and
- lowered our testing threshold across the financial statements to 50% of materiality.

Conclusions

From audit procedures completed to date we have identified a number of disclosure adjustments required to bring the financial statements in line with the requirements of the CIPFA code of practice.

Further details of this adjustments can be found at section 04.

Audit risks

Other inherent risks (continued)

What is the risk/area of focus?

Valuation of Other Land and Buildings (OLB) and housing

OLB at £27 million and housing at £468 million represent significant balances in the Council's accounts. They are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end balances held in the balance sheet.

As the balances are significant, and the outputs from its valuer are subject to estimation, there is a higher inherent risk balances may be under/overstated or the associated accounting entries incorrectly posted.

As (UK and Ireland) 500 and 540 require us to undertake procedures on the use of experts and assumptions underlying fair value estimates.

What did we do?

- ▶ Reviewed the reconciliations between the statement of accounts, the ledger (trial balance) and the fixed asset register (FAR);
- ▶ Considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Considered whether valuations are carried out with sufficient frequency to ensure that carrying values are not materially different from market value.
- ▶ Considered if there were any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ For housing tested a sample of beacon valuations to comparable sales to ensure that the approach is reasonable; and
- ▶ Tested accounting entries have been correctly processed in the financial statements.

Conclusions

We have completed our work in this area.

We did not identify any issues with our review of the work performed by the valuer over the Council's assets, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.

Our testing of key asset information did not identify any misstatements.

Our testing of housing assets to comparable sales did not identify any misstatements.

We did not identify any specific changes to assets that had occurred that required communication to the valuer.

Testing of accounting entries confirmed they had been correctly processed in the financial statements.

We identified that two beacon assets had not been revalued during 2019/20. These two beacons had been transferred from assets under construction to operational housing stock during the year and due to the timings of this transfer had been excluded from the list of beacons to be valued by the council's external valuer. We have estimated the valuation of these beacons as at 31 March 2020 using indexation techniques and estimate that the value of these assets at year end is overstated by £0.57 million.

Areas of Audit Focus

Other areas of audit focus (continued)

What is the risk/area of focus?

Pension Liability Valuation & other pension disclosures

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Cambridgeshire County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £71 million.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What did we do?

We:

- ▶ liaised with the auditors of Cambridgeshire Pension Fund to obtain assurances over the information supplied to the actuary;
- ▶ assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.
- ▶ Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Conclusions

We have completed our work in this area.

We have obtained assurance from the Cambridgeshire Pension Fund auditors in regard to the information supplied to the actuary.

We have reviewed the assessment of the Pension Fund actuary by PwC and EY Pensions and have followed up on relevant points and have not identified any issues.

We have agreed the Council's IAS 19 disclosures to the actuaries' report and ensured these are fairly stated in the accounts.



Areas of Audit Focus

Group accounting

The Council has prepared group accounts for a number of years, consolidating Ermine Street Housing and Shire Homes Lettings Ltd with the single entity Council financial statements. The Local Authority Accounting Code of Practice requires the Authority to prepare group financial statements to consolidate the Council's interests, unless these interests are considered not material. Group accounting is a complex accounting method and therefore there is an increased risk of material misstatement due to error.

Our approach has focused on testing the consolidation of entries relating to the subsidiaries into the Council's Group Statement of Accounts and checking that group disclosures are complete and accurate.

Findings and conclusions

Our audit procedures are substantially complete and we are awaiting response to our final queries regarding the accounting of leases within the group.

Going concern disclosure

Going concern disclosures

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.

However, International Auditing Standard 570 *Going Concern*, as applied by Practice Note 10: *Audit of financial statements of public sector bodies in the United Kingdom*, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'.

To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

The auditor's report in respect of going concern covers a 12-month period from the date of the report, therefore the Council's assessment will also need to cover this period.

Findings and conclusions

We have not completed our procedures in relation to going concern. Management will be required to update their going concern assessment for 12 months post anticipated opinion date upon which we will undertake our procedures.



03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

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

Opinion

We have audited the financial statements of South Cambridgeshire District Council for the year ended 31 March 2020 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 and the related notes 1 to 38 and G1 to G5
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes H1 to H10
- Collection Fund and the related notes CF1 and CF3

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 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of South Cambridgeshire District Council and Group as at 31 March 2020 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 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Head of Finance and Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Finance and Section 151 Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the narrative report, other than the financial statements and our auditor's report thereon. The Head of Finance and Section 151 Officer is responsible for the other information.



Audit Report

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Our opinion on the financial statements

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Basis for Qualified Conclusion

- Informed decision making - Reliable and timely financial reporting that supports the delivery of strategic priorities

The 2019/20 financial year is the fifth successive year that the Authority has been unable to publish its statement of accounts by the target dates outlined in the Accounts and Audit Regulations 2015. Following the 2018/19 value for money conclusion except for qualification, the Authority has made further progress with the arrangements it has put in place for preparing its 2019/20 statement of accounts. However, the unaudited statements were not published until 28 July 2022 due to weaknesses in the manual process used by the council to prepare the financial statements from underlying financial systems. The length of time that has passed since the undertaken in 2019/20 means that officers preparing the accounts may not have been involved in, nor have detailed knowledge of, the underlying transactions.

This had led to challenges in providing timely responses to audit queries as evidence to support historic transactions is not always readily available.

The issues above are evidence of weaknesses in proper arrangements for reliable and timely financial reporting that supports the delivery of strategic priorities.

Qualified conclusion

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General in April 2020, with the exception of the matter reported in the basis for qualified conclusion paragraph above, 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 2020.

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



Audit Report

Our opinion on the financial statements

Responsibility of the Head of Finance and Section 151 Officer

As explained more fully in the Statement of Responsibilities the Head of Finance and Section 151 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 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Head of Finance and Section 151 Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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 for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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 in April 2020, as to whether the South Cambridgeshire District 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 South Cambridgeshire District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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 South Cambridgeshire District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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 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.



Audit Report

Our opinion on the financial statements

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.

Use of our report

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 South Cambridgeshire District Council and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Janet Dawson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)



04 Audit Differences





Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of audit differences

We have identified a number of audit difference differences in the draft financial statements.

- 1) Property, Plant and Equipment. We identified one audit adjustment where a manual adjustments made to the fixed asset register to reclassify an asset to land (previously recorded as a building) was incorrectly processed as it was accounted for as an asset disposal and addition rather than a correction to the fixed asset register. This results in a misstatement in the draft statement of accounts as the historic revaluation impairment loss of £1.08 million in the CIES had been incorrectly reversed out (as the building asset had been disposed of) and a revaluation gain of £1.08 million had been incorrectly recorded in the revaluation reserve (as the new land asset had been capitalised as an addition). We expect management to adjust for this misstatement, the adjustment required being:

Debit: Balance Sheet - Property, Plant and Equipment £1.08 million

Debit: Reserves - Capital Adjustments Account £1.08 million

Credit: Surplus on Revaluation of PPE - Comprehensive Income and Expenditure Statement - £1.08 million

Credit: Reserves - Revaluation Reserve - £1.08 million

- 2) Investment Property. We identified one audit adjustment, where the loss on revaluation of £0.80 million has been incorrectly posted to expenditure within net cost of services in the comprehensive income and expenditure statement. This revaluation loss should be included within Financing and Investment Income and Expenditure in the comprehensive income and expenditure statement. We expect management to adjust for this misstatement, the adjustment required being:

Debit: Net cost of services - Comprehensive Income and Expenditure Statement - £0.80 million

Credit: Finance and Investment Income and Expenditure - Comprehensive Income and Expenditure Statement - £0.80 million

- 3) Housing asset valuation. We identified that two beacon assets had not been revalued during 2019/20. These two beacons had been transferred from assets under construction to operational housing stock during the year and due to the timings of this transfer had been excluded from the list of beacons to be valued by the council's external valuer. We have estimated the valuation of these beacons as at 31 March 2020 using indexation techniques and estimate that the value of these assets at year end is overstated by £0.57 million. This is an estimate as to the impact on the financial statements. If management chooses to amend for this misstatement the adjustment required is:

Debit: Surplus on revaluation of PPE - Comprehensive Income and Expenditure Statement £0.57 million

Credit: Property, Plant and Equipment Balance Sheet £0.57 million



Audit Differences

Summary of audit differences

- 4) Disclosure amendments. We identified a number of amendments to the disclosure made in the draft statement of accounts to bring them in line with the requirements of the CIPFA Code of Practice, which we expect to be amended for by management. The most significant of these are detailed below.

Expenditure Funding Analysis Note

Managements new process for populating it's financial statements (as described on page 5) identified that the Expenditure Funding Analysis Note 6 of the Draft Financial Statements was incorrect due to mapping issues. Management will provide an updated note in an amended version of the Financial Statements

Accounting Policies

The accounting policies note 1 requires additional policies to disclose the Council's accounting policy regarding financial assets and financial liabilities as required by the CIPFA code of practice.

Assumptions Made About the Future and Other Major Sources of Estimation/Uncertainty

During March 2020 the UK entered lockdown in response to the increasing impact of the COVID pandemic. Due to this lock down the Council's external valuers along with all valuation firms included material uncertainty clauses within their valuation reports as there was reduced availability of market data as at the balance sheet date (31 March 2020). This heightened estimation / uncertainty requires disclosure within the Council's Note 4 Assumptions Made About the Future and Other Major Sources of Estimation/Uncertainty.

Property, Plant and Equipment

The Council's property, Plant and Equipment note (note 12a) includes a material adjustment line which is largely made up of adjustments and reclassifications between operational assets and assets under construction. This line needs to be split out into its individual elements to provide the reader of accounts clarity on what is included within this material balance.

Provisions

The provisions note 19 requires each individual provision to be disclosed separately in tabular form with relevant narrative explaining the details behind each provision. The note as presented in the draft statement of accounts does not adequately meet this requirement.

Unusable Reserves

The unusable reserve note (note 20), in particular the Capital Adjustments Account and Revaluation Reserve, does not include all balances disclosed as required by the CIPFA code of practice.

Related Party disclosure

The related party note 29 requires the inclusion the total income and expenditure that the Council has had with the related parties disclosed.

Exceptional Items

The Exceptional Items note 38 requires updating to make clear what the exceptional item relates to and how it has come to pass.



05

Value for Money Risks



Value for Money

Background

We are required to consider whether the Authority 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. For 2019/20 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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 considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

In our July 2022 Audit Planning Report we recognised a significant risks in respect of the Authority's arrangements for producing reliable and timely financial reporting that supports the delivery of its strategic priorities. The next page present our findings in response to the risk.

In light of 2019/20 being the fifth consecutive year that the Authority has been unable to prepare and publish its accounts by the dates outlined in the Accounts and Audit (A&A) Regulations 2014 we have issued a qualified value for money conclusion in respect of the Authority's proper arrangements to make informed decisions as a result of having reliable and timely financial reporting.

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:
"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work. We present overleaf the findings of our work in response to the risks areas we have identified.



Value for Money

What is the significant value for money risk?

We reported in the previous years our views on the capacity and capability of the Authority's finance function to prepare the statement of accounts, supporting working papers and deal with audit queries.

What arrangements did the risk affect?

- ▶ Informed decision making - reliable and timely financial reporting that supports the delivery of strategic priorities.

What are our findings?

2019/20 is the 5th year running that the Council has failed to publish approved accounts by the target date outlined in the A&A Regs. In concluding the 2018/19 audit in March 2022 we included an except for qualification on VFM in relation to weaknesses in arrangements for making informed decisions.

We have previously reported that the main source of Council's issues stemming from its inability to adequately replace its previously long standing Chief Accountant who retired in early 2017. Since then it has recruited a series of interim accountants and as a result it has been unable to put in place adequate capacity and capability within the finance function to prepare accurate and complete statements, supported by comprehensive working papers and deal appropriately with the audit.

In January 2020 the Council employed an interim accountant with the intention that he would be retained for closure of the 2017/18 accounts audit and the preparation of the 2018/19 accounts and the audit. However, the 2017/18 accounts audit took far longer than expected to conclude and then the Council identified issues with their fixed asset register (FAR) which meant that the 2018/19 accounts were not prepared until October 2020. The interim accountant then decided to exit his contract with 2 weeks notice, at the start of the planned 2018/19 year end audit. The Authority brought in another interim accountant to lead on the accounts and audit process. In March 2021, the Authority appointed a Deputy Section 151 officer whose focus has been on the 2019/20 accounts and internal financial reporting.

During 2018/19 the Council's financial reporting issues were further compounded by the poor implementation of a new fixed asset register (FAR).

In 2019/20 there has been a marked improvement in the Council ability to prepare financial statements and respond to audit queries and management is looking to put in place further training and actions to improve the process further in 2020/21.

We have raised recommendations in section 07 of this report to improve the overall approach to financial reporting within the Council.



06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement (AGS)

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 with the audited financial statements. We must also review the AGS for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance. We found that financial information in the Statement of Accounts 2019/20 and published with the financial statements was consistent with the audited financial statements. We have reviewed the AGS and can confirm it is consistent with other information from our audit of the financial statements.

Whole of Government Accounts (WGA)

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your WGA return. Given the delay to the completion of the audit, the Council is no longer required to report into WGA in respect of 2019/20.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest. We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We have raised non statutory recommendations in section 7 of this report which require the attention of the Council. If we are not satisfied with the response, we reserve the right to raise those recommendations under the Act.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit; - Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested; - Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process; - Related parties; - External confirmations;
- Going concern; and Consideration of laws and regulations.

Other than our findings and recommendations in section 07.

We have received correspondence from members of the public concerning procurement activities and have taken the matters raised to us into account in planning and undertaking our audit.



07

Assessment of Control Environment



Assessment of Control Environment

It is the responsibility of the Authority 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 Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control. We have not identified any 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. However, we report the following areas where improvements could be made and request management responses and follow up to ensure action is taken.

Underlying accounting records and supporting evidence

Whilst the main audit issues arising have related to the above, the audit of the other aspects of the statements have taken longer than we would expect because the Council continue to struggle in some areas to provide evidence to support the assertions being made in the accounts. We are satisfied that with exception of the above matters, the Council does have access to the underlying accounting records and supporting evidence but needs to improve the way it collates, coordinates and manages the process of compiling the working papers to support the statement of accounts.

Investment in financial reporting skills and capacity within the finance function, and relationship with external audit

As a result of the difficulties in undertaking the prior year audits, we continue to work closely with the Council's finance function to plan the audit to address areas of weakness identified. The Council have employed additional resource, albeit interim in some cases, which have shown a marked improvement in the Council ability to produce financial statements and respond to audit queries. Whilst there has been a noticeable improvement it is recognised by us and management that it will take a number of reporting and audit cycles to get fully back on track and to a position where the Council can efficiently and effectively produce a quality statement of accounts, supporting working papers and being able to fully respond to audit queries first time.

Management have put in place actions to improve in these areas and are planning further training to officers and actions to further improve in future years.

Recommendations:

Re-evaluation and communication of the priority and importance of the financial reporting function of the Council.

Continue to re-assess and flex roles, responsibilities and resource requirement for financial reporting, including an assessment of the support required from other functions within the organisation for the financial reporting function to meet its objectives. Training may be required to ensure changes are embedded effectively.

Continue to reset the relationship with audit across all levels of the Council to allow for constructive and open dialogue on issues affecting the council's financial position and reporting



Assessment of Control Environment

Creditors

As part of our audit procedures performed in relation to creditors we have identified that the Council do not perform any regular reconciliation of the creditors subledger to the general ledger. This finding was also reported in our 2018/19 Audit Results Report. Management are following up the below recommendation with its financial system provider to implement the reconciliation process.

Recommendation: We recommend that the Council revisit their controls over creditors and introduce regular reconciliation of the creditors subledger to the Council's general ledger system.



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08

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning report tabled at the July 2022 Audit and Governance meeting. We complied with the FRC Ethical Standards and the requirements of the 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 consider that our independence in this context is a matter which you should review, as well as us. It is important that the Audit and Governance Committee considers the facts known to you and comes to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of Audit and Governance on 18 January 2023.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats. There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table overleaf includes a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed below has been provided on a contingent fee basis.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Independence

Fee

Our 2018/19 proposed fee as reported in our Audit Planning Report in July 2022 is with the PSAA for their final determination.

The scale fee for 2019/20 is £40,021 (2018/19 £40,021). The level of risks identified for the audit and the issues we have reported to the Committee in our Audit Planning Report, the November 2022 Progress Report, this Audit Results Report and the protracted nature of the audit has required additional audit resources to complete the audit which are not allowed for in the scale fee set by PSAA (please see their website* for more details on the basis on which they set audit scale fees). As detailed throughout this report, whilst the audit is substantially complete, we have not yet concluded our procedures and as such are not able to provide a final fee breakdown for the audit.

Upon completion of our audit in the first instance we will provide details of our proposed fees to the Section 151 officer for discussion. On the basis of that discussion, we will then update the Audit and Governance Committee on the proposed fee. Our fee is subject to approval by the PSAA.

www.psa.co.uk/appointing-auditors-and-fees/list-of-auditor-appointments-and-scale-fees/2019-20-auditor-appointments-and-audit-fee-scale/






09

Appendices

Appendix A

Required communications with the Audit and Governance Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies	
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit Planning Report - July 2022	
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report - July 2022	
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report - January 2023	

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	We have not yet completed our work on the Council’s going concern assessment.
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Audit Results Report - January 2023
Subsequent events	<ul style="list-style-type: none"> ▶ Asking the Audit Committee where appropriate about whether any subsequent events have occurred that might affect the financial statements. 	Audit Results Report - January 2023
Fraud	<ul style="list-style-type: none"> ▶ Asking the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility. 	Audit Results Report - January 2023

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Authority 	Audit Results Report - January 2023
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Planning Report - January 2023</p> <p>Audit Results Report - January 2023</p>

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	All confirmations requested have been received
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the Audit 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 Committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit Results Report - January 2023

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Group Audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	Audit Results Report - January 2023
Written representations we request from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we request from management and/or those charged with governance 	Audit Results Report - January 2023
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit Results Report - January 2023
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report - January 2023
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit Planning Report - July 2022 Audit Results Report - January 2023
Certification work	<ul style="list-style-type: none"> ▶ Summary of certification work 	Certification Report

Management representation letter

Management Rep Letter

To be placed on headed letter paper
[Date]
Ernst & Young
One Cambridge Business Park
Cambridge
CB4 0WZ

South Cambridgeshire District Council- Audit for the year ended 31 March 2020

This letter of representations is provided in connection with your audit of the financial statements of South Cambridgeshire District Council and Group (“the Council and Group”) for the year ended 31st March 2020. 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 financial position of South Cambridgeshire District Council as of 31st March 2020 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

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 2019/20
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 2019/20 and are free of material misstatements, including omissions. 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 have 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 2019/20, that are free from material misstatement, whether due to fraud or error.

Management representation letter

Management Rep Letter

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.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. 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.

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, their ability to continue to operate, or to avoid material penalties;

- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. 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 its relevant committees (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: January 2023.

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Management representation letter

Management Rep Letter

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 period end. These transactions have been appropriately accounted for and disclosed in the financial statements

We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

We have disclosed to you, and the Council have 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.

D. 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 the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than described in 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.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the information included in the statement of accounts, other than the financial statements and our auditor's report thereon.

2. We confirm that the content contained within the other information is consistent with the financial statements.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the information included in the statement of accounts, other than the financial statements and our auditor's report thereon.

2. We confirm that the content contained within the other information is consistent with the financial statements

G. Ownership of Assets

1. Except for assets capitalised under finance leases, the Authority has satisfactory title to all assets appearing in the balance sheets, and there are no liens or encumbrances on the Authority's assets, nor has any asset been pledged as collateral. All assets to which the Authority has satisfactory title appear in the balance sheets.

Management representation letter

Management Rep Letter

2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the Authority financial statements.

3. We have no plans to abandon lines of product or other 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.

4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

F. Reserves

We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

2. We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance.

I. Contingent Liabilities

1. We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).

J. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of Property, Plant and Equipment, the IAS19 actuarial valuations of pension fund liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

K. Estimates

Pension Liability, PPE and Investment Properties Valuations Estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

2. We confirm that the significant assumptions used in making the estimates for PPE, Investment Properties and Pensions Liability appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20

Management representation letter

Management Rep Letter

4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements due to subsequent events.

L. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

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Chair of the Audit and Governance Committee

Schedule of Uncorrected Misstatements

Status of the Audit

-  Audit procedures completed
-  Audit procedures started but not completed
-  Audit procedures substantially completed
-  Audit procedures not started

As at the date of this report our audit remains in progress. We have summarised below the status of our audit procedures to help inform the Committee of progress and findings to date.

Audit procedures completed		
Area of accounts and risks raised in our Audit planning report	Status	Findings
 Tick and tie and internal consistency check of accounts	Audit procedures completed	We have identified a number of disclosure adjustments that management will amend in the final version of the statement of accounts.
 Balance Sheet - Borrowings (short term & long term)	Audit procedures completed	There are no findings to report from our audit procedures.
 Balance Sheet - Cash and Bank / Overdraft	Audit procedures completed	There are no findings to report from our audit procedures.
 Balance Sheet - Investments (Short term and long term)	Audit procedures completed	There are no findings to report from our audit procedures.
 Balance Sheet - Pension scheme liabilities <i>Other Risk: Pension Liability Valuation & other pension disclosures</i>	Audit procedures completed	We have identified a number of disclosure adjustments that management will amend in the final version of the statement of accounts.
 CIES - Finance & Investment - Pension Costs <i>Other Risk: Pension Liability Valuation & other pension disclosures</i>	Audit procedures completed	There are no findings to report from our audit procedures.
 CIES - Re-measurement of Defined Pension Scheme Liabilities <i>Other Risk: Pension Liability Valuation & other pension disclosures</i>	Audit procedures completed	There are no findings to report from our audit procedures.
 CIES - Impairment/Revaluation	Audit procedures completed	There are no findings to report from our audit procedures.
 Balance Sheet - PPE Capital additions testing <i>Fraud Risk: Inappropriate capitalisation of revenue expenditure</i>	Audit procedures completed	There are no findings to report from our audit procedures.
 CIES - Gains/Losses on disposal of non-current assets	Audit procedures completed	There are no findings to report from our audit procedures.
 Other Statement - Cash Flow Statement	Audit procedures completed	There are no findings to report from our audit procedures.
 CIES - Finance & Investment - Interest Costs	Audit procedures completed	There are no findings to report from our audit procedures.
 CIES - Finance & Investment - Interest Income	Audit procedures completed	There are no findings to report from our audit procedures.





Status of the Audit (continued)

- ✔ Audit procedures completed
- ⊖ Audit procedures started but not completed
- ⊖ Audit procedures substantially completed
- ✘ Audit procedures not started








Audit procedures completed

Area of accounts and risks raised in our Audit planning report	Status	Findings
✔ CIES - Net cost of services - Grant income	Audit procedures completed	There are no findings to report from our audit procedures.
✔ CIES - Precepts & Levies	Audit procedures completed	There are no findings to report from our audit procedures.
✔ CIES - Taxation and non specific grant income	Audit procedures completed	There are no findings to report from our audit procedures.
✔ Agreement of Accounts to TB	Audit procedures completed	There are no findings to report from our audit procedures.
✔ Disclosure - Expenditure and Funding Analysis	Audit procedures completed	The Council identified that the EFA note was incorrect and will present a correct version in the final set of financial statements.
✔ CIES - Net cost of services - Housing services expenditure (Housing Benefit)	Audit procedures completed	There are no findings to report from our audit procedures.
✔ Journals testing	Audit procedures completed	There are no findings to report from our audit procedures.
✔ <i>Audit Risk: Misstatements due to fraud or error</i> Balance Sheet - PPE Valuations and other tests. <i>Significant Risk: Capital accounting entries</i> <i>Other Risk: Valuation of Other Land and Buildings (OLB) and housing assets</i>	Audit procedures completed	<p>Our testing has identified that manual adjustments made to the fixed asset register to reclassify an asset to land (previously recorded as a building) was incorrectly processed as it was accounted for as an asset disposal and addition rather than a correction to the fixed asset register.</p> <p>This results in a misstatement in the draft statement of accounts as the historic revaluation impairment loss of £1.08 million in the CIES had been incorrectly reversed out as the building asset had been disposed of and a revaluation gain of £1.08 million had been incorrectly recorded in the revaluation reserve as the new land asset had been capitalised as an addition. Management have agreed to adjust for these misstatements.</p> <p>Given the nature and value of the misstatements identified we are required to perform additional testing over other adjustments posted to the fixed asset register to gain assurance that no further adjustments have been incorrectly made.</p> <p>We have completed these additional procedures and found no other audit differences.</p>

Status of the Audit (continued)

-  Audit procedures completed
-  Audit procedures started but not completed
-  Audit procedures substantially completed
-  Audit procedures not started

Audit procedures completed

Area of accounts and risks raised in our Audit planning report	Status	Findings
 Balance Sheet - Investment Property Valuations <i>Significant Risk: Valuation of investment properties.</i>	Audit procedures completed	We have identified one audit difference of £0.8 million. The loss on revaluation of the Council's investment properties has been incorrectly recorded within net cost of services rather than in Financing and Investment income and expenditure line of the CIES.
 Balance Sheet - Debtors (Short & Long term)	Audit procedures completed	There are no findings to report from our audit procedures.
 Collection fund - Expenditure and other disclosures	Audit procedures completed	There are no findings to report from our audit procedures.
 Collection Fund - Income	Audit procedures completed	There are no findings to report from our audit procedures.
 CIES - Income	Audit procedures completed	There are no findings to report from our audit procedures.
 CIES - Net cost of services - Other income	Audit procedures completed	There are no findings to report from our audit procedures.
 CIES - Net cost of services - Other expenditure	Audit procedures completed	There are no findings to report from our audit procedures.

Status of the Audit (continued)





- ✔ Audit procedures completed
- ⊖ Audit procedures started but not completed
- ⊖ Audit procedures substantially completed
- ✘ Audit procedures not started

Audit Procedures Substantially Completed with only a few remiming outstanding requests and audit work outstanding




	Status	Findings
⊖ Balance Sheet - Provisions including NDR Appeals Provision <i>Other Risk: Non-domestic rate (NDR) appeals provision</i>	Our audit procedures are substantially complete - follow-up queries raised with Council in regard to: - the provision raised for Northstowe and the NDR appeals provision.	To date we have identified one disclosure adjustment: the provisions note requires re-presenting to clearly show the individual provisions that make up the total provisions balance.
⊖ Group Statements and Notes <i>Other Risk: Group accounts</i>	Our audit procedures are substantially complete and we awaiting response to our final queries regarding the accounting of leases within the group.	There are no findings to report from our audit procedures performed to date.
⊖ Disclosure - All other disclosures not separately identified	Our audit procedures are substantially complete and we are working through the final elements of testing over exit packages and financial instruments	There are no findings to report from our audit procedures performed to date.
⊖ HRA - Expenditure	Our audit procedures are substantially complete - we are waiting information from Management regarding Supervision and Management Expenditure.	There are no findings to report from our audit procedures performed to date.
⊖ Reserves - Movements In Reserves Statement	Our audit procedures are substantially complete and the audit team are working through the final elements testing regarding Capital financing requirement and minimum revenue provision.	There are no findings to report from our audit procedures performed to date.
⊖ Reserves - Usable and Unusable Reserves	Our audit procedures are substantially complete and the audit team are working through the final elements of testing regarding the capital adjustments account.	There are no findings to report from our audit procedures performed to date.
⊖ Balance Sheet - Creditors (Short term payables and accruals)	Our audit procedures are substantially complete - we are waiting information from Management regarding our Unrecorded liabilities testing.	There are no findings to report from our audit procedures performed to date.
⊖ Related Party Transactions	Our audit procedures are substantially complete - and we are finalising the testing in this area	To date we have identified one disclosure audit adjustment. The related parties note does not meet the full requirements of the CIPFA Code of practice as does not disclose the value of transactions with related parties.

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Status of the Audit (continued)

-  Audit procedures completed
-  Audit procedures started but not completed
-  Audit procedures substantially completed
-  Audit procedures not started


Audit Procedures started but outstanding requests and audit work not substantially completed

Area of accounts and risks raised in our Audit planning report	Status	Findings
 Balance Sheet - Bad Debt Provision	Audit work on this area has commenced. We have queries regarding supporting calculation and evidence for the bad debt provision of sundry debtors which are with management.	There are no findings to report from our audit procedures performed to date.
 CIES - Net cost of services - Employee costs	Audit work on this area has commenced and the audit team are working through the testing required.	There are no findings to report from our audit procedures performed to date.
 CIPFA Disclosure checklist	Audit work on this area has commenced - we have performed an initial assessment of the draft financial statements to the CIPFA disclosure checklist. We will complete our final checks on the updated financial statements when provided by management.	We have identified a number of disclosure adjustments required to the financial statements to bring them in line with the CIPFA code of practice.

Status of the Audit (continued)

-  Audit procedures completed
-  Audit procedures started but not completed
-  Audit procedures substantially completed
-  Audit procedures not started

Audit Procedures not started

Area of accounts and risks raised in our Audit planning report	Status	Findings
 <p>Closing procedures:</p> <ul style="list-style-type: none"> ▶ Subsequent events review; ▶ Going Concern Assessment; ▶ Agreement of the final set of financial statements; ▶ Receipt of signed management representation letter; and ▶ Final Senior Manager and Partner reviews. 	<p>Closing procedures to be performed upon completion of audit work and receipt of final version of the Statement of Accounts</p> <p>Management will be required to update their going concern assessment for 12 months post anticipated opinion date.</p>	<p>Not applicable</p>

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